epigenomics

ANNUAL REPORT 2015

2015

DETECTING CANCER IN BLOOD

CONTENTS

FOREWORD BY THE EXECUTIVE BOARD

DEAR SHAREHOLDERS,

We were delighted to inform you in January 2016 that the U.S. Food and Drug Administration (FDA) in a notification to us confirmed that the previously submitted and available data for Epigenomics' blood-based colorectal cancer (CRC) screening test Epi proColon® will allow the agency to come to a final determination as to its safety and effectiveness in the very near future.

According to the FDA, final approval of our premarket approval (PMA) application is subject to the resolution of only minor outstanding topics, such as the use of appropriate language in the product labeling. This leads us to believe that approval of Epi proColon® is very likely in the near future. We are currently working very closely with the FDA to reach the final approval decision as soon as possible.

➛ **KEY AREAS OF FOCUS IN 2015.** In 2015, our activities were focused on the PMA process for our key product, Epi proColon®. While taking the final steps for approval to market the test in the U.S.A., we were also preparing and expanding commercialization in China together with our partner BioChain. In addition, we started the development of our next generation Epi proLung® test as a blood-based alternative and addition to existing lung cancer testing methods using our strong platform in DNA methylation. We completed a first clinical validation study with very promising performance data. We closed 2015 with a solid financial position, ending the year with EUR 8.6 million in liquid assets, following a successful capital increase in May that was significantly over-subscribed by existing shareholders.

➛ **EPI PROCOLON® IN THE U.S.A..** In May, we successfully completed the ADMIT trial (ADherence to Minimally Invasive Testing), which was requested by the FDA as part of the approval process for Epi proColon®. The results demonstrated a staggering 99.5% rate of adherence to CRC screening for the blood-based test, significantly greater than for Fecal Immunochemical Testing (FIT), with an observed difference of 11.4%. Seeing adherence to Epi proColon® approaching nearly 100% in the ADMIT trial clearly confirms our assumption that blood-based CRC screening has the potential to significantly lower the barriers for historically non-compliant patients to participate in CRC screening programs.

In November, in a formal response letter, the FDA provided guidance and recommendations on how to amend the PMA to make it approvable. In this letter, the agency requested additional data demonstrating that the blood-based Epi proColon® test will increase compliance to CRC screening in the intended use population, i.e. in those patients with a history of noncompliance to recommended CRC screening programs, suggesting that already submitted data would not be sufficient to satisfy the FDA's requirements for the approval of our product. Shortly thereafter, following discussions with the agency, we took immediate steps and appealed the FDA's decision on additional data requirements as we strongly believed that an approval for the intended use of Epi proColon® is warranted based on the data already submitted. We have provided an extensive amount of data under our PMA application and have also received a favorable recommendation by the FDA Medical Device Advisory Committee in March 2014.

Subsequently, in January 2016, we received notification from FDA, following our line of argumentation in the appeal and stating that the already submitted and available data for Epi proColon® would allow the agency to come to a final determination on its safety and effectiveness. Given that no new data would be required before a final decision on the PMA submission, we expect the final stages of the review process to be completed in the very near future.

Upon approval, Epi proColon® will be the first and only FDA-approved blood-based test for the early detection of CRC and will be made available in the United States in cooperation with the Company's strategic commercialization partner Polymedco. Together, we have already made extensive preparations for the product launch and will intensify those activities in the weeks to come. We are already in close dialogue with major laboratories in the U.S.A. engaged in the CRC screening business. Some of them have already conducted the necessary technical validation with our product and we will thus be able to market the product immediately once it has been approved by the FDA.

Epi proColon® can be rapidly integrated into the laboratory routine. Our test is performed on one of the most common PCR devices, which belongs to the standard equipment of many laboratories. This device is routinely used for a number of standard tests, such as for the detection of infectious diseases (influenza, HPV, HIV) as well as other diagnostic tests for cancer. Therefore, laboratories will not have to make heavy investments or change their workflows to enable them to conduct our blood-based CRC screening test. For physicians, ordering the test is as simple as ticking just one more box on the patient's laboratory test order form.


Dr. Thomas Taapken, CEO/CFO, Dr. Uwe Staub, COO

We are also continuously strengthening our manufacturing capabilities. Over the past year, we have successfully mitigated potential supply chain risks by establishing a second source for product manufacturing. Moreover, we are continuously evaluating further steps to shorten manufacturing lead times and to reduce costs while at the same time building product inventory in preparation for the launch of Epi proColon® in the U.S.A..

Aside from this, we have also finalized the design of the proposed post-approval study, aiming to show the long-term benefit of blood-based CRC screening using Epi proColon® once approved. Apart from being an FDA requirement for all PMA-approved screening tests, the study gives us the opportunity to gain further evidence that Epi proColon® will have a positive effect on the compliance rate for CRC screening in the medium to long term, providing us with strong arguments for a further validation of our product.

➛ **EPI PROCOLON® WORLDWIDE.** Also in 2015, we continued to support our Chinese partner BioChain in its efforts to further push blood based Septin9 testing in the Chinese market. To increase the visibility of our product, we also showcased Epi proColon® at conferences including one of the most important ones for diagnostic laboratories in Asia, "LabAsia, the Malaysia 5th International Scientific Instrument and Laboratory Equipment Exhibition and Conference" in Kuala Lumpur. Importantly, in June, new "Guidelines on Screening, Endoscopic Diagnosis and Treatment of Early Colorectal Cancer" were published by the Chinese Society of Digestive Endoscopy (CSDE) and by the Society of Oncological Endoscopy of the Chinese Anti-Cancer Association (CACA) stating that Septin9-based tests, such as Epi proColon®, as one of the methods of choice for early CRC screening. We believe this to be an important step that will help BioChain in their ongoing efforts with the various provincial governments to establish Septin9-based tests in routine healthcare screening programs and increase market adoption while at the same time securing adequate pricing and reimbursement decisions for the commercial success of this innovative blood-based test in China.

➛ **EPI PROCOLON® IN EUROPE.** Over the course of 2015, we also continued to promote our products and technologies at various conferences and events throughout Europe. In September, we presented our proprietary DNA methylation biomarker technology at the renowned "Circulating Nucleic Acids in Plasma and Serum (CNAPS) IX Meeting" in Berlin. In October, we again hosted an Epigenomics awareness day for CRC screening together with a local laboratory (Institut für Molekulare Diagnostik, IMD) as part of the Berlin "Health Week". As in the previous year, interested parties could learn about the risks of CRC and were invited to undergo CRC screening using our Epi proColon® test. A high level of interest among the invited participants proved the ability of this test to serve as a convenient alternative to standard screening methods such as FIT in CRC screening, especially if these are declined by patients. In October, we presented at the United European Gastroenterology Week (UEGW) in Barcelona, where we had the opportunity to showcase our products to more than 12,000 experts in this field.

➛ **EPI PROLUNG® – BLOOD-BASED LUNG CANCER DETECTION.** In 2015, we further developed a next-generation innovative in vitro molecular diagnostic (IVD) assay for blood-based lung cancer diagnosis. Diagnosing lung cancer remains challenging and represents a highly unmet medical need. Radiological screening methods suffer from a high false positivity rate and therefore complementary confirmatory diagnostic methods are urgently needed for broad adoption of lung cancer screening. A reflex test that clarifies indeterminate findings will aid in earlier identification of illness, improved outcomes, and lower costs of treatment by reducing unnecessary procedures.

Our new assay is based on a combination of proprietary Epigenomics DNA methylation biomarkers, including the already known SHOX2, as well as the new PTGER4 biomarkers. Starting from our existing product Epi proLung®, which detects the lung cancer biomarker SHOX2 in bronchial fluid, we aim to develop an easy-to-use blood-based alternative to existing testing methods, leveraging our vast expertise in the emerging field of liquid biopsies and our strong platform in DNA methylation. The development is partly financed by a grant of up to EUR 2.8 million from the European Commission within the framework of the Horizon 2020 program awarded to us in April 2015.

We have completed a first clinical evaluation study of this new blood-based Epi proLung® test, in which we analyzed its performance in two independent case-control sets of lung cancer blood samples. The DNA methylation panel displayed high sensitivity in detecting lung cancer and superior performance compared to protein biomarkers. Additional, potentially larger studies will be necessary to complete its development, but we are on a very promising path, given the data obtained so far, which we are expecting to publish in peer-reviewed scientific papers in the near future.

In November, we presented the preliminary performance data on the new test at one of the most important and renowned conferences in this field, the 2015 Meeting of the Association of Molecular Pathologists (AMP) in Austin, Texas.

➛ **SOLID FINANCIAL SITUATION.** Epigenomics reports results for the full year 2015 which met or exceeded the financial targets that were adjusted in November as a result of the FDA response letter on the approval of Epi proColon®. Revenue for 2015 was EUR 2.1 million and exceeded last year's figure of EUR 1.5 million as guided. EBIT was EUR -9.3 million and met our expectation to be slightly below the outlook range of EUR -10.0 to -11.0 million. Cash consumption of EUR 8.0 million was significantly below the outlook range of EUR 9.5 to 10.5 million.

To help fund the expected market introduction activities of Epi proColon® in the U.S.A., we further strengthened our financial position in May via a capital increase by way of a pre-emptive rights issue. The offering was significantly over-subscribed and all of the 976,562 new registered shares were subscribed up by existing shareholders. The proceeds are being used to strengthen our manufacturing capabilities, to start building the product inventory for market introduction and lastly to finance our current business operations.

In December, we amended the terms and conditions of the 2013 convertible bonds which were unanimously adopted by the bondholders. The extension of the term of the bonds until the end of 2016 provides Epigenomics with greater financial flexibility and helped to secure our cash position at the end of the financial year 2015.

A cash position of EUR 8.6 million at December 31, 2015, allows us to cover all of our operational expenditures through 2016. Moreover, the outstanding convertible bonds will be automatically converted upon a positive FDA decision on the PMA submission for commercialization of Epi proColon® in the U.S.A., thus providing additional cash to the Company. We will increase our efforts to evaluate all financing options on the capital markets and are resolved to exercise such options in the Company's best interest.

➛ **US INVESTOR FOCUS TO SUPPPORT OUR GROWTH.** In light of the expected approval of Epi proColon® for commercialization in the U.S.A., we continued to implement our strategy to significantly sharpen our profile on the U.S. capital markets and stepped up our interactions with U.S. investors and institutions. Given the strength of the U.S. capital markets and the larger amount of institutional investors focusing on healthcare companies such as Epigenomics, we have been very proactive with investors in the U.S.A. throughout 2015. This has resulted in increasing interest in our business and investment case. While we strongly believe that our American Depositary Receipts (ADRs) program trading on OTCQX International serves as a stepping-stone to approach U.S. investors, ultimately a dual-listing of our shares at the NASDAQ stock exchange remains a desirable objective for Epigenomics.

Driven by the expected approval and the various reactions of the FDA to the PMA submission of Epi proColon®, our share price was extremely volatile in recent months. In the first half of 2015, when our ADMIT study was successfully finalized, it continued to regain strength to levels above EUR 6 but dropped sharply on the back of FDA's request for additional in November. This was immediately corrected in January 2016, when the agency stated that the already submitted and available data for Epi proColon® would enable it to come to a final approval decision – a trend which we hope to build on once we start commercialization of Epi proColon® in the largest CRC screening market of the world. We believe that our intensive and open discussions throughout 2015, the strong commitment demonstrated by our partners and our solid financial position have helped to maintain confidence within the investment community and we are grateful for the ongoing support of our shareholders.

➛ **LOOKING AHEAD.** Our utmost priority will now be placed on the finalization of the approval process and the successful commercialization of Epi proColon® in the U.S.A.. Furthermore, together with our partners we will work with medical organizations, payors and patients to increase awareness and compliance to CRC screening and thus pave the way for commercial success.

In addition, we see great potential for our next generation blood-based Epi proLung® test. Lung cancer is the most deadly type of cancer with an estimated 1.8 million new cases diagnosed worldwide. Early detection is clearly beneficial for survival but screening is not widely used and diagnosis remains challenging. Having seen very promising preliminary performance data in the first clinical validation study, we will continue our efforts to develop this first blood-based in vitro diagnostic (IVD) assay for complementing lung cancer diagnosis. Moreover, these studies can serve as a blueprint for the standardized validation of future blood-based epigenetic biomarker tests in other indications.

We look forward to keeping you informed about all of our progress, particularly with respect to the U.S. approval process and market uptake of Epi proColon® and the further development of our next-generation product, Epi proLung®. At the same time, we want to take this opportunity to thank our employees for their continued dedication, our customers and partners for their loyalty and you, our shareholders, for your ongoing support and trust.

Yours sincerely,

Dr. Thomas Taapken
(CEO/CFO)

Dr. Uwe Staub
(COO)

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

In fiscal year 2015, our Company took decisive steps toward receiving approval for Epi proColon® in the U.S.A., the world's most important market for molecular diagnostic tests. The ADMIT trial showed that our blood test has the potential to increase compliance to CRC screening. After submitting the trial data in Q2, we had expected a positive answer from the FDA in the course of the second half of the year. We were highly disappointed to receive a response from the FDA in November requesting additional clinical data in order for the product to be approved. After discussing the matter in detail and consulting with our regulatory advisers and the Supervisory Board, the Executive Board decided to appeal the FDA's request. This proved to be the right decision, as shortly after the close of the fiscal year, we received notification from the FDA that no additional data would be required for an approval decision.

After resolution of a few minor remaining topics, we expect Epi proColon® to be approved in the U.S.A. soon. This will usher in a new era at Epigenomics in which the Company will be highly focused on successfully commercializing our innovative blood test.

A breakthrough of this magnitude would not have been possible without the extraordinary dedication, tenaciousness and expertise of all our employees as well as our management team here at Epigenomics. We would like to express our most sincere gratitude and appreciation for their contributions.

We face a number of significant decisions in the coming fiscal year. These revolve around securing the Company's financial position over the medium term, the successful start of commercialization in the U.S. and potential strategic options. The Supervisory Board will work closely with the Executive Board to review and advise on these decisions.

WORK OF THE SUPERVISORY BOARD

Throughout 2015, the Supervisory Board of Epigenomics AG again fulfilled all of the duties incumbent upon it in accordance with the by law, the Articles of Association and its Rules of Procedure. It advised and monitored the Executive Board in managing the Company and kept itself apprised at all times of the Company's operating performance, the key challenges it faced, and the Executive Board's assessment as to the overall financial position and risk management of the Company. All corporate planning, including financial, capital expenditure and human resources planning, as well as the general business performance was reported on a

Heino von Prondzynski, Chairman of the Supervisory Board

regular basis by the Executive Board. To the extent that German corporate law or the applicable Rules of Procedure required consent for certain decisions or actions by the Executive Board, such consent was granted by the Supervisory Board after thorough deliberation and careful examination of oral reports and written documentation, which were provided.

Assisted by external advisers the Supervisory Board intensively dealt in fiscal year 2015 with the strategic alignment of Epigenomics. The focus of this process was the Company's future portfolio and commercialization strategy. In the view of the Supervisory Board, the findings of the strategy review form a solid foundation for Epigenomics to continue to develop over the long term; they will be implemented in a step-by-step process.

As in previous years, the ongoing FDA regulatory process for Epi proColon® in the U.S.A. was one of the most important issues discussed regularly at the Supervisory Board meetings in fiscal year 2015. Further important topics included the strategic collaboration with BioChain, the capital increase which was successfully implemented in May 2015, the overall financial situation of the Company and human resources issues. Furthermore, where the terms and conditions of potential new cooperation agreements required the consent of the Supervisory Board, these were reviewed and discussed throughout the year in the context of regular assessments.

The Supervisory Board adopted the annual financial statements for fiscal year 2015 and approved the consolidated financial statements. The Supervisory Board always took into account in its work the interests of Epigenomics' shareholders.

During 2015, seven meetings of the Supervisory Board with the Company's Executive Board took place on January 21, March 12, May 13, July 14, July 28 (held as a conference call), September 29 and November 30/December 1. These meetings were held in Berlin. All members of the Supervisory Board attended all of the meetings.

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

At its meeting on November 30/December 1, 2015, the Supervisory Board considered in detail the operational budget, financial planning and human resource allocation plan for the fiscal year 2016 and approved the Company's targets for 2016.

It also approved the Executive Board's remuneration.

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

ORGANIZATIONAL CHANGES IN THE EXECUTIVE BOARD IN 2015

In the third quarter of 2015, the Supervisory Board resolved by unanimous vote the early renewal of the service agreement of Dr. Thomas Taapken, the Company's Chief Executive Officer/Chief Financial Officer (CEO/CFO) for one year until December 31, 2016.

CONFLICTS OF INTEREST

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

COMMITTEES

Since the Company's Supervisory Board consists of only three members it does not consider the formation of committees to be expedient. The Supervisory Board has designated Prof. Dr. Günther Reiter as the main expert for financial reporting and audit matters in accordance with Section 100 of the German Stock Corporation Act (Aktiengesetz – AktG). In this role, he is responsible for communicating regularly with the Executive Board, the Senior Vice President Finance, Accounting and Controlling and with the auditor of the Company, in order to provide advice on the preparation of financial reports, audits and quarterly financial statements. He reports regularly to the full Supervisory Board, highlighting any findings and observations in this area. At the same time, the Supervisory Board designated Ann Clare Kessler, Ph.D., as the main expert on remuneration and nomination matters. Heino von Prondzynski was designated the main expert on corporate governance matters.

CORPORATE GOVERNANCE

The Supervisory Board continuously reviewed all issues of legal and regulatory compliance by the Company. Given the rapidly and constantly changing economic environment and in light of the current financial position of the Company, the Supervisory Board also discussed in detail issues relevant to an effective risk management system. Both the Executive Board and the Supervisory Board regard the commitment to sound corporate governance as crucial to reinforcing the Company's credibility with current and future shareholders, business partners and employees. In October 2015, the Executive Board and the Supervisory Board issued a new Declaration of Compliance with the German Corporate Governance Code (the "Code") pursuant to Section 161 AktG, which is included in this annual report and is also permanently available on Epigenomics' website *(www.epigenomics.com/en/news-investors/investors/corporate-governance).*

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

In response to a new provision under Section 111 (5) AktG, the Supervisory Board, at its meeting on September 29, 2015, resolved to set a quota for female board members equal to 1/3 of the number of seats on the Supervisory Board. The number of female board members has been one since the most recent Supervisory Board elections in 2015. This represents 1/3 of the total seats and therefore corresponds to the target level.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The audit firm Baker Tilly Deutschland GmbH Wirtschaftsprüfungsgesellschaft (Baker Tilly), Berlin, has audited the annual financial statements and the corresponding management report of Epigenomics AG for fiscal 2015 in accordance with the principles of the German Commercial Code (HGB), as well as the consolidated financial statements and the Group management report for fiscal year 2015 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU).

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

The consolidated financial statements and the Group management report were prepared in accordance with Section 315a HGB in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU. Baker Tilly's audit was conducted in accordance with German generally accepted standards for the audit of

financial statements promulgated by the Institute of Public Auditors in Germany ("Institut der Wirtschaftsprüfer in Deutschland e. V."). The audit reports and the audit opinions were submitted to the Supervisory Board by the Executive Board in a timely manner.

Baker Tilly's audit reports were presented to all members of the Supervisory Board and were discussed in depth at the meeting on March 17, 2016, in the presence of the auditor, who reported on the main findings of its audit. At this meeting, the Executive Board presented the annual financial statements 2015 and consolidated financial statements 2015, as well as the Company's risk management system. Baker Tilly also provided a report on the scope, focal points and findings of the audit. As a result of its own observations and examinations, the Supervisory Board raised no objections, accepted and confirmed the findings of the audit. The Supervisory Board, in the presence of the auditor, formally approved the annual financial statements and the consolidated financial statements as of December 31, 2015, without raising any objections or making any amendments. By the Supervisory Board's approval, the 2015 annual financial statements of Epigenomics AG are thus adopted as submitted in accordance with Section 172 AktG.

With respect to the existing internal control and risk management system as well as with the Company's early warning system, the auditor stated to the Supervisory Board that in its opinion these systems are suitable to meet all legally intended requirements.

The Supervisory Board would like to thank the Executive Board, the senior management and all employees of Epigenomics for their commitment and dedication throughout fiscal year 2015.

Berlin, March 2016

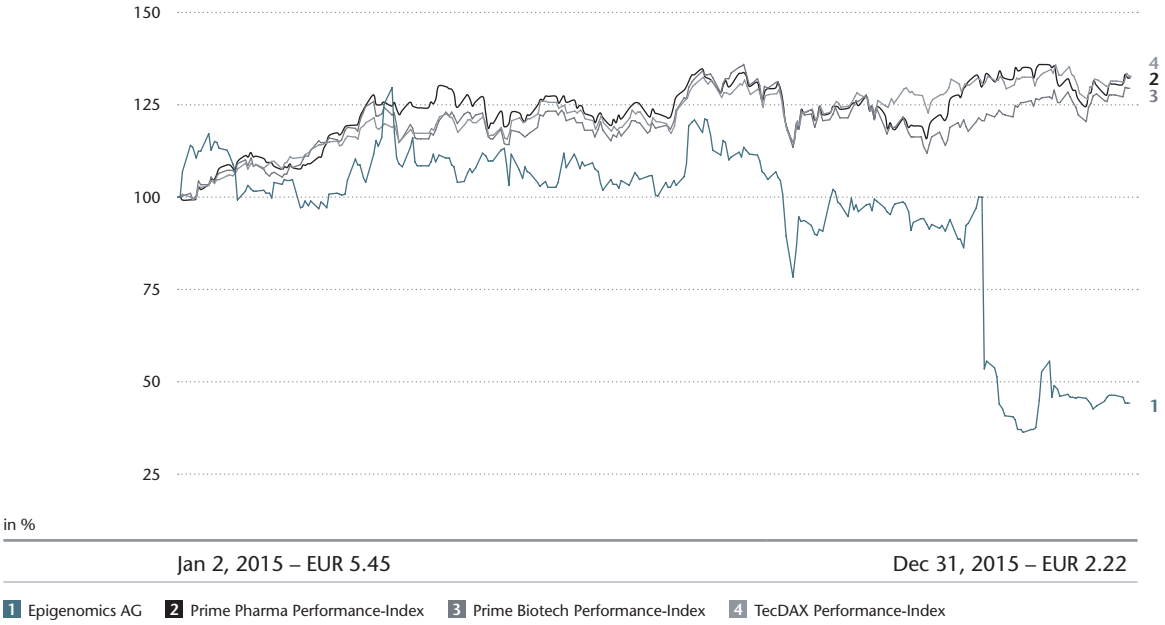
On behalf of the Supervisory Board

Heino von Prondzynski

OUR SHARE

SHARE PRICE DEVELOPMENT CLOSELY LINKED TO APPROVAL PROCESS FOR EPI PROCOLON® IN THE U.S.A.

SHARE PRICE PERFORMANCE IN 2015



Epigenomics' share price development in 2015 was again mainly influenced by newsflow related to the approval process for Epi proColon® in the United States. Supported by strong stock markets overall, the share price peaked at EUR 6.61 (all Xetra) on March 23, 2015. For the remainder of the first half of the year, the share price oscillated in a range between EUR 5.00 and EUR 6.00. After the inclusion of our blood-based Septin9 test into the Chinese guidelines for CRC screening in July, the share price again touched the upper price range. The shares continued to trade at around EUR 5.00 until the publication of the FDA decision again requesting additional clinical data. After the announcement and the associated change in our 2015 sales guidance, the share price took a downswing to its year-low of EUR 1.80. After the announcement of the appeal against the FDA decision, the share price again recovered from its low. The shares closed at EUR 2.22 on December 31, 2015. The average daily trading volume on Xetra was at about 76,000 shares.

CHANGES IN THE SHARE CAPITAL/CAPITAL MEASURES

During the reporting period, the number of outstanding shares increased by 2,607,962 and the total number of shares outstanding was 18,088,384 as of December 31, 2015. The market capitalization of Epigenomics amounted to around EUR 40 million at the end of 2015.

In December 2013, Epigenomics issued 25 convertible notes with a principal amount of EUR 107,000.00 each to investors in Europe and the U.S.A.. Eight of these were converted into 1,631,400 new shares throughout 2015 (2014: seven conversions). By an agreement under the holders of the remaining ten convertible notes in December 2015, the term of the notes was extended until December 31, 2016.

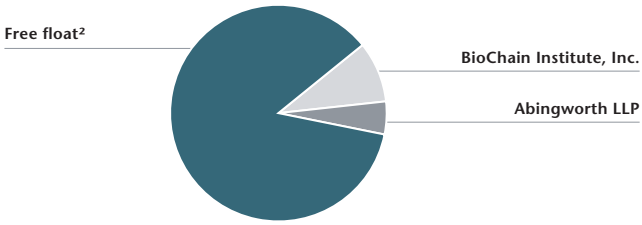
In May 2015, 976,562 new shares were issued in the context of a capital increase, providing the Company with gross proceeds of EUR 5.0 million. The transaction was significantly over-subscribed.

SHAREHOLDER STRUCTURE

The following shareholders held more than 3% each of Epigenomics AG at the end of the financial year. Recent voting rights notifications are available on our website under "News & Investors".

Shareholder	Voting rights threshold
BioChain Institute, Inc.[1]	>5%
Abingworth LLP[1]	>3%

AS OF DECEMBER 31, 2015



As of December 31, 2015, around 84.3% of the Epigenomics shares were in free float.[2] The largest proportion is held by private investors.

Key data on Epigenomics' shares

ISIN	DE000A11QW50
Security code number	A11QW5
Ticker symbol	ECX
Stock exchange	Frankfurt Stock Exchange Regulated Market (PrimeStandard)
Number of shares outstanding (Dec 31, 2015)	18,088,384
Free float (Dec 31, 2015)[2]	84.3%
Market capitalization (Dec 31, 2015)	EUR 40,156,212
Year-end closing price	EUR 2.22

[1] total held, controlled and advised

[2] free float according to the definition of Deutsche Börse AG

TRANSPARENT DIALOG WITH SHAREHOLDERS – CONVERTING INTO REGISTERED SHARES

Epigenomics is committed to maintaining an ongoing and active dialog with the investment community in order to regularly provide timely, accurate and comprehensive information about the Company and its products.

Throughout 2015, the Company hosted regular conference calls for investors and analysts to discuss the financial results and provide updates on the Company's developments. Epigenomics' management also presented at several investor meetings and published updates on clinical data at major scientific conferences in the United States and in Europe. Furthermore, the Company continued to provide opportunities for a close dialog with shareholders and interested investors at numerous roadshow meetings in Germany, Italy, Austria, Switzerland, USA and Asia (Singapore, China, Hong Kong).

On March 25, 2015, Epigenomics hosted its annual press conference and analyst meeting in Frankfurt am Main, Germany. At the Company's Annual General Shareholders' Meeting in Berlin on May 13, 2015, all proposals of the Company were agreed by large majorities of the shareholders.

ANALYST COVERAGE AND ADR PROGRAM

In 2015, Epigenomics was covered by the following analysts providing analysis updates and recommendations: Maxim Group LLC, equinet Bank AG, First Berlin Equity Research GmbH, Kempen & Co. N.V., and Edison Investment Research.

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

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

CONTENTS CONSOLIDATED MANAGEMENT REPORT

CONSOLIDATED MANAGEMENT REPORT

ORGANIZATION, BUSINESS ACTIVITIES AND STRATEGY

GROUP STRUCTURE AND BUSINESS ACTIVITIES

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

We are a molecular diagnostics company focusing on developing and commercializing in vitro diagnostic (IVD) tests for the screening, early detection and diagnosis of cancer. Our products are based on a unique and proprietary technology platform, which relies on a fundamental biological phenomenon called DNA methylation as a source for the discovery of highly innovative disease-specific biomarkers, which are at the core of every diagnostic test we have developed so far.

We develop and commercialize cancer diagnostic tests, mainly in colorectal cancer (CRC) and in lung cancer, both via direct marketing and sales efforts of IVD kits and through licensing partnerships. Following this business model, we serve certain market segments directly by offering our own products, while others are or will be served by our commercial partners through the licenses granted to them. All of our cancer molecular diagnostic tests address significant unmet medical needs with a view to providing patients and physicians alike with the benefits from more convenient and superior diagnostic tests. In this way, we target substantial markets in the largest economic regions.

Our current lead product Epi proColon® is a blood-based test for the early detection of CRC, which relies on our proprietary DNA methylation biomarker Septin9. The test has been CE-marked and has been on the European market in its current version since 2012. However, our main activities are currently focused on the introduction of Epi proColon® as an IVD kit in the U.S.A., the world's largest commercial market for molecular diagnostic products. In early 2013, we had initiated the premarket approval (PMA) application with the U.S. Food and Drug Administration (FDA). Throughout the past three years, the FDA reviewed the submitted documentation and information, performed a number of site inspections at our premises and our contract manufacturing partners' facilities. In May 2015, we successfully completed the ADMIT trial (ADherence to Minimally Invasive Testing), which was requested by the FDA as part of the approval process for Epi proColon®. The results demonstrated a staggering 99.5% rate of adherence to CRC screening for the blood-based test, significantly greater than for Fecal Immunochemical Testing (FIT), with an observed difference of 11.4%. With adherence to Epi proColon® approaching nearly 100% in the ADMIT trial, this clearly confirms our assumption that blood-based CRC screening has the potential to significantly lower the barriers for patients who have been historically noncompliant to participate in CRC screening programs.

In November 2015, in a formal response letter, the FDA provided guidance and recommendations on how to further amend the application to make it approvable. In this letter, the agency requested additional data demonstrating that the blood-based Epi proColon® test will increase compliance to CRC screening in the intended use population, i.e. in those patients with a history of noncompliance to recommended CRC screening programs, suggesting that already submitted data would not suffice to satisfy the FDA's requirements for the approval of our product. Shortly thereafter, following discussions with the agency, we took immediate steps and appealed the FDA's decision on additional data requirements as we strongly believed that an approval for the intended use of Epi proColon® is warranted based on the data already submitted. The Company has provided an extensive amount of data under its PMA application and also had received a favorable recommendation by the FDA Medical Device Advisory Committee in March 2014.

In January 2016, after the end of the reporting period, we received notification from the FDA, following our line of argumentation in the appeal and stating that the already submitted and available data for Epi proColon® would allow the agency to come to a final approval.

Blood-based tests using the Septin9 biomarker are available in different markets worldwide through our partners, including Abbott Molecular Diagnostics, Inc. ("Abbott"), Quest Diagnostics, Inc. ("Quest"), ARUP Laboratories, Inc. ("ARUP") and Gamma Dynacare ("Gamma Dynacare"). These products and diagnostic services on licenses granted to these partners by Epigenomics.

Epi proColon® is also approved for commercialization in China by the China Food and Drug Administration (CFDA). The test is marketed by our Chinese partner BioChain Institute, Inc. ("BioChain"). BioChain is a leading clinical diagnostics company in cancer and genetic tests in China and the U.S.A. and started offering the test in 2015 in the Chinese market under a license from us. In June 2015, new "Guidelines on Screening, Endoscopic Diagnosis and Treatment of Early Colorectal Cancer" were published by the Chinese Society of Digestive Endoscopy (CSDE) and by the Society of Oncological Endoscopy of the Chinese Anti-Cancer Association (CACA) citing Septin9-based tests, such as Epi proColon®, as one of the methods of choice for early CRC screening. We believe this to be an important step that will help BioChain in their ongoing efforts with the various provincial governments to establish Septin9-based tests in routine healthcare screening programs and increase market adoption while at the same time securing adequate pricing and reimbursement decisions for the commercial success of this innovative blood-based test in China.

CORPORATE STRATEGY

From addressing the relevant clinical challenges in the development and validation of biomarkers and molecular diagnostic tests, to marketing and selling our products to laboratories, physicians and patients, we cover every step of the way to providing commercially successful products.

We are confident that we are the best advocates for our own products and believe that we must actively promote their medical adoption. We also realize that the field of cancer molecular diagnostics is too broad for us to leverage the potential of our products alone, given our limited resources. Therefore, our business strategy is to market our own products in selected European markets such as Germany, Austria, and Switzerland and to use a network of distributors and commercialization partners in other major markets. We have entered into commercial partnerships with some of the most distinguished companies in the field of clinical diagnostics by licensing our Septin9 biomarker for CRC and assay technologies to detect Septin9 in blood plasma. We typically participate in the commercial success of our partners through upfront and milestone payments, but most importantly through royalties or profit splits on the sales these partners generate with their diagnostic products and services based on our biomarker and technologies.

Aside from our lead product for CRC detection, we are expanding our pipeline of innovative diagnostic tests for other cancer indications. During 2015, we further developed a next generation innovative IVD assay for blood-based lung cancer diagnosis. The diagnosis of lung cancer remains challenging and a high-unmet medical need. Radiological screening methods suffer from a high false positivity rate and therefore complementary confirmatory diagnostic methods are urgently needed for broad adoption of lung cancer screening. A reflex test that clarifies indeterminate findings will aid in earlier identification of illness, improved outcomes, and lower costs of treatment by reducing unnecessary procedures. Our new assay is based on a combination of proprietary Epigenomics DNA methylation biomarkers, including the already known SHOX2, as well as the new PTGER4 biomarker.

The further clinical validation of this test will be the main focus of our R&D efforts in 2016, along with projects to further improve the performance of our CRC test and the evaluation of additional product opportunities in other cancer indications.

Aside from the detection and diagnosis of cancer, personalized medicine and companion diagnostics are widely recognized growth drivers, both in the pharmaceutical and the diagnostics markets. Our experience in developing concepts and biomarkers for drug response prediction represents the hallmark of personalized medicine, and we have repeatedly leveraged our experience and know-how in this field through partnerships with pharmaceutical companies. In these partnerships, we discover and validate drug response biomarkers for our partners and develop high-quality clinical assays with the potential to fuel a future product pipeline of companion diagnostics products.

MANAGEMENT

Epigenomics is managed by a team of industry experts with long-standing experience in the diagnostics industry, with ample science and management expertise, and with the unequivocal entrepreneurial commitment to build a world-leading cancer molecular diagnostics company.

A stock corporation under German law, the Company is led by an experienced Executive Board under the oversight of a Supervisory Board elected by our shareholders. Dr. Thomas Taapken was appointed as Chief Executive Officer (CEO) of the Company in October 2012. He had joined Epigenomics on April 1, 2011, as Chief Financial Officer (CFO) and took over the CEO position in the following year. In April 2013, the Executive Board was complemented by the appointment of Dr. Uwe Staub as Chief Operating Officer (COO). Dr. Staub joined Epigenomics in November 2008. The Supervisory Board of Epigenomics comprises three members with the required industry experience and expertise. For further details on the current members of the Executive and Supervisory Boards, please see the "Corporate Governance" section of this management report.

Epigenomics operates under a quality management system certified under ISO 13485 for the design, development, manufacturing and distribution of IVD products. We have repeatedly demonstrated our ability to operate under the highest regulatory standards, successfully undergoing audits of our ISO-certified quality management system, including an inspection by the FDA. Our quality systems cover all necessary requirements for development, manufacturing and commercialization of IVD products in regulated market environments around the world.

CORPORATE GOALS

We take a highly focused and goal-oriented approach to managing and monitoring operational progress when executing our strategy. The Supervisory Board and the Executive Board of the Company regularly define milestones and deliverables including revenue, operating result and business targets as well as product development, clinical and regulatory milestones against which performance of the Company and its employees is regularly monitored.

In 2015, the most important corporate goal remained the completion of the FDA approval process for Epi proColon®. In May 2015, we successfully completed the ADMIT trial, which was requested by the FDA as part of the approval process for Epi proColon®.

Together with our strategic commercialization partner in the U.S.A., Polymedco, we undertook extensive preparations towards the product launch and will step up those activities in the weeks to come. We are already in close dialog with several major laboratories in the U.S.A. engaged in the CRC screening business. Some of them have conducted the necessary technical validation with our product and, hence, we will be able to market the product immediately once it is approved by the FDA.

It remains our key corporate goal to introduce Epi proColon® to the U.S. healthcare market together with Polymedco and to achieve the reimbursement commitment for this product by the local payer organizations. Despite the delay caused by the FDA's request for additional data, our partner Polymedco also remained highly committed to work with us towards this goal.

Outside of the key U.S. healthcare market, we will continue to support our Chinese partner BioChain in its efforts to further promote blood-based Septin9 testing in the Chinese market.

To become commercially successful worldwide, the inclusion of our test in relevant screening guidelines and the availability of reimbursement by insurance carriers remain the most important critical success factors. Also in 2015, we took further steps to generate the necessary support in the medical and laboratory customer communities and will maintain our activities towards this goal in the future.

In 2015, we made significant progress towards developing a next-generation innovative IVD assay for blood-based lung cancer diagnosis. Our new assay is based on a combination of proprietary Epigenomics DNA methylation biomarkers, including the already known SHOX2, as well as the new PTGER4 biomarker. Starting from our existing product Epi proLung®, which detects the lung cancer biomarker SHOX2 in bronchial fluid, we aim to develop an easy-to-use blood-based alternative to existing testing methods leveraging our considerable expertise in the emerging field of liquid biopsies and our strong platform in DNA methylation. The development is partly financed by a grant of up to EUR 2.8 million from the European Commission under the Horizon 2020 program awarded to us in April 2015.

In summary, we strongly focused our strategy on the key value drivers of the Company throughout the year under review and will continue to do so in the coming years.

PERFORMANCE INDICATORS

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

The financial indicators used to control our operations include key financial figures which are well established and recognized by the international investor community. These include revenue, gross margin, EBIT, EBITDA, operating result and earnings per share. Each of these indicators is monitored closely on a monthly basis and published on a quarterly basis in our mandatory and voluntary financial reports. They are regularly compared against planned and forecasted values as well as against external benchmarks if appropriate. While still being reliant on external funding from investors to support our business operations, our cash flow and cash consumption are among the most important financial indicators and are therefore monitored extremely closely and reported regularly.

Non-financial performance indicators which are important in conducting our business are derived primarily on the basis of our R&D and commercial activities. This set of indicators consists of, e.g., the number of (granted) patents, sensitivity and specificity numbers for our products as obtained from scientific studies and the results of studies published in renowned scientific journals. The progress in our current PMA approval process with the FDA, the successful passing of audits of our quality system and reaching benchmarks and milestones in our development activities are further important indicators to measure target achievement and to assist us in guiding internal efforts and external communication. Last but not least, we monitor customer satisfaction using indicators such as delivery and/or turnaround times, quality audit observation numbers and complaint rates.

ECONOMIC ENVIRONMENT IN 2015 AND OUTLOOK FOR 2016

MACROECONOMIC ENVIRONMENT IN 2015

The geopolitical situation in 2015 was extremely tense, resulting in heterogeneous economic development throughout different regions of the world. A large number of armed conflicts and other events had a significant impact on economic growth in individual countries and, to some extent, at a global level.

The global economy expanded moderately, overall. The United Nations (UN) estimated gross global output growth at 2.4%, i.e. slightly lower than in the previous year, while the Organisation for Economic Cooperation and Development (OECD) calculated real global gross domestic product (GDP) growth at 2.8% in their "General assessment 11/2015". Despite the continued slowing of its domestic economy in 2015, China remained the main driver for global growth with a 6.6% GDP increase.

Within the European Union (EU) (1.6–1.9%) and in the U.S.A. (2.1–2.4%), growth rates were rather modest. The political landscape was dominated by internal debate as to the continuity of the eurozone, the EU as a whole ("Brexit"), the aftermath of the (Greek) debt crisis, the persistent weakness of the French economy, tensions between the EU and Russia, and in particular the refugee situation in the second half of the year. This had a mostly negative impact on European prospects.

On the other hand, economic growth in the U.S.A. remained below expectations which had been based on a strong second half of 2014. As a consequence, the world's strongest economy is losing its place as the world's economic engine. However, the Federal Reserve System ("Fed") ultimately fulfilled the markets' expectations towards the end of 2015 – somewhat later than expected – by raising interest rates for the first time in seven years after a long period of expansionary fiscal policy.

According to the December 2015 monthly report of the German Bundesbank, Germany still remained an exception within the EU thanks to its stable and robust economic situation, which is founded on strong domestic demand, low inflation and unemployment, and strong growth in the disposable income of private households. Germany's leading economic research institutions described the situation in their annual Fall Report as a restrained economic upswing. Nevertheless, the foreign business of German enterprises had lost traction. Due to worsening prospects for international sales – particularly in the emerging countries (including China) – investment plans were either postponed or abandoned.

Beyond European borders, some larger countries like Russia and Brazil were not able to reverse the downward trends they have been facing for several years, while others like India and South Africa managed to just maintain their previous growth rates at best. Japan was ultimately able to avoid slipping into a recession as feared, but recorded only a very small GDP increase for 2015.

MACROECONOMIC OUTLOOK FOR 2016

In its annual outlook ("World Economic Situation and Prospects"), the UN projects only a modest improvement for 2016 (and 2017) due to persistent cyclical and structural resistance: "Global growth is estimated at a mere 2.4% in 2015, marking a downward revision by 0.4 percentage points from the UN forecasts presented six months ago. Amid lower commodity prices, large capital outflows and increased financial market volatility, growth in developing economies has slowed to its weakest pace since the global financial crisis of 2008/2009." The OECD's experts agree and expect only modest tendencies towards a global recovery, mainly due to the developed economies where "financial conditions (…) have become less supportive". Real GDP growth is expected at rates of 2.5% for the U.S., and of only 1.8% and 1.0% for the eurozone and Japan, respectively. China's slowdown in growth is expected to continue, although an increase of more than 6% in 2016 is still predicted. For Russia and Brazil, the downward trend will remain unchanged according to the OECD assessment.

The growth prospects for the German economy are solid at a moderate level. The leading economic research institutions, the German government and the Bundesbank expect domestic GDP to increase by around 1.8% in 2016. Aside from the usual determining factors for economic development, it remains to be seen how the country will manage to overcome challenges created by the entry of refugees from crisis countries into Germany. Their number grew very rapidly during 2015 and it is expected that these levels will be sustained in 2016. As a consequence, the Bundesbank predicts at least a slow increase in the unemployment rate and a reduction of the fiscal surplus. Inflation might rise again if the oil price weakens further and loses its dampening effect on the current level of general price development. As a traditional export nation, Germany will continue to benefit from the euro's weakness versus the U.S. dollar, which is likely to compensate for the ongoing reduction in demand in some of the key international markets.

Any economic outlook is susceptible to major geopolitical developments. Existing and growing tensions between the East (i.e. Russia) and the West, global terror fears and the political instability of the EU remain significant key factors with the potential to negate forecasts and estimates should any of these conflicts escalate.

Monetary policy in the main economies was still characterized in 2015 by central banks flooding the markets with fresh money at low interest rates, in many cases approaching zero interest rate levels. As predicted in the year before, the Fed and the European Central Bank (ECB) are now starting to diverge in policy, after the Fed raised its interest rates in December 2015 for the first time since the peak of the global financial crisis at the end of 2008. As long as the ECB and other central banks in the U.K., China and Japan do not yet feel ready to implement a comparable measure, it is likely that capital will flow increasingly (back) to the U.S.A. in 2016. That in turn could increase the pressure on the other central banks to react even if the economic situation in their countries has still not improved as desired, although some experts (e.g. Deutsche Bank research) do not expect the ECB to lift its rates before 2018.

The exchange rate between the euro and the U.S. dollar dropped to a low of around EUR/USD 1.12 towards the end of 2014. This rate remained within a relatively small corridor between EUR/USD 1.05 and EUR/USD 1.20 throughout 2015. The expectations for 2016 on the part of research analysts for major banks are, on average, comparable to those for the end of 2015, i.e., around EUR/USD 1.07 with extremes of EUR/USD 0.90 as seen by Deutsche Bank and EUR/USD 1.16 according to UBS research.

CAPITAL MARKET ENVIRONMENT

2015 was a rather disappointing year for the global stock markets. After double-digit gains in 2012 and 2013 and a 5.5% increase in 2014, the MSCI World index decreased in 2015, albeit only slightly (-0.3%).

After six consecutive years of gains, the Dow Jones index closed 2015 with a 2.2% decrease compared to the beginning of the year. This was attributable primarily to a weak fourth quarter, when the global sentiment on the stock markets started to deteriorate. In essence, developments on the U.S. stock exchanges were driven by the development of the price of oil and speculation as to the timing and strategy behind the Fed's fiscal policy measures. Both issues were responsible for up- and downswings over the year without recognizable long-term trends. Another strong impact came from the Chinese capital markets, which induced a first strong hit on the U.S. markets in September 2015. This led to growing uncertainty and the aforementioned poor performance of the indices over the final three months of the year.

The negative MSCI World performance was driven primarily by the performance of indices in emerging markets (MSCI Emerging Markets index was down 14.6%). In particular, the stock markets in China, Brazil and Turkey suffered mostly from domestic problems which spread to other trading venues. By contrast, Japan's Nikkei 225 recorded a year-on-year increase of more than 8%. The European stock markets developed unevenly in 2015; there were big losers such as Greece and the Ukraine as well as big winners such as certain eastern European stock markets (e.g. Hungary). Among the major European markets, London's FTSE index trended downwards in 2015, while the stock markets in Italy and Germany were gainers.

The German stock market closed 2015 with an increase of more than 9% for the main index DAX, driven mainly by the solid performances of the top German enterprises and despite some negative influences such as Volkswagen's "Dieselgate" scandal. Forecasts for 2016 vary widely – financial analysts expect the DAX to be between 8,500 and 12,500 at the end of 2016. However, the majority of banks' research analysts predict the DAX to increase over the year to a range between 11,500 and 12,000, demonstrating a strong belief in a healthy market environment in Germany.

While 2014 was a record year in terms of IPOs worldwide, the Wall Street Journal wrote about the U.S. sentiment in 2015: "A bad year to bet on IPOs". Roughly 190 companies filed for an IPO at the U.S. stock exchanges, representing a decline of 38% year on year. In addition, the post-IPO performance of the companies which went public was the poorest since 2011. Due to the weakness of the market in the fourth quarter of 2015, a significant number of planned IPOs were postponed, so that the pipeline for 2016 is filled again. In contrast it was once again a good year for IPOs in China with nearly 350 offerings at the exchanges in Shenzhen, Hong Kong and Shanghai. Even Australia's ASX counted 86 IPOs. In total, the worldwide number of IPOs (more than 1,200) decreased only slightly by 2% compared to the previous year. More than half of the total number came from the emerging markets.

In Germany the Frankfurt Stock Exchange was pleased to report 24 public offerings in 2015 – the highest number since 2007 – which raised approximately EUR 7 billion altogether. On the other hand, secondary offerings declined dramatically in the public capital markets in Germany with only EUR 7.5 billion raised compared to EUR 18 billion in 2014.

After a record year in 2014 for healthcare companies – with 101 IPOs in the U.S.A. alone – the number of successful initial public offerings on the world's leading stock market fell to 76 in 2015 with the majority launched during the first half of the year. However, the weakness during the second half of the year was primarily attributable to general market conditions in the public markets rather than being sector-specific. Measured by the total number of U.S. IPOs, the share of the healthcare industry (led by the biotech sub-segment) rose to about 50%, demonstrating that this sector remains strong. Contrary to the overall market sentiment in the fourth quarter of 2015, the biotech segment even performed strongly during the final months of the year after a low in September. The NASDAQ Biotech Index thus closed the year with a 13% increase. This September pullback was a specific market reaction to a broader political debate in the U.S.A. relating to drug costs and prices, initiated by Democratic presidential candidate Hillary Clinton. Accompanied by ongoing strong M&A activities throughout the healthcare sector, particularly in the biotech segment, experts remain bullish with regards to the industry but are also prepared for volatility to remain high.

While there were 25 European healthcare/biotech IPOs in 2015, only one was for a German company. Curetis successfully completed its IPO, albeit on Amsterdam's Euronext and not on a German stock exchange. Nonetheless, the first domestic biotech IPO since 2007 has recently been announced at the end of the year for early 2016 (Brain) and a further German company (Noxxon) is expected to launch its IPO on Euronext later on.

The total amount of capital raised by German biotech firms in 2015 increased year on year by 38% to EUR 553 million and according to a recent survey, the sentiment in the industry is as positive as its outlook for 2016. A large investment by the renowned Gates Foundation in a private German biopharmaceutical company (CureVac) in March 2015 may have helped remind the world that there are still promising investment opportunities in this country.

INDUSTRY SECTOR ENVIRONMENT

According to the annual sector outlook by Deloitte, the global healthcare sector is undergoing lasting changes with regard to business, clinical and operating models. This development is driven not only by aging and growing populations in an environment characterized by increasing costs and spending, but also by technological innovation. As in the years before, the highest growth rates for the industry in the future are expected in Asia, Latin America, the Middle East and Africa, while the rates for Western Europe will be rather modest.

Innovative technologies in life sciences include promising new and improved diagnostic and therapeutic measures with improved outcomes for patients and increasing effectiveness for the healthcare systems. On the other hand, such technologies are often drivers of rising healthcare costs, while public healthcare budgets are facing increased scrutiny, leading to extensive and in some cases controversial public and political debate. Payers in the healthcare system are often at the heart of such debate and it can be expected that this situation will prevail and even intensify over the coming years. The industry must keep control over these debates or at least play an important role as a stakeholder to avoid strong political headwinds. The aforementioned debate in the U.S.A. in September 2015 about the pricing of medicine showed how quickly sentiment can turn.

The molecular diagnostics sub-segment of the life sciences industry remains a highly attractive investment opportunity. Cancer diagnostics in particular continues to be a growth sector as evidenced by a series of M&A transactions, large financings and corporate partnerships over recent years. One of the hottest topics is frequently described using the moniker "liquid biopsy": the ability to detect cancer in blood or urine samples, thus avoiding the necessity for an invasive biopsy procedure. Research and development activities in this area are increasing rapidly. Competition in the field of non-invasive diagnostic methods for detection, screening and monitoring of cancer and other deadly diseases is already fierce and will further intensify.

Throughout healthcare industry, regulation and reimbursement are vital success factors for companies developing and commercializing novel diagnostic tools and methods. It will remain a challenge to adequately address these factors in different markets, given the fragmented nature of the regulatory and reimbursement landscapes. While the U.S.A. is still the most attractive singular market from an economic perspective, China is increasingly catching up in terms of public health policy, technology development, maturity of the capital markets and entrepreneurial spirit. It is becoming the most interesting market to consider in the medium term and it may offer more and bigger opportunities for our industry than expected so far. However, it must also be expected that the development in China will lead to increasing competition, as it is only a matter of time until Chinese companies backed by financially strong investors will stir up the global markets with proprietary technologies and products.

The specific implications of the global situation on our business and our Group are discussed in the "Opportunities and Risks" and "Outlook" sections of this consolidated management report.

OVERVIEW OF OUR BUSINESS IN 2015

PMA APPLICATION FOR EPI PROCOLON® IN THE U.S.A.

In June 2014 we received a response letter from FDA in relation to our PMA application for Epi proColon®. Surprisingly, the FDA determined that while the studies performed by us thus far had established the clinical performance characteristics of the test, the PMA application did not yet contain sufficient evidence to warrant an approval for Epi proColon® in their view. The main item stressed in this response letter revolved around the need for additional data demonstrating that the blood-based Epi proColon® test would increase compliance to CRC screening in the intended use population, i.e., in those patients who today do not undergo CRC screening by guideline-recommended methods such as colonoscopy or FIT. Subsequently, we focused on the design of a study under consideration of the FDA's requirements – the ADMIT study.

ADMIT was designed to compare adherence to CRC screening in subjects offered blood-based testing with Epi proColon® to stool-based testing with FIT, a guideline recommended method. The primary endpoint was a statistically significant increase in adherence to testing by subjects offered the Epi proColon® test compared to subjects given the FIT test. The study's secondary objectives included a measurement of compliance to colonoscopy in subjects with positive result for either test.

While the first patients were still enrolled into ADMIT in 2014, we successfully completed subject enrollment into this trial in March 2015. 413 eligible study subjects were ultimately identified and enrolled as historically non-compliant to CRC screening according to current screening guidelines by our clinical trial partners, Kaiser Permanente and Geisinger Health Systems, who actively manage CRC screening programs in the U.S.A.. Subjects were invited to a clinic visit and, once enrolled into the trial, were randomized to either the FIT test to take home to complete and send back within six weeks, or to a blood draw for the Epi proColon® test, to be completed in the same time frame.

In May 2015 we finally announced the results from the ADMIT trial. The study demonstrated a 99.5% rate of adherence to CRC screening using Epi proColon®, while FIT showed an adherence rate of 88.1%. These numbers contrasted to a baseline adherence to standard of care CRC screening of less than 25%, as measured in a passive control arm in which previously non-compliant patients were offered CRC screening tests (FIT or colonoscopy) as part of their standard of care. Adherence to Epi proColon® was significantly greater than adherence to FIT, with an observed difference of 11.4% ($p<0.0001$).

Nearly six months elapsed before we received a response letter from the FDA in relation to our PMA application under consideration of the ADMIT results. In its letter, the FDA provided guidance and recommendations on how to amend the PMA to make it approvable. The agency again requested additional data demonstrating that Epi proColon® would increase compliance to CRC screening in patients with a history of noncompliance to recommended CRC screening programs, but after discussions with the agency we decided to appeal their call for additional data and requested a supervisory review of their decision to require additional clinical data to support our PMA approval. We were convinced that an approval for the intended use of Epi proColon® was warranted based on the data that has been submitted thus far. We had provided an extensive amount of data under our PMA application and received a favorable recommendation by the FDA Medical Device Advisory Committee in March 2014. Furthermore, we highlighted the difficulties to measure adherence in the intended use population under the existing regulatory framework along with a willingness to work with FDA to design an appropriate post-approval study.

Shortly after the end of the year under review, the FDA informed us that the already submitted and available data for Epi proColon® would allow the agency to come to a final approval decision. Given that no new data would be required before reaching a final decision on the PMA submission, the FDA expected that final stages of the review process would be completed in the near future. According to the FDA, final approval of our application is subject to the resolution of minor outstanding issues, such as the use of appropriate language in the product labeling. We are working closely with the FDA to reach the final approval decision within the next few months.

GUIDELINE INCLUSION FOR EPI PROCOLON® IN CHINA

Based on a major clinical validation study in China completed by our partner BioChain in April 2014, which confirmed the previously demonstrated positive clinical performance of Epi proColon®, the CFDA ultimately approved our lead product for commercialization in China at the end of 2014.

After receiving this good news, BioChain focused on guideline inclusion and reimbursement in its home market in 2015. In July 2015, we announced together with BioChain that CRC testing based on the proprietary Septin9 biomarker was included in the Chinese Guideline on Screening, Endoscopic Diagnosis and Treatment of Early Colorectal Cancer.

The guideline, officially published in the Chinese Journal of Digestive Endoscopy (2015, issue. 6, Vol. 32, page 341–360), is defined by the Chinese Society of Digestive Endoscopy of the Chinese Medical Association and the Oncologic Endoscopic Committee of the Chinese Anti-Cancer Association. The guideline recommends the "plasma Septin9 gene DNA methylation assay" and the "fecal occult blood test" as the standard tests for early CRC screening. It is clearly stated that "the Septin9 DNA methylation assay has obtained the approval from the CFDA with a sensitivity of 74.8% and a specificity of 97.5%, and it can be used for clinical early detection and diagnosis of CRC". More than 50 experts from digestive endoscopy, surgery, oncology, pathological and other disciplines jointly compiled the guideline, which is supported by 161 publications.

DEVELOPMENT OF A BLOOD PLASMA TEST FOR LUNG CANCER

"Horizon 2020" grant received

In April 2015 we announced that we had been awarded an EU grant under the industrial leadership Horizon 2020 research and innovation program for Small and Medium-Sized Enterprises (Grant Agreement Number 672680 proLungPlasma). The grant duration is expected to be 24 months with a total fund volume of up to EUR 2.77 million. The grant funds the clinical research to validate our proprietary lung cancer biomarkers with the goal to develop a CE-marked product for the detection of lung cancer in blood plasma under the new in-vitro diagnostic directive.

Since our Epi proLung® test has already proven that new and innovative diagnostic tests can make a difference in the detection of lung cancer, under this new project we will clinically validate a novel CE-marked diagnostic product that can detect lung cancer in blood plasma at an early stage and has a variety of possible future clinical applications in the diagnosis of lung cancer.

Study on novel panel of biomarkers

In November 2015, we presented promising data from a study using a proprietary panel of blood-based DNA methylation biomarkers for the detection of lung cancer. The results were presented at our Corporate Workshop and in a poster session at the Association for Molecular Pathology (AMP) 2015 Annual Meeting in Austin, Texas.

There is great potential for a new blood-based test to enable the detection and subsequent timely treatment of lung cancer. Given the excellent sensitivity demonstrated in comparison with commonly used biomarkers, this test may also show significant clinical utility in combination with current imaging techniques.

Please refer to the "Research & Development" section for more information on this study.

CORPORATE ANNOUNCEMENTS

Capital increase with pre-emptive rights

In May 2015, we raised a gross amount of EUR 5.0 million in a capital increase, while successfully placing the maximum number of 976,562 offered new shares with shareholders' subscription rights. All shares were subscribed by existing shareholders of the Company at a subscription price of EUR 5.12 per share.

Extension of the 2013 convertible notes program

In December 2015, we announced an amendment to the terms and conditions of our 2013 convertible notes program as a result of a taking of votes among the bondholders. The bondholders voted unanimously in favor of an extension of the term of the notes until December 31, 2016, and the amendment of the anti-dilution protection.

FINANCIAL RESULTS

Overview of the calendar quarters in 2015:

EUR thousand (except where indicated)	Q1	Q2	Q3	Q4	2015
Revenue	367	487	471	757	**2,082**
Earnings before interest and taxes	-3,164	-2,568	-2,530	-1,002	**-9,264**
Earnings per share (in EUR)	-0.20	-0.15	-0.14	-0.05	**-0.52**
Net cash flow	-1,246	4,304	-811	-1,183	**1,064**
Cash consumption	-2,288	-2,393	-2,995	-292	**-7,968**
Total liquidity at end of period	6,421	10,637	9,721	8,563	**8,563**

Also in 2015, our financial statements were affected by the postponement of the FDA's final approval decision for Epi proColon® since our expectations for this year were based on the assumption of a positive approval decision for our test around midway through the year under review, with the subsequent launch of U.S. commercialization activities soon thereafter. We completed the ADMIT study within our expected timeframe in May 2015 but were not able to roll out our product on the U.S. market. At the same time, the pace of market development in China fell below our expectations. Hence, although revenue grew by approx. 38% compared to 2014, it remained behind our financial guidance for 2015. However, it gained some traction towards the end of the year when revenue in the fourth quarter was ultimately the highest in a calendar quarter in about six years. Overall, we concluded the reporting year with total revenue of EUR 2.1 million (2014: EUR 1.5 million).

On the other hand, the 17% increase in operating costs in 2015 as compared to 2014 also remained below expectations and below the figure stated in our financial guidance. Due to the delayed FDA approval, we postponed planned expenses for the commercialization activities for our lead product in the U.S.A. and the initiation of the anticipated post-approval study.

In light of this, our net loss for the reporting year increased by approximately 1.5% as compared to 2014 to EUR 9.0 million. Nevertheless, this figure remained significantly below our forecasted net loss in excess of EUR 10.0 million.

Due to cash inflows from grants and subsidies in the amount of EUR 1.4 million, cash consumption in 2015 even decreased slightly year on year from EUR 8.1 million to EUR 8.0 million and remained as well significantly below our prognosis. Our year-end liquidity (comprising cash, cash equivalents and securities available-for-sale) of EUR 8.6 million as of December 31, 2015, was EUR 1.1 million higher than twelve months ago,

due to strong inflows of EUR 9.0 million from financing activities which more than offset the cash used in operating and investing activities during the reporting year. Cumulative gross inflows from financing amounting to nearly EUR 30 million in the last three business years – even under difficult conditions – were very encouraging for us and must be seen as an indicator for the continuing belief of our investor base in the attractiveness of our business model.

A capital increase in May 2015 and eight conversions of convertible notes helped to reinforce our equity capital, which increased by EUR 1.0 million to a total of EUR 7.1 million as of December 31, 2015, despite the aforementioned net loss for the reporting year. The equity ratio improved to 56.3% as of the balance sheet date (Dec 31, 2014: 54.0%).

In conclusion, the financial condition of our Company remained stable in the course of 2015 although our commercialization plans were delayed again by nearly one year due to the outstanding market approval for Epi proColon® in the U.S.A..

OUR SHARE

Market data (Xetra/Frankfurt)	Dec 31, 2014	March 31, 2015	June 30, 2015	Sept 30, 2015	Dec 31, 2015
Number of shares outstanding	15,480,422	15,888,272	17,476,609	17,884,459	**18,088,384**
Closing price (in EUR)	5.10	5.93	5.40	4.85	**2.22**
Market capitalization (in EUR)	78,950,152	94,217,453	94,321,259	86,757,511	**40,156,212**

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Average daily trading volume (units)	58,005	81,160	48,914	46,675	**110,157**
Highest closing price (in EUR)	5.57	6.61	5.77	6.20	**5.10**
Lowest closing price (in EUR)	3.08	4.92	5.20	3.98	**1.80**

Epigenomics' share price performance in 2015 was again influenced primarily by newsflow related to the approval process for Epi proColon® in the United States. Supported by strong stock markets overall, the share price peaked at EUR 6.61 (all Xetra) on March 23, 2015. For the remainder of the first half of the year, the share price oscillated in a range between EUR 5.00 and EUR 6.00. After the inclusion of our blood-based Septin9 test into the Chinese guidelines for CRC screening in July, the share price again touched the upper price range. The shares continued to trade at around EUR 5.00 until the publication of the FDA notification requesting additional clinical data. Following this announcement and the concomitant change in our 2015 sales guidance, the share price took a downswing to its year-low of EUR 1.80. After the announcement of the Company's appeal against the FDA decision, the share price again recovered from its low. The shares closed at EUR 2.22 on December 31, 2015. The market capitalization of Epigenomics amounted to around EUR 40 million at the end of 2015.

OVERALL ASSESSMENT OF THE BUSINESS YEAR 2015

Our overall business situation in 2015 has been generally favorable due to the progress made in the FDA approval process, the EU grant for our blood-based lung cancer test and our successfully completed financing activities.

COMMERCIALIZATION AND BUSINESS DEVELOPMENT

Having set a clear focus on our commercial activities around Epi proColon® in the U.S.A., we made good progress in the pre-commercialization efforts around our lead product. With the help of our U.S. commercialization partner Polymedco, we are in an active dialog with potential future laboratory customers, key opinion leaders and payers.

Since 2013, Septin9 testing has been included in the printed Current Procedural Terminology (CPT) with a dedicated reimbursement code (CPT 81401) for general distribution to healthcare providers. Moreover, decisions by the Centers for Medicare and Medicaid Services (CMS) have confirmed a possible reimbursement level for a DNA methylation test like Septin9 at around USD 140. In our opinion, this level will be very attractive for clinical laboratories in the U.S.A. to offer Septin9 testing. At the same time, it offers an attractive business opportunity to us and to our partner Polymedco.

In the past, we had granted licenses to CLIA[1]-certified laboratories in North America to enable them to offer their own Septin9 laboratory-developed tests (LDTs) as a service and an aid in the diagnosis of CRC. These partners include Quest and ARUP in the U.S.A. and Gamma Dynacare in Canada. While we are currently still receiving royalty payments on their sales, we are already in active discussions with these laboratories to turn them into customers of our FDA-approved Epi proColon® test once it becomes commercially available.

The European market for IVD products is highly fragmented and dominated by local effects in each of the countries. Moreover, in most European countries, CRC screening is organized on a governmental level and thus, the barriers to entry into such systems are typically very high. Self-payer segments are small in most markets and need to be addressed individually on the level of physicians and patients. Therefore, for the time being, we only have a very limited focus on European commercialization of Epi proColon®. However, we are still seeing a slow but steady increase in the numbers of tests sold throughout the countries in which we market the product ourselves or through distributors. We would expect increasing interest by physicians and patients in the future, after a positive decision by the FDA.

In brief, we are making solid progress on the commercial side. Together with our partners, we share the view that providing Septin9 testing will help physicians to improve patient health outcomes and decrease the rising costs associated with CRC treatment. With this in mind, we continue to build support for Epi proColon® in the U.S.A., China and throughout Europe.

RESEARCH AND DEVELOPMENT (R&D)

In light of our focused strategy, activities of our R&D organization were geared towards advancing our key products in their development and assisting in their commercial establishment. Throughout 2015, we maintained our focus on the ongoing regulatory process and strengthened our activities towards the development of next-generation products for lung cancer indications, as well as potential product improvements for Epi proColon®.

RESEARCH AND DEVELOPMENT IN THE LUNG CANCER FIELD

At our corporate workshop and in a poster session at the Association for Molecular Pathology (AMP) 2015 Annual Meeting in Austin, Texas, on November 9, 2015, we presented promising data from a study using a proprietary panel of blood-based DNA methylation biomarkers for the detection of lung cancer.

Our proprietary DNA methylation biomarker panel, including the SHOX2, FOXL2 and PTGER4 genes, was compared with two proteins commonly reported as lung cancer biomarkers. Levels of DNA methylation were analyzed in two independent case-control sets of plasma samples. The training set (30 plasma samples) and the larger testing study (151 plasma samples) included all major histological types of lung cancer and covered a broad range of disease stages (IA to IV). The DNA methylation panel displayed high sensitivity in detecting lung cancer. The findings observed in the training study were confirmed in the testing study. Test sensitivity was reported at 95% with a specificity of 64%, thus allowing its use as a confirmatory test for positively tested patients in a low-dose spiral computed tomography (LDCT) screening.

The European Union has provided us with a grant, as part of its Horizon 2020 program, to continue the development of a blood-based lung cancer test. We are developing this test by converting our Epi proLung® bronchial lavage test into a blood-based test for lung cancer, and expect this to be a primary focus for future research and development activities. Without doubt, lung cancer is one of the most challenging but also least served markets for diagnostic products. In 2014, we took first steps towards the development of a blood-based lung cancer product. Our expertise and the advantage of already having a well working CE-marked product – Epi proLung® – will prove to be a valuable advantage over the possible competition emerging in this field.

[1] *CLIA = Clinical Laboratory Improvement Amendments*

Epi proLung® has created a remarkable level of interest among clinicians involved in lung cancer testing over the last years. Prior to committing just the SHOX2 biomarker for such product, we evaluated the possibilities for a combination of SHOX2 with other proprietary biomarkers in order to increase the test's sensitivity. In parallel to this, we are further optimizing and intend to complete this development, once all formal and regulatory requirements are finally met. This work is expected to be carried out throughout 2016 and will include having to perform clinical validation studies.

INTELLECTUAL PROPERTY RIGHTS

Our business relies heavily on our owned or licensed patents and patent applications. At the end of 2015, we maintained an portfolio of intellectual property (IP) rights with 68 patent families. Based on 23 new patent grants in the reporting year we received 99 new national patents in 2015. Total costs for the maintenance and the development of our IP portfolio amounted to EUR 1.3 million in the reporting year.

QUALITY MANAGEMENT

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

We are continuously improving our quality management system to remain a solid foundation for regulatory approval of our products on a global basis. In the reporting year, we underwent a successful ISO 13485 surveillance audit.

FINANCIALS

RESULTS OF OPERATIONS

Our revenue projections for 2015 at the beginning of the year were based on the assumption of an FDA approval for Epi proColon® in the middle of 2015 and good progress with regard to reimbursement decisions by Chinese payer organizations as targeted by our partner BioChain. On this basis we expected our total revenue to ultimately amount to EUR 3–4 million. Nevertheless, our prognosis was communicated subject to the proviso that a delay in the agency's decision would directly impact revenue and costs.

We did our part and finished the ADMIT study on schedule in May 2015 and awaited the FDA's decision then. Unfortunately, the agency needed more time than planned and told us in November that they still were not able to make a decision based on the available data. In addition, in 2015 the decision making processes in China proved to be more slow and more complex than anticipated. In this environment we were ultimately not able to meet our revenue targets. Nevertheless, our total revenue in 2015 of EUR 2.1 million exceeds the previous year's figure (2014: EUR 1.5 million) by EUR 0.6 million or 38.2%, and is more than satisfactory under the aforementioned circumstances.

For the first time, the biggest chunk of our revenue – EUR 1.0 million or 50.1%, up from EUR 0.4 million or 23.4% – was recognized in Asia and can be traced back to product sales to China. Revenue in Europe amounted to EUR 0.9 million (44.3%) as product sales and R&D income were there in line with our expectations constant on a moderate level (2014: EUR 1.0 million; 68.7%). In the absence of an FDA decision, our U.S. business was lacking fresh impetus and revenue remained unchanged at EUR 0.1 million (2015: 5.6%, 2014: 7.6%). We did not enter into any new LDT agreements as the laboratories' interest was clearly headed directly towards our Epi proColon® test kit and our commercial efforts were directed to prepare the market for the launch of Epi proColon®. As a consequence, existing laboratory customers did not increase their marketing activities for the established LDTs.

In the global view, product sales increased by 88% from EUR 0.8 million to EUR 1.6 million year on year, equaling a share in our total revenue of 75.2% compared to 55.1% in 2014. Thus, product revenue has shown encouraging development. While revenue from R&D collaborations decreased from EUR 0.6 million in 2014 to EUR 0.4 million and from a 36.8% share in total revenue to 17.3% due to a lack of new business, licensing income increased slightly, albeit disproportionately, in the same period from EUR 0.1 million (8.1%) to EUR 0.2 million (7.5%).

Our cost of sales increased from EUR 0.7 million in 2014 to EUR 1.2 million in 2015, eroding our gross margin from 51.5% in the previous year to 43.6% in 2015 due to the ongoing shift in the composition of our revenue with a record high percentage in product sales. This margin is still characterized by relatively low numbers of units sold and expected to improve with commercial scale-up. Gross profit amounted to EUR 0.9 million in the reporting year (2014: EUR 0.8 million).

Other income increased significantly from EUR 0.6 million in 2014 to EUR 0.9 million in 2015 and consisted primarily of third-party research grants (EUR 0.5 million), foreign exchange rate gains (EUR 0.1 million), and recoveries and refunds (EUR 0.1 million).

R&D costs in the amount of EUR 5.8 million in 2015 were increased by EUR 1.1 million compared to 2014 (EUR 4.7 million). R&D activities were focused on the ongoing FDA approval process and in particular on the conduct of the ADMIT trial on the one hand and the development activities for a blood-based lung cancer assay on the other. Another factor was the further increase in costs for the worldwide protection of our IP, more or less in line with our expectations at the beginning of the year. However, R&D costs remained below our budgeted numbers, among other things due to the absence of the expected start of a post-approval study for Epi proColon® in the U.S.A.. While expecting a positive approval decision at the time, we had stocked up with a sufficient number of testkits for intial sales in the U.S.A.. Due to shelf lives expirations of parts of this stock, allowances in the amount of EUR 0.5 million had to be recorded.

Selling, general and administrative (SG&A) costs of EUR 5.1 million in the reporting year increased compared to 2014 by EUR 0.2 million (2014: EUR 4.9 million). The increase was attributable primarily to increased expenses for legal advice, auditing and strategic consultancy which offset the effect of significantly lower personnel costs as a consequence of the revaluation of the outstanding phantom stock rights based on the significant share price decrease towards the end of the reporting year.

Other expenses amounted to EUR 0.1 million in 2015 and therefore remained unchanged compared to the previous year.

Total operating costs increased to EUR 12.2 million in the reporting year – up from EUR 10.4 million in 2014. This increase was driven primarily by higher expenses for legal, tax and audit costs (+ EUR 1.2 million), for services and consulting (+ EUR 0.9 million) and for consumables and samples (+ EUR 0.7 million). The overall increase was partly offset by a sharp reduction in personnel costs (- EUR 1.2 million) attributable to reversed expenses for share-based payments. However, the growth in operating costs was significantly lower than assumed and included in our financial guidance for 2015. Hence, this effect more than offset the shortfall in revenue in the guidance, meaning that although our operating loss (EBIT) in the reporting year increased from EUR 8.4 million in the previous year to EUR 9.3 million in 2015, it still remained below our financial prognosis from the beginning of the year when we expected EBIT to amount to between EUR -10.0 million and EUR -11.0 million. At the same time, our operating loss before depreciation and amortization (EBITDA) increased from EUR 7.6 million in 2014 to EUR 8.6 million in the reporting year.

With a small financial income in 2015 (EUR 15 thousand; 2014: financial expenses of EUR 0.5 million) and deferred tax income in the amount of EUR 0.3 million (2014: EUR 27 thousand), our net loss ultimately amounted to EUR 9.0 million in 2015 (2014: EUR 8.9 million) and remained even further below the range communicated in our 2015 guidance (EUR 10.0 million to EUR 11.0 million). Due to an increase in the average number of shares outstanding as compared to 2014, the loss per share in 2015 fell to EUR 0.52 (2014: EUR 0.65).

FINANCIAL POSITION AND CASH FLOW

Our cash consumption amounted to EUR 8.0 million in 2015, down from EUR 8.1 million in 2014 and significantly below our prognosis range a year before (EUR 9.5–10.5 million). Our first outlook on 2015 as given in our financial guidance to the markets, was based on the assumption of an FDA approval for Epi proColon® in the second half of the year. This event would have led initially to higher spending for additional staff in the U.S.A. as well as for marketing and sales activities and the preparation of a post-approval study. In the absence of this expected turning point, expenses remained at a lower level. Furthermore, we recorded EUR 1.4 million in proceeds from grants and subsidies which were not predictable at the beginning of the year.

Due to cash inflows from financing activities in the net amount of EUR 9.0 million in the reporting year (2014: EUR 7.6 million), net cash flow amounted to EUR 1.1 million (2014: EUR -0.5 million).

Cash flow from financing activities consisted of the gross proceeds from our share capital increase in May 2015 (EUR 5.0 million), and nearly EUR 4.2 million in proceeds from to the conversion of eight convertible notes throughout the reporting year. Outflows from financing activities in the amount of EUR 0.1 million were related to the costs for the capital increase conducted in May.

As a consequence of these financing activities, our liquidity at the end of 2015 amounted to EUR 8.6 million (consisting of cash and cash equivalents of EUR 7.8 million and available-for-sale securities of EUR 0.8 million) and was therefore EUR 1.1 million higher than the EUR 7.5 million at the beginning of the year. The ten remaining outstanding convertible notes have the potential to bring another EUR 5.2 million in cash into the Company in 2016 upon their conversion and prior to maturity at the end of the year. Nevertheless, in order to redeem these notes in a repayment scenario, we would have to repay an amount of EUR 1.1 million to the noteholders before the end of 2016.

NET ASSET POSITION

The equity ratio of the Group increased from 54.0% at December 31, 2014, to 56.3% as of the balance sheet date. This effect was attributable to our financing activities in the reporting year: the capital increase in May 2015 and the conversion of eight convertible notes into shares of the Company (i.e., the conversion of liabilities into equity). Ultimately, these activities more than offset the consumption of equity by the loss from our operating activities. Accumulated losses (including the net loss of 2015) amounted to EUR 51.7 million. Total equity increased year on year from EUR 6.1 million to EUR 7.1 million as of the balance sheet date.

Total non-current assets decreased from EUR 2.4 million as of December 31, 2014, to EUR 1.8 million as of December 31, 2015, due primarily to depreciation and amortization of tangible and intangible assets and the recognition of subsidies which more than offset the addition of new capitalized assets and the recognition of subsidies in the reporting year.

The increase in current assets from EUR 9.0 million at the beginning of 2015 to EUR 10.8 million at the end of the year can mainly be explained by the increase in inventories (+ EUR 0.3 million) prior to the expected market approval for Epi proColon® in the U.S.A., by our net cash flow which led to an increase in cash and cash equivalents (+ EUR 1.1 million), and by a larger amount of accrued expenses (+ EUR 0.3 million) in connection with the preparation of further financing measures.

Total liabilities amounted to EUR 5.5 million as of the balance sheet date (Dec 31, 2014: EUR 5.2 million). The significant decrease in non-current liabilities from EUR 1.4 million at December 31, 2014, to only EUR 0.2 million as of the balance sheet date was attributable to the sharp decrease in our share price in the final two months of 2015 which led to a significant downward revaluation of the non-current portion of the provision for our phantom stock programs.

In contrast to the non-current liabilities, current liabilities increased year on year from EUR 3.8 million to EUR 5.3 million as of the balance sheet date. This increase was attributable to a higher amount in trade payables not yet due and payable as of the balance sheet date 2015 compared to the previous reporting date (+ EUR 1.0 million), an increase in deferred income (+ EUR 0.6 million), current provisions (+ EUR 0.5 million) and other liabilities (+ EUR 0.3 million) over the same period. An opposing effect was caused by the decrease in our issued and outstanding convertible notes (- EUR 0.9 million) due to the conversion of eight notes in 2015. The increase in deferred income resulted from an advance research grant payment received in the second half of 2015 which will fund our ongoing project work under the EU's Horizon 2020 program. The increase in current provisions was attributable to the portion of outstanding phantom stock rights which had been recognized as non-current provision in 2014. These will become exercisable from mid of 2016 onwards and have therefore now been reclassified and recognized under current provisions. Finally, the increase in other liabilities was attributable primarily to a received down payment of EUR 0.3 million.

EMPLOYEES

Epigenomics employed an average of 38 employees throughout 2015 (2014: 37). After the expected approval of Epi proColon® in the U.S.A., the headcount of our location in Germantown, MD, on the U.S. East Coast, will be further expanded gradually over the coming months, to support our joint activities with Polymedco regarding the market preparation and market entry for our CRC test in the U.S.A. and to fulfill our commitment towards post-approval studies.

The number of 39 employees as of the end of 2015 included 21 employees across the areas of research, product development, IP, regulatory affairs, quality assurance and manufacturing. Their activities are reported as R&D costs in our financial statements. The remaining 18 employees reported as selling, general and administrative functions work in business and commercial development, customer and technical service, accounting, finance, legal, human resources, IT, investor relations and general management.

Overall personnel costs in 2015 totaled EUR 2.9 million, a 30.7% decrease compared to 2014 (EUR 4.1 million). This decrease was attributable exclusively to a reversal of provisions for issued phantom stock rights as a consequence of their revaluation after the sharp share price decrease in November 2015. Disregarding this distorting effect, the remaining personnel costs (personnel remuneration and social security expenses) increased from EUR 3.3 million in 2014 to EUR 3.6 million in 2015. This increase was mainly attributable to the increase in our U.S. headcount and the deteriorating effect of a stronger U.S. dollar vis-a-vis the euro in the reporting year.

In September 2015, we launched a new phantom stock program as incentive scheme particularly for our senior management and have issued a significant number of rights from this program. The exercise price of the rights was set at EUR 5.05 per share for all rights issued in the reporting year. These newly issued phantom stock rights will be settled in cash subject to achievement of the exercise conditions as stipulated in the program but will not be exercisable before September 2018. We deem such long-term phantom stock programs as a key instrument to align employees' and management's interests with the company goals as well as a motivational instrument for our staff. Details of this program and programs from previous years can be found in the notes to our consolidated financial statements for 2015.

REPORT ON POST-BALANCE SHEET DATE EVENTS

On January 8, 2016, after the end of the reporting year, we announced that the FDA has informed us on its decision that the already submitted and available data in our PMA filing process for Epi proColon® would allow the agency to come to a final determination as to its safety and effectiveness. Given that no new data would be required before reaching a final decision on the PMA submission, the FDA expects that final stages of the review process would be completed in the near future. According to the FDA, final approval of our application is subject to the resolution of minor outstanding issues, such as the use of appropriate language in the product labeling.

In January and February 2016, after the end of the reporting period, three further convertible notes issued in December 2013 were converted by their holders. As a consequence, the Company's share capital was further increased by 611,775 shares and subsequently, the Company received a cash inflow from financing amounting to EUR 1.6 million.

REPORT ON EXPECTED DEVELOPMENTS AND ON OPPORTUNITIES AND RISKS

REPORT ON EXPECTED DEVELOPMENTS

Planned strategic direction of Epigenomics in the next two years

Over the next two years, we plan to further establish our Company as a late-stage development and commercial operation as well as to create the public perception of Epigenomics as a commercially driven cancer molecular diagnostics company – particularly in the U.S.A.. The key success factor will be the U.S. market introduction of Epi proColon®. After approval, our operational execution in 2016 will focus on the start of the commercialization of our blood-based test in the U.S. market together with our partner Polymedco. In 2017, we should have progressed significantly in developing the U.S. market. The commercial development of further markets should benefit from our initially gained experience in the U.S.A.. The presence of our test on the market and hopefully its acceptance by physicians, patients, and laboratory customers will be helpful in our planned efforts then to get reimbursement commitments from payers. In doing this, we will not lose sight of Europe, assuming that regulatory approvals in the U.S.A. and in China will help to raise the profile of Epi proColon® there. In order to be more successful in this endeavor, we might resort more on partnerships or alternatively have to invest more into building the internal structures to support this effort. Having a FDA-approved product in our hands will certainly allow to raise interest from our target groups and to generate additional demand. Alongside these endeavors, we will support BioChain in its commercialization activities in China and its R&D activities towards their development of new tests.

Consequently, following our plans, our R&D activities are concentrated on the current product pipeline in colorectal and lung cancer diseases to develop successive generations of products with even higher performance, and line extensions to broaden the scope of our proprietary biomarkers to related clinical applications. In this context, we will continue to develop our second product, Epi proLung®, into a blood-based test too. We aim to maintain our leadership in DNA methylation technologies and to provide selected partners access to our know-how, expertise and IP in this field via licenses and/or services.

The goal remains to further establish Epigenomics as a leading cancer molecular diagnostics company with proprietary products in the markets either directly or through commercial partnerships. Having a foot in the Chinese market while seeing the acceptance of Septin9 testing growing, we strongly believe that with the anticipated FDA approval of Epi proColon®, our corporate strategy will come together and that we will be on the right track to become a commercial revenue-generating company.

Expected economic conditions in the next two years

We expect overall economic conditions and the capital market environment in Europe and the U.S.A. to continue to be challenging. Despite the recent worldwide development of the economies, we expect that uncertainty in the capital markets – particularly in Europe – could prevail for the near to mid-term future. The geopolitical conditions have deteriorated significantly over recent months and the future economic development is largely dependent on the political conditions.

Nevertheless, we also assume that despite any possible setbacks, life sciences companies should still be able to raise equity capital based on solid fundamental performance. It also has to be taken into account that the percentage of GDP spending on healthcare will likely grow even in the developed world (particularly in the U.S.A.), while certainly it will increase in emerging growth countries like China. At the same time, this is driving a high level of merger and acquisition activities in our industry, which is predicted to remain or even grow further from the high levels seen in the past two years.

With currency exchange rates remaining volatile between the U.S. dollar and the euro and prognoses over the next twelve months anywhere in the range from EUR/USD 1.00 to EUR/USD 1.18, we have decided to lock-in our budget rate for 2015 at EUR/USD 1.12; the exchange rate level at the time of our budget preparation in mid-November 2015. For 2017 we expect a slightly strengthened euro vis-avis the U.S. dollar depending on the monetary market politics by the central banks in Europe and the U.S.A..

Outlook on the earnings situation

Our business projections for 2016 are based on the successful introduction of Epi proColon® in the U.S. market later in this year. Nevertheless, since the overall likelihood of success and timing of such event is hardly predictable, our efforts to provide the capital markets with a reliable prognosis on our earnings situation are hampered. In our planning, we assumed that Epi proColon® will generate initial revenue in the U.S. market during Q2 2016, even if initially only on a moderate level. Given the increased initial resources necessary to facilitate a successful market introduction, the earnings situation may not benefit in the short-term. Depending on the sales trajectory going forward, the earnings situation may improve mid-term.

Based on the aforementioned assumptions and associated uncertainties, our revenue estimate for 2016 is expected in the range of EUR 3 to 7 million with the bulk of this in the second half of the year. Of course, this growth in revenue versus the 2015 number will almost entirely be driven by the expected product sales in the U.S.A.. Revenue from our LDT partners in the U.S.A. will fade out once our product is approved since we expect these partners will migrate from their own current Septin9 LDT offering to our test kit. This means that in order to reach our revenue target we will also rely on speed in the adoption of Epi proColon® by our lab customers.

Revenue in 2016 will also be partly generated from R&D collaborations, albeit to a very moderate extent.

A further factor for revenue development will be the progress to be made by our Chinese partner BioChain in the commercialization of their own Septin9-based IVD product for their home market. As they still depend on the development of the ongoing reimbursement discussions with the Chinese authorities, this is another difficult-to-predict effect. In 2016, we expect BioChain to be selling more units of the domestically manufactured Septin9 product, shifting our revenue from kit sales to a royalty stream.

At the same time, revenue development of our Epi proColon® IVD kit sales in Europe will remain moderate at comparable levels to 2015, as long as we do not secure major agreements with key accounts or achieve far-reaching reimbursement decisions by healthcare insurers. However, we are evaluating potential partnerships with strong commercialization partners for parts of the European market and looking into selectively increasing investments into own sales and marketing as an alternative. Should we achieve this goal, we are confident that this could have the potential to lift our European sales once we implement such measures.

In connection with the market introduction of Epi proColon® in the U.S.A. we will likely be offering price reduced or free test kits for marketing and laboratory training purposes. In addition, due to the nature of our joint collaboration with Polymedco, we expect that we will be selling initial production lots also at no margin, just covering our manufacturing costs. Only once Polymedco sells test kits from these lots to customers, we will be able to book our share of the profit achieved by Polymedco as revenue. Due to these effects during the market introductory phase, our gross margin is likely to decrease in 2016 compared to 2015.

In contrast, the transition in our business from the sale of our Epi proColon® test kits at reduced prices in China towards a royalty stream from our partner BioChain once they start to commercialize their self-developed version of the test, together with scale effects expected with the manufacture and sale of larger amounts of test kits and the reversion of the effects described above after the completion of a successful market introductory phase in the U.S.A., are expected to positively impact our gross margin in the future.

Our efforts to develop the U.S. market for our lead product will initially weigh down our operating result. We will need additional employees in the U.S.A. to fulfill our part of the collaboration with Polymedco, which will lead to increasing staff and facility costs. Reflecting these additional costs in connection with the product launch, while other costs will remain at constant or slightly lower levels, we expect EBIT and EBITDA for 2016 to be lower than in 2015. Ranges of EUR -9.0 million to EUR -11.0 million (EBIT) and EUR -8.5 million to EUR -10.5 million (EBITDA) are assumed for 2016. Any delay in the approval decision might result in a reduction of our revenue estimate on the one side, which would then be largely compensated in its impact on the expected loss by lower additional costs on the other.

Going forward, we intend to sponsor further clinical trials in the next two to three years to drive commercial adoption by increasing awareness for our product in the medical community. Moreover we will invest in automation development for higher-throughput CRC testing as well as in R&D activities towards next-generation products. Ultimately, these higher costs in comparison to previous years should be contrasted with growing revenue while generating commercial traction for Epi proColon®.

If against expectations, FDA does not approve Epi proColon® for the U.S. market, we would hardly reach previous year's revenue level in 2016, expecting a range between EUR 1.5 million and EUR 2.0 million. Without product launch in the U.S.A., which will not be required anymore in such scenario, our cost base would decrease significantly then, so that our operating loss would be expected between EUR 6.0 million and EUR 8.0 million.

OUTLOOK ON THE FINANCIAL SITUATION

Based on our business plans for 2016, we expect an increase in cash consumption compared to 2015 to a range between EUR 8.5 million and EUR 9.5 million. This increase in expenditures will be necessary in order to achieve our ambitious commercial goals upon an expected FDA approval for Epi proColon® in the first half of 2016. This decision will trigger the start of our U.S. market development activities with regard to the commercialization of the test, while some up-front investments will be made in advance. Also, we expect additional expenditures to set up a post-approval study upon a positive FDA decision.

Starting with the U.S. commercialization of Epi proColon® we will shift our Company's focus more towards the U.S. market and increase our local presence in 2016. But even if marketing approval by the FDA is received in accordance to our expectations, the cash inflows from product sales in the U.S.A. will initially be not sufficient to compensate the planned outflows to build the market.

For 2017 and the years to come, cash utilization for operating and investing activities is expected to decrease along with the revenue growth ramping up. We expect such growth predominantly from product sales in North America, in China and from potential new business opportunities. Starting from EUR 8.6 million in liquid assets (cash, cash equivalents and marketable securities) at the beginning of 2016 plus a remaining inflow potential from convertible notes of EUR 5.2 million, current financial resources are sufficient at the projected cash consumption to support the Company's operations beyond 2016. We are convinced that a positive FDA decision will open up further financing options to us on the capital markets and we are determined to exercise such options in the Company's best interest as the case may be.

However, any delays in the FDA decision, as well as any significant restrictions and/or conditions attached to the approval order by the FDA could endanger our financial situation significantly in the mid-term. The likelihood of a conversion of the convertible notes by their holders also depends on the share price attainable after the FDA decision. During this period of uncertainty, we will continue to diligently explore all strategic options available to the Company. These options explicitly include further capital market transactions with the goal of securing additional funds.

In the unexpected event of a rejected approval of Epi proColon® for the U.S. market by the FDA, we are nevertheless convinced, that our liquidity position at the beginning of the year 2016 would be sufficient to take us over the first quarter of 2017.

MID-TERM OPPORTUNITIES

Coming from a company history in pioneering DNA methylation technology as well as biomarker discovery and development, the opportunity for breakthrough commercial success in the key markets with our DNA-methylation-based cancer diagnostic products is finally becoming more visible. While we still expect significant investments for R&D and market development in the mid-term, the decreasing development and regulatory risks around our products in our key markets based on our gained experience in this area is encouraging. The increasing necessity for safe and effective cancer diagnosis tools as a way of fighting the disease creates a fertile ground for our business in the medium term.

The products we have developed for blood-based CRC screening have matured significantly due to sustainable investments in R&D and are now being introduced for commercialization in the global markets. The FDA approval for our Septin9 test Epi proColon® offers a significant near- and mid-term opportunity to address the largest and most attractive global IVD market: the United States of America.

Lung cancer raises many clinical questions implicating huge medical needs for better diagnostics based on molecular tests. Our SHOX2 and PTGER4 biomarkers as partly embedded in our current Epi proLung® product represent an opportunity to address such market needs and provide clear benefits to patients and physicians in fighting this dreadful disease. Having further proven the utility of our test, we are now embarking on the development of a blood-based version of a lung cancer test, which, if successful, will open up very significant market opportunities.

There are clear opportunities beyond CRC and lung cancer testing with other patent protected methylation biomarkers discovered by Epigenomics. While we are not actively pursuing these opportunities today, they do represent further potential business opportunities in the future.

For our shareholders there is the opportunity to see the enterprise value increase from catalytic events, primarily the market introduction of Epi proColon® in the U.S.A. and also additional licensing partnerships.

OVERALL OUTLOOK FOR THE EPIGENOMICS GROUP

The transformation of Epigenomics into a commercially driven molecular diagnostics company with growing revenue derived from product sales has further advanced in 2015 and will be continued over the coming years. The expected entry into the U.S. market and the repeatedly confirmed belief of our strategic partners in Epigenomics will provide a tailwind for our business and the possible challenges ahead.

The successful market launch of Epi proColon® in the U.S.A. remains the most significant milestone for us in the nearer future and it will definitely be a landmark event for our Company. The future value of the Company and its financial situation are heavily dependent on reaching this milestone and we remain confident that we will ultimately achieve this goal. A positive outcome will also certainly shift our business and corporate focus more towards the U.S.A..

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

REPORT ON OPPORTUNITIES AND RISK

Risk management system

Epigenomics is a global cancer molecular diagnostics company and as such subject to many industry- and company-specific opportunities and risks. In accordance 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 opportunities and risks across all of its functions and operations. The underlying principles and guidelines have been documented in a Group-wide "Risk Management Policy". The goal of this policy and all related instruments is to identify risks systematically at the earliest possible stage, estimate their likelihood of occurrence as well as potential qualitative and quantitative impact, and design and implement effective countermeasures. The risk management system has been regularly discussed and is being developed further at the operational level, senior management level and at the Executive Board and Supervisory Board levels. A core principle is transparency of risks and opportunities across all functions and businesses we are engaged in, interactive evaluation of these and a culture of seizing opportunities and accepting risks as integral part of doing business in cancer molecular diagnostics, but doing so responsibly and striving for an optimal balance between opportunities and risks.

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

Hence, our management structure, our organizational forums for identifying and assessing opportunities and risks, the monthly internal and external reporting as well as 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 auditor and the Supervisory Board.

Aside from the opportunities that our business offers, there are a number of important risks Epigenomics is faced with, which individually or in combination could severely impact our revenue, earnings and financial situation as well as our share price. The main opportunities and risks are described below.

Business-related opportunities and risks

Epigenomics offers two IVD products, the CRC screening test Epi proColon® and the lung cancer confirmatory test Epi proLung® as CE-marked products in certain markets. However, product revenue so far has been relatively modest. Following our decision to focus the organization and its commercial activities to key markets for our lead product Epi proColon®, the U.S.A. and China, regulatory approvals in these countries are crucial for us to be able to generate revenue from products sales in conjunction with our partners and licensing agreements with third parties.

Apart from U.S. market approval, our ability to grow revenue from our products will depend, among other factors, on the successful marketing and commercialization of our tests with key stakeholders in the healthcare industry. In 2013, we entered into a commercial partnership with Polymedco, a well-established and experienced company for the commercialization of diagnostic tests in North America. This agreement provides us access to already existing sales and marketing channels, which we would have to build up on our own without this partnership. Therefore, this collaboration can be seen as a strategy of reducing the risks connected with an independent market development from scratch. Nevertheless, even with such an experienced partner, there are still risks remaining with regard to the commercialization. In the end, we have to rely on our abilities to create sufficient customer acceptance for our product as soon as possible. At this level, we not only have to address the screening population itself, but as well have to generate support in the medical and laboratory customer communities in parallel. To that effect, we have extended our network in the medical expert community over recent years, in order to gain support for our products with key opinion leaders in the field. However, it must not be taken for granted that all of the involved can be convinced of the advantages of a blood-based early detection test.

An important element in being commercially successful is the availability of reimbursement for Septin9 testing by insurance carriers. Septin9 testing is now explicitly included in the CPT coding document issued by the American Medical Association and implemented in 2013 with its own code for possible future reimbursement. Moreover, the CMS has approved payment for comparable DNA methylation tests at a level of USD 140. This is an additional encouraging signal towards the future availability of reimbursement for our test. Nevertheless, there is still a risk that major payers in the healthcare system might refuse reimbursement of the test in the U.S.A.. The situation in other large markets like China is essentially similar, where favorable reimbursement for testing services in CRC will drive the commercial adoption of our products.

Considering the fragmented reimbursement landscape in Europe and the lack of broad reimbursement, the commercial acceptance of our main product in the different European markets will remain moderate in the foreseeable future. However, any positive reimbursement decision in any European country poses a significant opportunity to the commercial success of the product in such market. At this point, though, we have no indication of ongoing reimbursement negotiations for products such as ours in any of the major European countries on a broader scale.

According to our business model, we are partly dependent on large diagnostic companies and reference laboratories to develop, commercialize, sell and distribute our products and licensed products based on our biomarkers and technologies. To ensure that our partners devote their best efforts to commercialize these licensed products, we will continue to support them with all the expertise and know-how needed in order to see them succeed in the market. Our dependence from the commercial success of our partners remains a risk factor, particularly as strategic decisions of our partners may lead to a change in their focus areas, which can only be mitigated by diversification of our partner base.

In our efforts to render possible the sale of our products – either directly or through partners – into the laboratory market in the U.S.A. and other countries, we have established relationships with contract manufacturing organizations and vendors of specialized reagents to secure an adequate supply of our product at any time. The ability of our manufacturing partners to provide us with sufficient quantities of product at quality levels mandated by regulatory authorities poses a possible risk to the Company. A failure by any of these partners or product vendors could lead to our inability to supply product to the market and thus negatively impact our ability to generate revenue. In order to mitigate this risk, we work with highly capable companies in this field, with ample experience and track records in providing high-quality products to diagnostic companies and have recently agreed on a supply agreement with a second contract manufacturer.

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

In advance of our application for PMA approval with the FDA in the U.S.A., we have also entered into licensing agreements with selected reference laboratories in North America, which have introduced their own versions of Septin9-based LDTs in the U.S. market. Since 2011, Quest has been intensively promoting its LDT (ColoVantage™) for aiding the detection of CRC, demonstrating encouraging market adoption by over 140,000 tests sold. Our partner ARUP, which also markets an LDT product based on our Septin9 technology in the U.S.A., has been very active in providing additional scientific and commercial proof of its utility in the aid of detecting CRC. Our ability to receive royalty income from these relationships nevertheless depends on our LDT partners' ability to secure adequate reimbursement for their test offerings. Changes in the regulatory environment and uncertainties in the reimbursement landscape pose an inherent risk to the royalty income we might be able to achieve. Furthermore, we do expect that due to contractual agreements and due to regulatory requirements, these partners would convert their product offerings from self-developed LDTs into commercially available tests like Epi proColon®, once these are approved by the FDA. There is a remaining risk that such conversion might not occur in a timely manner or even not at all, which would limit our ability to fully capture the economic benefit of our technology given that these LDT license agreements are not as attractive as the ability to directly sell our products to these laboratory customers.

The CRC screening field has seen intensive competition over the past years. Some competitors have made progress in developing other non-invasive CRC screening tests, although most of them are offering these as LDT services. It is important that our partners and we defend the established lead in terms of clinical validation with the only prospectively validated CRC blood test that is today available as an IVD test kit.

Epigenomics' future success partly relies on the experience and the know-how of the management and personnel, which represents a decisive competitive advantage of the Company. Our ability to retain the current level of expertise through key employees in the Company and to be able to recruit such expertise as it might become necessary, remains a critical success factor and might have an effect on the future results of operations and financial condition. The management has implemented a retention plan with the objective of securing the ongoing commitment of key employees.

IP-RELATED OPPORTUNITIES AND RISKS

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

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

über Arbeitnehmererfindungen) in effect prior to October 1, 2009, certain of our current or former German employees may have retained sole ownership or co-ownership interests to inventions made prior to such date and related IP rights. If such employee inventors retained sole ownership or co-ownership of any inventions or related IP rights, we may lose valuable IP rights and we may be required to obtain and maintain licenses from such employee inventors to such inventions or IP rights, but such licenses may not be available on commercially reasonable terms or at all, or may be non-exclusive.

Since, over recent years, we have moved our business from only developing new products to also marketing and selling our existing products launched in Europe, patent protection is now even more important to prevent competitors from launching competitive products based on our biomarkers. To that end, we have conducted extensive freedom-to-operate analyses also for our future U.S. product, to ensure that we are not infringing third-party rights. Further freedom-to-operate analyses will be conducted as soon as new products or changes to existing products are planned and such investigations become appropriate. As a precautionary measure, we constantly monitor the status of patent applications deemed to be relevant and work closely with our IP lawyers to ensure the best possible protection of our IP rights in light of ongoing developments in this field.

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

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

OPPORTUNITIES AND RISKS RELATED TO THE REGULATORY ENVIRONMENT

The upcoming FDA decision on the approval of Epi proColon® represents both an opportunity and a risk. The ultimate decision by the agency remains the largest risk factor for our business with potential major impact on the overall economic situation in the future. While this could in part be addressed by successes in other markets, it remains far from certain that with these markets alone we would be able to compensate for an inability to commercialize our product in the U.S.A., which represents the most important single market for diagnostic products in the world.

Having successfully completed the PMA review process thus far and in the wake of the notification by the FDA in January 2016, we have increased our chances for final approval. However, limitations within the product label or other restrictions could potentially affect our ability to successfully commercialize the product in the U.S. market.

The regulatory environment in cancer molecular diagnostics in the U.S.A. is complex and poses high hurdles for new products to enter the market. While for companies with FDA-approved products this represents an opportunity to protect the innovative nature of their diagnostic products from competition, it also poses a business risk for the market introduction of new products or even existing product improvements. Epigenomics has chosen to apply for a PMA for Epi proColon®, based on requirements by the FDA for cancer screening products. A PMA poses the highest regulatory standard, which makes it time- and resource-consuming to receive approval for commercialization. For the FDA approval of Epi proColon®, we have retained the services of a leading regulatory affairs consulting group in the U.S.A. with a successful track record of guiding companies through the FDA approval process for (cancer) molecular diagnostic products. Having followed this path over the previous years, we have now gained a significant competitive advantage. Any change in the regulatory landscape, which would make it easier for competitors to develop and commercialize LDTs/homebrew assays, which would be able to compete against companies with PMA approved products, would also pose a risk for our business.

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

FINANCIAL OPPORTUNITIES AND RISKS

As of December 31, 2015, our available liquidity (cash, cash equivalents and marketable securities) amounted to EUR 8.6 million. The management is aware of the risk of having limited liquid assets to sustain the operations of the business in an appropriate manner. Again in 2015, as in prior years, we repeatedly demonstrated that additional financial resources are accessible to us, even under difficult conditions. With the current funding and based on our business strategy for the months to come, our cash runway should at least reach into Q2 2017. Also in the event of a U.S. market launch of Epi proColon® without further delay, it cannot be expected that we will generate sufficient income from product sales quickly enough to reach the cash break-even point before the end of that runway. We have addressed that risk by issuing 25 convertible notes at the end of 2013, ten of which could still be converted by their holders in 2016. Assuming a positive FDA decision and a subsequent positive impact on our share price, we expect that holders will convert the remaining notes. Such a conversion could bring us more than EUR 5 million in additional liquidity due to the conversion premium associated with these instruments.

However, due to a variety of reasons there could also be a delay in launching Epi proColon® in the U.S. market, or an extended time of uncertainty in the financial markets. Under such a scenario, our share price could come under pressure and the conversion of the convertible notes would become unlikely. We would then face the risk that the holders of the notes might redeem their notes early, which they are entitled to do at any time before the end of 2016. Under such a scenario, while running out of funds, the Company would have to file for insolvency. In order to mitigate the risks inherent in the launch of our product, we will continue to evaluate all strategic options, including the option of raising additional capital in the markets at any time throughout 2016.

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

To avoid a costly setup of an own production site and the maintenance of such a facility and qualified staff to meet the required GMP standards, we currently do not manufacture the Epi proColon® test kits ourselves, but rather have outsourced these activities to contract-manufacturing providers. We are therefore exposed to the risk of dependence from our contract manufacturers. In advance of the expected market launch of Epi proColon® in the U.S.A., we have addressed this risk by implementing the manufacturing processes at an alternative supplier. This investment and the binding of resources are deemed appropriate as a risk mitigation strategy. Additionally, our second (alternative) manufacturer must be approved by the FDA before we can sell kits manufactured by this second provider in the U.S. market, thus maintaining our dependence on the current manufacturer. This formal amendment of the PMA after market approval could pose the risk of delay in the implementation of alternative manufacturing sources.

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

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

We have reduced our portfolio of available-for-sale securities over recent years down to a single remaining item. The historical investment in this remaining item was made under the Company's investment policy, which was approved by the Supervisory Board. This policy stipulates that investments may only be made in items with an "investment grade" rating. Our securities portfolio is exposed to price risks – in the form of interest rate, issuer and market-related impairment risks – and liquidity risks. Under specific market conditions it could be difficult or impossible to liquidate the securities in the short-term at their fair value – regardless of whether or not the issuer has a good rating. We have not made any investments in securities in recent years, and as part of our risk mitigation strategy have invested exclusively in money market instruments (i.e. demand deposits, daily and time deposits) on euro or U.S. dollar basis to maximize the availability of liquidity. At the same time, we are accepting the rather poor returns that could be earned in the money market at the continuously

low interest rates. In 2016 and going forward, we will continue to maintain as much of our liquid assets in the form of cash and the most secure cash equivalents possible.

Between 2013 and 2015 we used phantom stock programs as incentive instruments for our Executive Board members and our staff. If our share price develops positively, the exercise of rights issued from these programs could impact the Company's liquidity significantly, as these programs provide for a cash settlement. In an extreme case, the consequence could already materialize in 2016 by means of a cash outflow of up to EUR 6.1 million if our share price increases to nearly EUR 10.00 and all beneficiaries of our program issued in 2013 and 2014 exercise their executable rights completely. The Company has recognized sufficient provisions to account for such a possibility. However, we also see an opportunity in these programs as they serve as motivational elements for our Executive Board members and our staff in order to meet our common goals.

OTHER OPPORTUNITIES AND RISKS

We continuously monitor all applicable environmental, health and safety, operational and other applicable statutory and industrial guidelines, and have implemented functions to comply with all of these effectively at each of our business locations. To minimize the potential impact from a variety of tax, corporate, employment, competition, IP and other legal frameworks, we base our decision-making and design of our policies and processes on the advice of internal experts and renowned external advisors in each of these areas. Wherever appropriate and indicated, we set aside provisions to cover any potential liability. There are also risks particularly associated with our share price development. 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 pose a risk of being wrongly assessed by capital markets participants (particularly analysts and investors). This could lead to unjustified stock sales by shareholders and to a sharp decline in our share price, which could negatively impact our ability to remain viable as a listed company. At the same time, the volatility in our share price represents an opportunity to continuously find new investors for the Company willing to take the risk of an investment even in more challenging times. In order to seize this opportunity, we are actively in dialog with market participants and shareholders of the Company through our investor relations efforts.

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

SUMMARY OF THE OPPORTUNITY AND RISK SITUATION OF THE EPIGENOMICS GROUP

The critical FDA decision on the approval of our lead product Epi proColon® in the U.S.A. is approaching rapidly and represents not only a significant opportunity but also a risk. The ultimate decision by the agency remains the largest risk factor for our business with potential major impact on the overall course of our business in the future. While this could in part be addressed by successes in other markets, it is yet far from certain that with these markets alone we would be able to compensate for an inability to commercialize our product in the U.S.A., which represents the most important single market for diagnostic products in the world.

Having successfully completed the PMA review process thus far and after the notification by the FDA in January 2016, we increased our chances for final approval. However, limitations within the product label or other restrictions could potentially affect our ability to successfully commercialize the product in the U.S. market.

While the initial commercial success from our LDT partners in North America demonstrates market interest for a product like ours, we believe that widespread adoption of the test in the U.S.A. also hinges on inclusion in relevant screening guidelines and favorable reimbursement. Failure to obtain favorable reimbursement for our product as well as lack of market acceptance and penetration in the U.S.A. based on lack of inclusion in medical guidelines or for any other reason, would have substantial material impact on our revenue, earnings, financial position and our ability to raise further capital.

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

Despite of the funds raised in the capital markets over the last years, as a company with significant commercial challenges and opportunities we are still constrained in our financial resources. This limits our ability to cope with potential additional hurdles along the regulatory track or in our commercial efforts. Ultimately, we see our ability to access additional capital to reach our commercial goals as an opportunity to face the threatening illiquidity risk. A failure in raising capital to appropriately fund the business operations can ultimately lead to a total loss of value in our stock.

CORPORATE GOVERNANCE

For the Executive Board and the Supervisory Board of Epigenomics, corporate governance lies at the heart of responsible and ethical management. The Executive Board and the Supervisory Board maintained a very active exchange throughout 2015 in order to generate long-term value for our shareholders. This represents a key element of sound corporate governance. Moreover, openness and transparency in our corporate communications with shareholders, employees, authorities, the general public and other stakeholder groups represent an overarching principle to our approach towards sound corporate governance.

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

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

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

2015 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

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

The Executive Board and the Supervisory Board of Epigenomics AG hereby declare that, since the last declaration of compliance in October 2014 and until June 12, 2015, Epigenomics AG has complied with the recommendations of the German Government Commission on the German Corporate Governance Code (hereinafter also "Code") in the version of June 24, 2014 and has since June 12, 2015 complied, and complies, with the recommendations of the Code in the version of May 5, 2015 (published by the Ministry of Justice in the official part of the Federal Gazette on June 12, 2015), in each case with the exceptions set forth below.

Section 5.1.2 Paragraph 1 Sentence 2 and Paragraph 2 Sentence 3 and Section 5.4.1 Paragraph 2 Sentence 1 and Paragraph 3

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

Sections 5.3.1, 5.3.2 and 5.3.3 and Section 5.4.6 Paragraph 1 Sentence 2

As the Supervisory Board comprises only three members the Supervisory Board considers the formation of committees not to be adequate. Committees comprising less than three members and therefore less than the full Supervisory Board could not be delegated powers to take decisions. Therefore, the Supervisory Board has not formed any committees. Therefore, in contrary to the recommendation in Section 5.4.6 paragraph 1 sentence 2, no further compensation for the chairperson or the membership to such committees will apply.

Berlin, October 2015

On behalf of the Supervisory Board

Heino von Prondzynski
(Chairman of the Supervisory Board)

On behalf of the Executive Board

Dr. Thomas Taapken
(CEO/CFO)

Dr. Uwe Staub
(COO)

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

DECLARATION OF GOVERNANCE

In accordance with Section 289a of the German Commercial Code (HGB), the Declaration of Governance has been made permanently accessible to the general public in German and English on Epigenomics AG's website under *www.epigenomics.com/en/news-investors/investors/corporate-governance/declaration-of-governance.*

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

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

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

Within the organization of the Company, there are various departments and employees involved in the setup, the coordination and the supervision of control measures. The risk management function and controlling as well as quality departments are of major importance here. Due to the limited size of the Group, the Company has not yet established an internal audit function.

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

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

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

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

For internal control purposes, we set up an annual budget, usually based on the current long-term strategic business plan of the Company and a corresponding set of goals. The budget is developed bottom-up from all cost centers and R&D projects. All budgets are extensively reviewed internally by the senior management team and the Executive Board, and a final approval of the annual budget by our Supervisory Board is mandatory. The primary focus of our regular internal management reporting lies in comparing actual versus budgeted values for a comprehensive set of metrics. From these, we compile the external quarterly reports. Quarterly reports are usually accompanied by an internal forecast, which provides us with an updated estimate of expected full-year results and performance vis-à-vis target numbers and public guidance. Actual versus budget comparisons of financial performance indicators are also drawn on a regular basis within the framework of the internal reporting system and are reported monthly to the senior management team of the Company. The focus is on cost and liquidity control. Deviations versus budget or historical values are analyzed on a short-term basis and supplemented by a presentation of alternative options. The reporting is supplemented as needed with additional data requested by the Supervisory Board or the Executive Board as well as the controlling team.

Impairment tests on the Company's assets are done on a regular basis in accordance with the appropriate accounting standards or, as the case may be, upon reports of a reasonable suspicion of a possible impairment.

REMUNERATION REPORT

Composition and remuneration of the Executive Board

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

Dr. Thomas Taapken was the Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) in the reporting year. He joined the Company in April 2011 as its CFO and additionally took over the CEO position in October 2012. Dr. Taapken's service agreement has a term until December 31, 2016. Dr. Uwe Staub, Chief Operating Officer (COO) of the Company, was appointed to the Executive Board from April 1, 2013 on. Dr. Staub's service agreement was renewed during the reporting year and has a term until March 31, 2018.

Total remuneration of the members of the Company's Executive Board is reviewed by the Supervisory Board annually and is compared against national and international benchmarks. Remuneration takes into account the economic and financial situation of the Company as well as size and complexity of international operations and responsibilities. The remuneration package consists of a fixed and a variable component. The variable amount is determined on the basis of a variety of criteria, which are set by the Supervisory Board on a yearly basis, such as the achievement of individual performance targets and/or Company performance targets. Dr. Taapken's current service agreement contains a provision stipulating that his bonus payments be partially linked to successfully completed financing transactions. For each financing event successfully completed, he is entitled to a bonus of 1.5% of the total amount of net proceeds to the Company, capped at a maximum amount of EUR 200,000 per calendar year. Furthermore, this service agreement is also partially linked to operating targets of the Company. Depending on his personal target achievement, Dr. Taapken is entitled to an additional bonus of up to EUR 200,000 per calendar year.

Apart from the fixed and the variable component, a third remuneration component comprises a long-term performance-based compensation in the form of phantom stock rights (PSRs). Such rights are granted under the Company's phantom stock programs (PSPs), which are described in detail in the notes to the consolidated financial statements for the reporting year. The total individual position of the Executive Board members with regard to these rights is shown in the following table:

Executive Board member	Program	Reporting year	Rights granted	Total rights owned (Dec 31)	Exercise price (weighted avg.) in EUR	Rights vested (Dec 31)	Exercise price (weighted avg.) in EUR
Dr. Thomas Taapken	**PSP 03–15**	**2015**	**0**	**40,000**	**6.32**	**40,000**	**6.32**
		2014	0	40,000	6.32	40,000	6.32
	PSP 2013	**2015**	**0**	**110,000**	**1.62**	**66,000**	**1.62**
		2014	0	110,000	1.62	22,000	1.62
	PSP 2014	**2015**	**0**	**73,333**	**3.23**	**14,666**	**3.23**
		2014	73,333	73,333	3.23	0	n/a
	PSP 2015	**2015**	**59,000**	**59,000**	**5.05**	**0**	**n/a**
		2014	0	0	n/a	0	n/a
Total PSRs		**2015**	**59,000**	**282,333**	**3.42**	**120,666**	**3.37**
		2014	73,333	223,333	2.99	62,000	4.65

Executive Board member	Program	Reporting year	Rights granted	Total rights owned (Dec 31)	Exercise price (weighted avg.) in EUR	Rights vested (Dec 31)	Exercise price (weighted avg.) in EUR
Dr. Uwe Staub	**PSP 03–15**	**2015**	**0**	**38,800**	**8.35**	**38,800**	**8.35**
		2014	0	38,800	8.35	32,132	9.57
	PSP 2013	**2015**	**0**	**115,000**	**2.41**	**65,000**	**2.18**
		2014	20,000	115,000	2.41	19,000	1.62
	PSP 2014	**2015**	**0**	**60,000**	**3.23**	**12,000**	**3.23**
		2014	60,000	60,000	3.23	0	n/a
	PSP 2015	**2015**	**24,000**	**24,000**	**5.05**	**0**	**n/a**
		2014	0	0	n/a	0	n/a
Total PSRs		**2015**	**24,000**	**237,800**	**3.85**	**115,800**	**4.35**
		2014	80,000	213,800	3.72	51,132	6.62

The exercise prices of the PSRs held by Dr. Taapken range from EUR 1.62 to EUR 9.60. The exercise prices of the PSRs held by Dr. Staub range from EUR 1.62 to EUR 19.35. No PSRs were exercised by the Executive Board members in the reporting year and the previous year.

In addition to the aforementioned remuneration components, the Executive Board members are beneficiaries of a D&O insurance with excess according to the statutory minimum amount and receive full reimbursement of their business travel expenses by the Company according to its general travel policy.

The service agreements of both Executive Board members contain post-contractual non-compete provisions for a period of twelve months after the respective service agreements end. During such period, at the decision of the Supervisory Board, the Executive Board member is entitled to 100% of his last fixed compensation as a non-competition payment. In case of a change of control in accordance with the definition of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG), the Executive Board members are entitled to terminate their contracts and would be entitled to receive payment of the fixed remuneration amount for the time remaining until their contracts would have expired, but in no case such payments will exceed 150% of the severance payment cap in accordance with Section 4.2.3 of the German Corporate Governance Code.

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

	Dr. Taapken, CEO/CFO since April 1, 2011				Dr. Staub, COO since April 1, 2013			
Benefits granted (in EUR)	**2014**	**2015**	**2015 (min)**	**2015 (max)**	**2014**	**2015**	**2015 (min)**	**2015 (max)**
Fixed compensation	240,000	240,000	240,000	240,000	220,000	227,500	220,000	230,000
Fringe benefits	0	0	0	0	0	0	0	0
Total	**240,000**	**240,000**	**240,000**	**240,000**	**220,000**	**227,500**	**220,000**	**230,000**
One-year variable compensation	137,260	158,951	0	400,000	80,000	77,500	0	80,000
Multi-year variable compensation	101,068	85,131	0	885,000	110,576	34,629	0	360,000
** share-based compensation*	*101,068*	*85,131*	*0*	*885,000*	*110,576*	*34,629*	*0*	*360,000*
– PSP 03–15	*0*	*0*	*n/a*	*n/a*	*0*	*0*	*n/a*	*n/a*
– PSP 2013	*0*	*0*	*n/a*	*n/a*	*27,884*	*0*	*n/a*	*n/a*
– PSP 2014	*101,068*	*0*	*n/a*	*n/a*	*82,692*	*0*	*n/a*	*n/a*
– PSP 2015	*0*	*85,131*	*0*	*885,000*	*0*	*34,629*	*0*	*360,000*
** non-share-based compensation*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total	**478,328**	**484,082**	**240,000**	**1,525,000**	**410,576**	**339,629**	**220,000**	**670,000**
Service cost	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total	**478,328**	**484,082**	**240,000**	**1,525,000**	**410,576**	**339,629**	**220,000**	**670,000**

	Dr. Taapken, CEO/CFO since April 1, 2011		Dr. Staub, COO since April 1, 2013	
Allocations (in EUR)	**2014**	**2015**	**2014**	**2015**
Fixed compensation	240,000	240,000	220,000	227,500
Fringe benefits	0	0	0	0
Total	**240,000**	**240,000**	**220,000**	**227,500**
One-year variable compensation	215,523	158,951	132,500	0
Multi-year variable compensation	0	0	0	0
** share-based compensation*	*0*	*0*	*0*	*0*
– PSP 03–15	*0*	*0*	*0*	*0*
– PSP 2013	*0*	*0*	*0*	*0*
– PSP 2014	*0*	*0*	*0*	*0*
– PSP 2015	*0*	*0*	*0*	*0*
** non-share-based compensation*	*0*	*0*	*0*	*0*
Total	**455,523**	**398,951**	**352,500**	**227,500**
Service cost	*0*	*0*	*0*	*0*
Total	**455,523**	**398,951**	**352,500**	**227,500**

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

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

		Number of shares			
Executive Board member	Reporting year	held as of Jan 1	purchased	sold	held as of Dec 31
Dr. Thomas Taapken	**2015**	**51,000**	**6,652**	**0**	**57,652**
	2014	33,000	18,000	0	51,000
Dr. Uwe Staub	**2015**	**5,000**	**0**	**0**	**5,000**
	2014	0	5,000	0	5,000
Total Executive Board	**2015**	**56,000**	**6,652**	**0**	**62,652**
	2014	33,000	23,000	0	56,000

Composition and remuneration of the Supervisory Board

Epigenomics AG's Supervisory Board consists of three members with broad experience in the pharmaceutical, diagnostics or financial industries. In accordance with a resolution by the Company's 2012 Annual General Meeting, the number of Supervisory Board seats has been reduced from six to three. As a consequence of this reduction, the formation of committees was no longer considered to be necessary[1] (for further details please refer to our Declaration of Governance which is permanently accessible on the Company's website at under *www.epigenomics.com/en/news-investors/investors/corporate-governance/declaration-of-governance).*

The Supervisory Board members of the Company in 2015 until December 31 were:

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

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

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

  – Hospira, Inc., Lake Forest, IL (U.S.A.) – (until September 2015)
  – HTL-Strefa S.A., Warsaw (POL) – (chairman)
  – Koninklijke Philips Electronics N.V. (Royal Philips Electronics), Eindhoven (NL)
  – Quotient Ltd., Jersey (UK)

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

  Supervisory Board member since June 2005

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

  – Althea Dx Inc., San Diego, CA (U.S.A.)
  – MedGenesis Therapeutix, Inc., Victoria, BC (CAN)

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

  Supervisory Board member since June 2005

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

  – CSA Verwaltungs GmbH, Würzburg (GER) – (until January 2015)

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

[1] *The Supervisory Board had formed an "Audit and Corporate Governance Committee" and a "Personnel and Compensation Committee" in previous years when it had consisted of six members.*

Remuneration of the members of the Supervisory Board:

in EUR	Reporting year	Fixed	Variable remuneration	Total
H. von Prondzynski	**2015**	**90,000**	**12,000**	**102,000**
	2014	90,000	12,000	102,000
Ann C. Kessler, Ph.D.	**2015**	**40,000**	**12,000**	**52,000**
	2014	40,000	12,000	52,000
Prof. Dr. G. Reiter	**2015**	**40,000**	**12,000**	**52,000**
	2014	40,000	12,000	52,000
Total Supervisory Board	**2015**	**170,000**	**36,000**	**206,000**
	2014	170,000	36,000	206,000

In addition, the members of the Supervisory Board were reimbursed for expenses totaling EUR 52 thousand in 2015 (2014: EUR 42 thousand).

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

		Number of shares			
Supervisory Board member	Reporting year	held as of Jan 1	purchased	sold	held as of Dec 31
H. von Prondzynski	**2015**	**100,100**	**28,900**	**0**	**129,000**
	2014	90,100	10,000	0	100,100
Ann C. Kessler, Ph.D.	**2015**	**7,800**	**0**	**0**	**7,800**
	2014	2,800	5,000	0	7,800
Prof. Dr. G. Reiter	**2015**	**0**	**0**	**0**	**0**
	2014	0	0	0	0
Total Supervisory Board	**2015**	**107,900**	**28,900**	**0**	**136,800**
	2014	92,900	15,000	0	107,900

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 two months after quarter's end and annual financial statements within four months after year-end. All information is made available simultaneously on our website *www.epigenomics.com.* All material news is announced following the latest guidelines and legal requirements on ad hoc notification.

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

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

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

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

COMPOSITION OF SHARE CAPITAL

As of December 31, 2015, the share capital of Epigenomics AG consisted exclusively of no-par value ordinary registered shares. The total number of outstanding shares as of December 31, 2015, was 18,088,384.

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

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

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

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

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

Pursuant to Section 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.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

Authorized Capital 2015/I

The Executive Board is authorized until May 12, 2020, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 1,567,768.00 against contribution in cash and/or in kind by issuing new no-par value ordinary registered shares (Authorized Capital 2015/I). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting in accordance with Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or paragraph 7 of the German Banking Act (Kreditwesengesetz – KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- if the new shares are issued in accordance with Section 186 paragraph 3 sentence 4 AktG against contribution in cash at an issue price which is not significantly below the stock exchange price of the shares already listed, and the pro rata notional portion of the share capital represented by the new shares does not exceed ten per cent (10%) of the share capital at the time this authorization is registered with the commercial register, or, if lower, at the respective time when the authorization is exercised. Other shares which have been newly issued by the Company by way of a capital increase against contribution in cash during the term of this authorization pursuant or corresponding

to Section 186 paragraph 3 sentence 4, or which have been sold following a repurchase, in each case under exclusion of subscription rights, shall be counted towards the 10% limitation. Furthermore, shares in relation to which there is an option or conversion right or obligation, or a share delivery right in favor of the Company, based on bonds with warrants or convertible bonds or participation rights that have been issued during the term of this authorization under exclusion subscription rights pursuant to Section 221 paragraph 4 sentence 2 in connection with Section 186 paragraph 3 sentence 4 AktG by the Company or its subsidiaries, shall be counted towards the 10% limitation;

- for capital increases against contribution in kind in order to be able to offer the new shares to third parties with regard to mergers or upon the acquisition of enterprises, parts of enterprises, participations in enterprises or the acquisition of other assets (including receivables);
- as far as it is necessary to grant such a number of subscription rights for new shares to holders or creditors of option rights or creditors of convertible bonds or participation rights issued by the Company or its subsidiaries as they would have upon the exercise of the option or conversion rights or the exercise of share delivery rights, or performance of conversion or option obligations.

The Executive Board is further authorized to determine the point in time as of which the new shares carry dividend rights in deviation from Section 60 paragraph 2 AktG as well as the further details of the implementation of capital increases from the Authorized Capital 2015/I. The Supervisory Board is authorized to amend the wording of the Articles of Association after implementation of a capital increase from the Authorized Capital 2015/I in accordance with the respective capital increase or after expiry of the term of the authorization.

Authorized Capital 2015/II

The Executive Board is authorized until May 12, 2020, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 6,271,072.00 against contribution in cash and/or in kind by issuing new no-par value ordinary registered shares (Authorized Capital 2015/II). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting in accordance with Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or paragraph 7 of the German Banking Act (KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- for capital increases against contribution in kind in order to be able to offer shares to third parties with regard to mergers or upon the acquisition of enterprises, parts of enterprises, participation in enterprises or the acquisition of other assets (including receivables);
- for capital increases in cash, to the extent the capital increases are implemented for the purpose of a placement of the new shares in the context of a listing at a foreign stock exchange.

The Executive Board is further authorized to determine the point in time as of which the new shares carry dividend rights in deviation from Section 60 paragraph 2 AktG as well as the further details of the implementation of capital increases from Authorized Capital 2015/II.

Conditional Capital VII

The share capital is further conditionally increased by up to EUR 21,065.00 by issuance of up to 21,065 new no-par value ordinary registered shares (Conditional Capital VII). The conditional capital increase can only be carried out to the extent that option rights were issued on the basis of the stock option program 09–13 of the Company and the holders of these share options exercise their right to subscribe to shares of the Company and the Company does not transfer its own shares in fulfillment of these option rights. The new shares will participate in the profit from the beginning of the financial year in which they are issued. Up to a maximum amount of 21,065 new shares could still be created upon exercise of granted and outstanding options from the underlying program.

Conditional Capital IX

The share capital is further conditionally increased by up to EUR 2,221,975.00 by issuance of up to 2,221,975 new no-par value ordinary registered shares (Conditional Capital IX). The conditional capital increase is only to be implemented if bonds or participation rights are issued on the basis of the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, until May 5, 2018, and to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant no-par value shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution of the Annual General Shareholders' Meeting of May 6, 2013, or in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, or the lower issue price determined in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

Conditional Capital X

The share capital is further conditionally increased by up to EUR 1,586,206.00 by issuance of up to 1,586,206 new no-par value ordinary registered shares (Conditional Capital X). The conditional capital increase is only to be implemented if bonds or participation rights are issued based on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on June 3, 2014, until June 2, 2019, to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution dated June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is also authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

KEY FIGURES

– in accordance with the consolidated financial statements –

EUR thousand (except where indicated)	2011	2012	2013	2014	2015
Statement of Profit or Loss					
Revenue	1,437	1,039	1,588	1,507	2,082
Gross profit	1,080	747	1,101	776	907
EBIT	-15,245	-12,123	-7,288	-8,383	-9,264
EBITDA	-10,939	-11,200	-6,489	-7,613	-8,596
Net loss for the year	-15,575	-12,197	-7,411	-8,854	-8,985
Balance Sheet					
Non-current assets	4,042	3,053	2,167	2,352	1,822
Investments in non-current assets[1]	388	87	0	911	200
Current assets	15,421	3,825	8,914	8,968	10,776
Non-current liabilities	0	0	542	1,407	217
Current liabilities	3,277	2,720	4,080	3,805	5,283
Equity	16,186	4,158	6,459	6,108	7,098
Equity ratio in %	83.2	60.5	58.3	54.0	56.3
Total assets	19,463	6,878	11,081	11,320	12,598
Cash Flow Statement					
Cash flow from operating activities	-9,111	-10,884	-6,505	-7,242	-8,127
Cash flow from investing activities	-2,842	954	-20	-853	159
Cash flow from financing activities	-44	-422	11,527	7,603	9,032
Net cash flow	-11,997	-10,352	5,002	-492	1,064
Cash consumption	-12,241	-10,930	-6,525	-8,095	-7,968
Cash and cash equivalents at the end of the year	12,557	2,205	7,207	6,715	7,779
Stock					
Weighted-average number of shares issued	8,818,417	8,818,417	11,910,017	13,631,263	17,117,101
Earnings per share (basic and diluted, in EUR)	-1.77	-1.38	-0.62	-0.65	-0.52
Share price at the end of the year (in EUR)	1.30	2.10	6.12	5.10	2.22
Number of employees at the end of the year	61	39	34	37	39

[1] Excluding capitalized development costs

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2015

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

CONTENTS

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

EUR thousand	Notes	2014	2015
Revenue	1	1,507	2,082
Cost of sales	3	-731	-1,175
Gross profit		**776**	**907**
Gross margin in %		*51.5*	*43.6*
Other income	2	558	862
Research and development costs	3	-4,688	-5,762
Selling, general and administrative costs	3	-4,907	-5,149
Other expenses	3, 6	-122	-122
Operating result/Earnings before interest and taxes (EBIT)	7	**-8,383**	**-9,264**
Interest income	8	19	18
Interest expenses	8	-516	-2
Other financial result	8	-1	-1
Net loss for the year before taxes on income		**-8,881**	**-9,249**
Taxes on income	9	27	264
Net loss for the year		**-8,854**	**-8,985**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of available-for-sale securities	23	30	4
Other comprehensive income for the year		**30**	**4**
Total comprehensive income for the year		**-8,824**	**-8,981**
Earnings per share (basic and diluted, in EUR)	10	**-0.65**	**-0.52**

GROUP BALANCE SHEET
AS OF DECEMBER 31

ASSETS (EUR thousand)	Notes	Dec 31, 2014	Dec 31, 2015
Non-current assets			
Intangible assets	11, 13	1,291	792
Tangible assets	12, 13	1,013	684
Deferred tax assets	14	48	346
Total non-current assets		**2,352**	**1,822**
Current assets			
Inventories	15	753	1,077
Trade receivables	16	307	177
Marketable securities	17	780	784
Cash and cash equivalents	18	6,715	7,779
Other current assets	19	413	959
Total current assets		**8,968**	**10,776**
Total assets		**11,320**	**12,598**

EQUITY AND LIABILITIES (EUR thousand)	Notes	Dec 31, 2014	Dec 31, 2015
Equity			
Subscribed capital	20	15,480	18,088
Capital reserve	21	33,582	40,945
Retained earnings	22	-33,880	-42,734
Net loss for the year	10	-8,854	-8,985
Other comprehensive income	23	-220	-216
Total equity		**6,108**	**7,098**
Non-current liabilities			
Provisions	25	1,407	217
Total non-current liabilities		**1,407**	**217**
Current liabilities			
Trade payables	26	897	1,923
Deferred income	27	55	635
Convertible notes issued	28	1,926	1,070
Other liabilities	29	511	761
Provisions	25	416	894
Total current liabilities		**3,805**	**5,283**
Total equity and liabilities		**11,320**	**12,598**

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

EUR thousand	Notes	2014	2015
Cash and cash equivalents at the beginning of the year	18	**7,207**	**6,715**
Operating activities	31		
Net loss for the year		**-8,854**	**-8,985**
Adjustments for:			
Depreciation of tangible assets	5, 7, 12	135	166
Amortization of intangible assets	5, 7, 11	635	502
Losses from the disposal of non-current assets		5	6
Foreign currency exchange results		0	-13
Financial income	8	-19	-18
Financial expenses	8	516	3
Taxes	9	-27	-264
Operating result before changes in operating assets and liabilities		**-7,609**	**-8,603**
Non-current and current provisions	25	646	-713
Inventories	15	-478	-324
Trade receivables	16	-121	130
Other current assets	19	10	-546
Trade payables and other liabilities	26, 29	343	1,370
Deferred income	27	-12	581
Taxes paid		-21	-22
Cash flow from operating activities		**-7,242**	**-8,127**

EUR thousand	Notes	2014	2015
Investing activities	32		
Payments to acquire tangible fixed assets		-868	-206
Payments to acquire intangible fixed assets		-6	-7
Proceeds from investment grants received		0	357
Interest received		21	16
Cash flow from investing activities		**-853**	**159**
Financing activities	33		
Proceeds from the issue of new shares	33	4,178	5,000
Payments for the issue of new shares		0	-137
Proceeds from the issue of convertible notes	33	200	0
Proceeds from the conversion of convertible notes	28	3,648	4,169
Payments for the issue of convertible notes		-423	0
Cash flow from financing activities		**7,603**	**9,032**
Total net cash flow		**-492**	**1,064**
Cash and cash equivalents at the end of the year	18	**6,715**	**7,779**

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

STATEMENT OF CHANGES IN GROUP EQUITY
AS OF DECEMBER 31

EUR thousand	Notes	Subscribed capital	Capital reserve	Retained earnings	Net loss for the year	Other comprehensive income	**Group equity**
December 31, 2013		**13,083**	**27,506**	**-26,469**	**-7,411**	**-250**	**6,459**
Total comprehensive income	10, 23	**0**	**0**	**0**	**-8,854**	**30**	**-8,824**
Transfer of net loss for the year 2013 to retained earnings		0	0	-7,411	7,411	0	0
Capital increase from the issue of shares from Authorized Capital		1,351	0	0	0	0	1,351
Premium from the issue of shares from Authorized Capital		0	2,810	0	0	0	2,810
Costs for the creation of new shares		0	-44	0	0	0	-44
Conversion of convertible notes	28	1,040	3,301	0	0	0	4,341
Cost of the issue of convertible notes		0	-1	0	0	0	-1
Exercise of stock options		6	10	0	0	0	16
December 31, 2014		**15,480**	**33,582**	**-33,880**	**-8,854**	**-220**	**6,108**
December 31, 2014		**15,480**	**33,582**	**-33,880**	**-8,854**	**-220**	**6,108**
Total comprehensive income	10, 23	**0**	**0**	**0**	**-8,985**	**4**	**-8,981**
Transfer of net loss for the year 2014 to retained earnings	22	0	0	-8,854	8,854	0	0
Capital increase from the issue of shares from Authorized Capital	20, 21	977	0	0	0	0	977
Premium from the issue of shares from Authorized Capital	21	0	4,023	0	0	0	4,023
Costs for the creation of new shares	21	0	-53	0	0	0	-53
Conversion of convertible notes	28	1,631	3,393	0	0	0	5,024
December 31, 2015		**18,088**	**40,945**	**-42,734**	**-8,985**	**-216**	**7,098**

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 under German law (GmbH) in 1998 and has its headquarters in Berlin, Germany. In 2000, the Company was converted into a stock corporation under German law (AG) and entered into the commercial register (Handelsregister) Charlottenburg under HRB 75861. It has been listed in the Prime Standard segment of the Frankfurt Stock Exchange (ticker symbol: ECX) since July 19, 2004.

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

GENERAL PRINCIPLES

The consolidated financial statements of Epigenomics AG have been prepared in accordance with Section 315a of the German Commercial Code (HGB) and in application of the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, in effect as of the balance sheet date December 31, 2015, as adopted by the European Union (EU).

The Company has incurred balance sheet losses of EUR 42,734 thousand since inception. The Company incurred losses of EUR 8,985 thousand for 2015 (2014: EUR 8,854 thousand). Accordingly, the "going concern" principle in accordance with IAS 1.25 *Presentation of Financial Statements* has been considered. The underlying assumption is an expected FDA approval for Epi proColon® in the first half of 2016. Starting from EUR 8.6 million in liquid assets (cash, cash equivalents and marketable securities) at year-end 2015, current financial resources are sufficient at this projected cash consumption to support the Company's operations beyond 2016. The management of the Company anticipates, that a positive FDA decision will open up further financing options to the Company on the capital markets and management is determined to exercise such options in the Company's best interest as the case may be.

However, any delays in the FDA decision, any significant restrictions and/or conditions attached to the approval order by the FDA could endanger the Company's financial situation significantly in the mid-term. The likelihood of a conversion of the outstanding convertible notes by their holders also depends on the share price development resulting from the FDA decision. During this period of uncertainty, the Company will continue to diligently explore all strategic options available to the Company. These options explicitly include further capital market transactions with the goal of securing additional funds.

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

REPORTING PERIOD AND REPORTING CURRENCY

The reporting period (comparison period) as defined in these consolidated financial statements is the period from January 1 to December 31, 2015 (2014). The reporting currency is the euro.

SCOPE OF CONSOLIDATION

The consolidated Group consists of Epigenomics AG as the parent company (registered office: Genest-strasse 5, 10829 Berlin, Germany) and Epigenomics, Inc. (registered office: Suite 400, 1455 NW Leary Way, Seattle, WA 98107, U.S.A.), as its sole subsidiary during the reporting period. Epigenomics, Inc. additionally operates an office in Germantown, MD, U.S.A.. Epigenomics AG owned 100% of the share capital and the voting rights of Epigenomics, Inc. between January 1 and December 31, 2015 and 2014.

For the reporting year and the previous year, the two companies have each submitted separate financial statements which were either audited or critically reviewed, independent of their consolidation.

PRINCIPLES OF CONSOLIDATION

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

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

APPLICATION OF NEW AND REVISED IFRSs AND INTERPRETATIONS

In the reporting year, the Group has applied the following new and revised IFRSs and Interpretations issued by the IASB and endorsed by the EU that are mandatorily effective for an accounting period that begins on or after January 1, 2015. Generally, the amendments mentioned require prospective application.

Annual Improvements to IFRSs (2011–2013 Cycle) (endorsed by the EU as of December 18, 2014)

The Annual Improvements (2011–2013 Cycle) include amendments to a number of IFRSs which are briefly outlined below:

- IFRS 1 *First-time Adoption of IFRS:* The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.
- IFRS 3 *Business Combinations:* The amendment clarifies that IFRS 3 does not apply to the accounting for the formation of joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 *Fair Value Measurement:* The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 19, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.
- IAS 40 *Investment Property:* The amendment clarifies that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether a) the property meets the definition of investment property in accordance with IAS 40; and b) the transaction meets the definition of a business combination in accordance with IFRS 3.

IFRIC 21 Levies (endorsed by the EU as of June 13, 2014)

IFRIC 21 addresses the issue of when to recognize a liability to pay a levy. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

NEW AND REVISED IFRSs AND INTERPRETATIONS THAT ARE NOT MANDATORILY EFFECTIVE (BUT ALLOW EARLY APPLICATION) FOR THE REPORTING YEAR

The Group has not applied the following new and revised IFRSs and Interpretations which have been issued but are not yet effective.

Mandatory application for fiscal years beginning on February 1, 2015

	EU endorsement
Annual Improvements to IFRSs (2010–2012 Cycle)	yes
IAS 19 – Defined Benefit Plans: Employee Contributions	yes

Mandatory application for fiscal years beginning on January 1, 2016

	EU endorsement
Annual Improvements to IFRSs (2012–2014 Cycle)	yes
IFRS 14 – Regulatory Deferral Accounts	no
IFRS 10, IFRS 12 und IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	no
IFRS 11 – Accounting for Acquisition of Interests in Joint Operations	yes
IAS 1 – Disclosure Initiative	yes
IAS 16 und IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization	yes
IAS 16 und IAS 41 – Agriculture: Bearer Plants	yes
IAS 27 – Equity Method in Separate Financial Statements	yes

Mandatory application for fiscal years beginning on January 1, 2018

	EU endorsement
IFRS 9 – Financial Instruments (as revised in 2014)	no
IFRS 15 – Revenue from Contracts with Customers	no

Mandatory application for fiscal years beginning on January 1, 2019

	EU endorsement
IFRS 16 – Leases	no

The amendments to **IAS 19** clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan. In accordance with the amendments, discretionary contributions made by employees or third parties reduce service costs upon payment of these contributions to the plan. The amendment requires retrospective application.

The **Annual Improvements to IFRSs (2010 – 2012 Cycle) …**

- clarify the definition of vesting condition and market condition to ensure the consistent classification of conditions attached to a share-based payment. It also adds definitions for "performance condition" and "service condition" which were previously included as part of the definition of vesting condition **(IFRS 2 *Share-based Payments*);**
- clarify that contingent consideration should be measured at fair value at each reporting date, irrespective of whether or not the contingent consideration falls within the scope of IFRS 9 or IAS 39. Changes in fair value (other than measurement period adjustments as defined in IFRS 3) should be recognized in profit or loss **(IFRS 3 *Business Combinations*);**
- clarify on the one hand that an entity has to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a brief description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments share similar economic characteristics. On the other hand the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if information about the amount of the segment assets are regularly provided to the chief operating decision maker **(IFRS 8 *Operating Segments*);**
- clarify that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial **(IFRS 13 *Fair Value Measurement*);**
- removed perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses **(IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets*);**
- clarify that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts as incurred for the service paid or payable to the management entity for the provision of key management personnel services **(IAS 24 *Related Party Disclosures*).**

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities (only for first-time adopters of IFRSs).

The **Amendments to IFRS 11** provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combinations.*

The **Amendments to IAS 1** were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements of IAS 1 had in some cases been read to prevent the use of judgment.

The **Amendments to IAS 16** prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment and the **Amendments to IAS 38** introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

The **Amendments to IAS 16 and IAS 41** define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16 instead of IAS 41.

The **Amendments to IAS 27** focus on separate financial statements and allow the use of the equity method in such statements.

The **Amendments to IFRS 10, IFRS 12 and IAS 28** clarify that the exemption from preparing consolidated financial statements is available to a parent company that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.

The **Annual Improvements to IFRS's (2012–2014 Cycle)** add specific guidance in IFRS 5, clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required (IFRS 7 *Financial Instruments: Disclosure*) as well as the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements; further clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (IAS 19 *Employee Benefits*) and the meaning of "elsewhere in the interim report" (IAS 34 *Interim Financial Reporting*).

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

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

The new **IFRS 16** specifies how an entity will recognise, measure, present and disclose leases.

The Company intends to adopt these new and/or revised standards, amendments and interpretations as soon as their adoption is mandatory and they are endorsed by the EU. Potential material impact of the adoption of these amendments and improvements on the Company's financial statements for the fiscal year 2016 is not expected. Any potential impact on the following fiscal years is not reliably predictable by the Company at this point in time.

MANAGEMENT'S JUDGMENT, ASSUMPTIONS AND EXPECTATIONS

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

Management's expectations on the future are usually based on the current economic outlook according to the consensus prognoses by leading economic and financial research institutions and independent analysts. The global economic situation is not expected to improve significantly in 2016, but rather to rest on shaky ground due to the increasing political challenges around the world.

The plans of the Group's management do not expect Epigenomics to be highly dependent on the overall economic situation in the short term. The Group's operating activities are furthermore not highly dependent on the availability of or the price development for commodities or industrial supplies but rather on the individual situation of the Company and its opportunities to continue its operations by further financing transactions. Therefore, the Company is still dependent on the condition and the development of the capital markets (mainly in the U.S.A. and in Germany), particularly with regard to the life sciences industry. Additionally, the Company is strongly dependent on the regulatory approval for the market access of its lead product – Epi proColon® – in the U.S.A., and subsequently on the commercial success of this product. The Company's strategy going forward assumes a positive market approval decision by the U.S. Food and Drug Administration (FDA) in the course of 2016.

Material changes in the legislation of those major countries that could significantly affect the diagnostics industry are not assumed. Changes in the tax laws of Germany and the U.S.A. that would in any material way affect our financial situation in the foreseeable future are also not anticipated. In the medium to long term, the reform project for the local healthcare system under implementation by the Obama administration will more or less influence the activities of all life sciences companies. At the present time, however, it is still uncertain, when, to which extent and whether this reform project will be implemented. The current development in the FDA's regulation activities towards laboratory-developed tests (LDTs) may have additional impact on certain life sciences companies and of course on U.S. diagnostic laboratories, which constitute a large part of our customer base. However, under our assumption of a positive market approval decision for Epi proColon® in the near future, the observed tendency of the FDA's regulations on LDTs is likely more favorable for our Company than not.

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

In the medium term, the euro is expected to remain rather weak vis-à-vis the U.S. dollar. Management plans are based on an average exchange rate of EUR/USD 1.12 throughout 2016. It also took note of the predictions of financial experts and banks at the time of the budget preparation, which generally diverge with regard to this exchange rate.

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

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

In particular, further assumptions and estimates are required for:

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

ACCOUNTING AND VALUATION PRINCIPLES

Fair value measurement

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

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

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

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

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

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

Revenue recognition

Revenue from the sale of goods and the rendering of other services is recognized when:

- delivery of the goods to the buyer has taken place,
- transfer of risks and rewards in connection with the goods has been completed,
- the amount of revenue and the costs incurred related to the transaction can be measured reasonably and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

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

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

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

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

Cost of sales

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

Other income

Other income includes third-party research grants, currency exchange rate gains, earnings from the reversal of provisions, income from asset sales, reimbursements from suppliers and insurance companies, and other non-operating earnings.

Government grants

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

Investment grants and subsidies are offset directly against the acquisition costs of 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.

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

Research and development costs

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

Selling, general and administrative costs

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

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

Other expenses

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

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

Share-based payment expenses

The fair value of granted stock options is 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. In accordance with IFRS 2.11 *Share-based Payment,* the valuation date is the grant date.

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

Intangible assets

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

Capitalized development costs

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

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

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

Tangible assets

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

In the “Assets schedule”, fully depreciated 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 amount) is shown in the statement of profit or loss under other income/other expenses.

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

Deferred taxes

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

Deferred taxes are valued using the tax rates applicable on the balance sheet date or the tax rates which are expected to be legally applicable at the future point in time when the deferred tax becomes due. Tax rates are used that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset against one another 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 consist of finished and semi-finished products, raw materials, low-value consumables as well as other production supplies. They are stated at the lower of acquisition or manufacturing cost and net realizable value. The manufacturing costs of the finished and semi-finished products include directly attributable unit costs, depreciation, amortization of capitalized development costs and overheads attributable to the production process. For finished and semi-finished products the principle of separate valuation applies.

Financial instruments

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

Primary financial instruments

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

Marketable securities

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

Derivative financial instruments

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

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

Impairment of financial assets

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

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

The carrying amount of a financial asset is reduced by the impairment amount 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 to be no longer collectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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

Cash equivalents

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

Prepaid expenses

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

Financial liabilities

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

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

Non-current and current liabilities

Liabilities are classified as current when certain criteria in accordance with IAS 1.60 seq. *Presentation of Financial Statements* are met. Basically, the Company's normal operating cycle in accordance with this definition is twelve months. In the licensing business the operating cycle is even more than twelve months.

Trade payables

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

Convertible notes issued

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

Deferred income

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

Provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* a provision is recognized if a present obligation exists as a result of a past event, if it is probable that an outflow of resources embodying 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. When a provision is measured using the cash flows expected to be required to settle the present obligation, its carrying amount is the present value of these cash flows. Obligations arising from share-based payment programs that provide for awards payable in cash (i.e. the Company's phantom stock programs) are measured at fair value and recognized as current or non-current provision based on the remaining term of the underlying rights to become exercisable.

CURRENCY TRANSLATION

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

For consolidation purposes, the reporting currency of the U.S.-based Epigenomics, Inc. is the euro as it is defined as the entity's functional currency in accordance with IAS 21.9 et seqq. *The Effect of Changes in Forward Exchange Rates*.

Transactions in foreign currencies are translated with the exchange rates at the transaction date. Exchange rate differences resulting from such transactions and from the translation with the reporting date rates are recognized through profit or loss.

Applied foreign currency exchange rates in the reporting period:

Reporting date rates	Dec 31, 2014	Dec 31, 2015
EUR/USD	1.2141	1.0887
EUR/GBP	0.77890	0.73395

Average rates	2014	2015
EUR/USD	1.3211	1.1046
EUR/GBP	0.80310	0.72466

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

1 REVENUE

Revenue source by revenue type:

	2014		2015	
	EUR thousand	% of total	EUR thousand	% of total
Product sales (own and third-party)	830	55.1	1,565	75.2
Licensing income	122	8.1	156	7.5
R&D income and reimbursements	555	36.8	361	17.3
Total revenue	**1,507**	**100.0**	**2,082**	**100.0**

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

Revenue source by geographical market:

	2014		2015	
	EUR thousand	% of total	EUR thousand	% of total
Europe	1,035	68.7	922	44.3
North America	114	7.6	117	5.6
Asia	353	23.4	1,043	50.1
Rest of the world	5	0.3	0	0
Total revenue	**1,507**	**100.0**	**2,082**	**100.0**

In the reporting year, 75% of total revenue (2014: 62%) was generated by the three largest customers of the Company.

2 OTHER INCOME

EUR thousand	2014	2015
Third-party research grants from public authorities	238	535
Foreign exchange rate gains	36	132
Recoveries and refunds	13	100
Income from the reversal of provisions	259	48
Correction of deferred liabilities	11	34
Other	1	13
Total other income	**558**	**862**

The research grants from public authorities which were recorded in other income in the reporting year have been generated in two research projects funded by contributions from the EU and were conducted with different partners (reference is made to the "Deferred income" section for further information on these projects).

3 COST ALLOCATION BY FUNCTION

2014 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	**Total**
Materials and consumables	422	266	25	0	713
Depreciation and amortization	3	681	86	0	770
Personnel costs	224	1,694	2,212	0	4,130
Other costs	82	2,047	2,584	122	4,835
Total	**731**	**4,688**	**4,907**	**122**	**10,448**

2015 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	**Total**
Materials and consumables	741	641	30	0	1,412
Depreciation and amortization	3	578	87	0	668
Personnel costs	169	1,485	1,208	0	2,862
Other costs	262	3,058	3,824	122	7,266
Total	**1,175**	**5,762**	**5,149**	**122**	**12,208**

4 PERSONNEL COSTS

EUR thousand	2014	2015
Personnel remuneration	2,893	3,166
Share-based payment expenses	869	-756
– thereof: expenses for issuing PSRs to members of the Executive Board		
PSR expenses for Dr. Taapken (CEO/CFO)	*123*	*-130*
PSR expenses for Dr. Staub (COO)	*119*	*-131*
Social security expenses	368	452
– thereof:		
employer's contribution to a national pension fund (Germany)	*124*	*138*
employer's contribution to a 401(k) savings plan (U.S.A.)	*15*	*24*
Total personnel costs	**4,130**	**2,862**

The Group employed an average of 38 employees throughout 2015 (2014: 37). The number of 39 employees as of the end of 2015 included 21 employees across the areas of research, product development, IP, regulatory affairs, quality assurance and manufacturing. Their activities are reported as R&D costs in our financial statements. The remaining 18 employees reported as selling, general and administrative functions work in business and commercial development, customer and technical service, accounting, finance, legal, human resources, IT, investor relations and general management.

The significant decrease in the Company's share price towards the end of the reporting year and the following revaluation of the outstanding phantom stock rights led to the effect of a "share-based payment income" in 2015 (EUR -756 thousand). This included a revaluation effect of the fair value of the rights of EUR -1,117 thousand.

5 DEPRECIATION AND AMORTIZATION

EUR thousand	2014	2015
Depreciation of tangible assets	135	166
Amortization of intangible assets	635	502
Total depreciation and amortization	**770**	**668**

6 OTHER EXPENSES

EUR thousand	2014	2015
Foreign exchange rate losses	40	112
Losses from the disposal of assets	5	6
Bad debts	40	3
Corrections for previous years	37	0
Other	0	1
Total other expenses	**122**	**122**

7 OPERATING RESULT (EBIT) AND EBITDA

EUR thousand	2014	2015
Operating result/Earnings before interest and taxes (EBIT)	**-8,383**	**-9,264**
Depreciation of tangible assets	135	166
Amortization of intangible assets	635	502
EBIT before depreciation and amortization (EBITDA)	**-7,613**	**-8,596**

8 FINANCIAL RESULT

Net gains and losses of all financial instruments:

EUR thousand	2014	2015
Interest from cash and cash equivalents	0	1
Interest from available-for-sale financial assets	19	17
Interest and related income	**19**	**18**
Fair value adjustment for derivative instruments	0	0
Other financial income	**0**	**0**
Total financial income	**19**	**18**
Interest on convertible notes issued	-516	0
Other interest expenses	0	-2
Interest and related expenses	**-516**	**-2**
Other finance costs	-1	-1
Total financial expenses	**-517**	**-3**
Total financial result	**-498**	**15**

9 TAXES ON INCOME

The reported taxes on income in the amount of EUR -264 thousand (2014: EUR -27 thousand) consist solely of taxes recorded by the Company's U.S. subsidiary.

EUR thousand	2014	2015
Current tax expenses	21	22
Deferred tax income due to loss carryforwards	-48	-286
Total taxes on income	**-27**	**-264**

For the calculation of deferred taxes of the U.S. subsidiary, a local tax rate of 34% was applied.

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

in %	2014	2015
Corporate tax rate	15.0	15.0
Solidarity charge	5.5	5.5
Trade tax charge	14.35	14.35
underlying trade tax rate of assessment	*410*	*410*
Total applicable tax rate in Germany for the purpose of deferred taxes	**30.2**	**30.2**

Tax reconciliation:

EUR thousand	2014	2015
Net loss for the year before taxes on income	**-8,881**	**-9,249**
Expected tax income	**2,682**	**2,793**
applicable tax rate for the Group	*30.2%*	*30.2%*
permanent differences	*-27*	*-32*
other foreign taxes	*-27*	*-22*
foreign tax differential	*-10*	*32*
unrecognized tax loss carryforwards	*-2,591*	*-2,507*
Effective tax income	**27**	**264**
Effective tax rate	**0.3%**	**2.9%**

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

10 EARNINGS PER SHARE

Earnings per share (basic) are calculated by dividing the net loss for the year by the weighted-average number of shares issued. The outstanding stock options and convertible notes granted by the Company are antidilutive in accordance with IAS 33.41 and 33.43 *Earnings per Share*. Therefore, the earnings per share (diluted) equal the earnings per share (basic). The number of shares issued as of the balance sheet date amounted to 18,088,384 (December 31, 2014: 15,480,422).

	2014	2015
Net loss for the year (in EUR thousand)	-8,854	-8,985
Weighted-average number of shares issued	13,631,263	17,117,101
Earnings per share (basic and diluted, in EUR)	-0.65	-0.52

NOTES TO THE GROUP BALANCE SHEET

NON-CURRENT ASSETS

Due to subsidies received in the reporting year, acquisitions cost for non-current assets which have been recognized in the previous year have been reduced in the amount of EUR 357 thousand.

The subsidies are Public Financial Aid to the Commercial Economy (Öffentliche Finanzierungshilfen an die gewerbliche Wirtschaft im Rahmen der Gemeinschaftsaufgabe „Verbesserung der regionalen Wirtschaftsstruktur") granted from German state and federal funds. In case of non-compliance with certain granting conditions, the subsidies might be reclaimed partially or in whole by the funding sponsors in the following years. Essentially, these granting conditions include the preservation of the current permanent jobs at the Company's Berlin site and the obligation to keep the subsidized assets for a period of at least five years after the end of the granted project (December 31, 2016) in the subsidized place of business. The Company expects that all conditions will be fulfilled and is entitled to call further subsidies up to an amount of EUR 174 thousand in 2016, provided that corresponding investments in tangible assets will be made.

11 INTANGIBLE ASSETS

EUR thousand		Software	Licenses/ patents	Development costs	**Total intangible assets**
Jan 1, 2014	**Acquisition costs**	**829**	**2,172**	**3,559**	**6,560**
	Additions	6	0	0	6
	Disposals	-251	-1,021	0	-1,272
Dec 31, 2014	**Acquisition costs**	**584**	**1,151**	**3,559**	**5,294**
	Additions	3	0	0	3
	Disposals	0	0	0	0
Dec 31, 2015	**Acquisition costs**	**587**	**1,151**	**3,559**	**5,297**
Jan 1, 2014	**Accumulated amortization**	**760**	**1,985**	**1,895**	**4,640**
	Additions	46	35	554	635
	Disposals	-251	-1,021	0	-1,272
Dec 31, 2014	**Accumulated amortization**	**555**	**999**	**2,449**	**4,003**
	Additions	24	34	444	502
	Disposals	0	0	0	0
Dec 31, 2015	**Accumulated amortization**	**579**	**1,033**	**2,893**	**4,505**
Dec 31, 2014	**Carrying amounts**	**29**	**152**	**1,110**	**1,291**
Dec 31, 2015	**Carrying amounts**	**8**	**118**	**666**	**792**

The useful life of the capitalized development costs has been reassessed in the reporting year and has now been extended until December 31, 2017 (previously: until December 31, 2016). Hence, the carrying amount as of the balance sheet date of EUR 666 thousand will therefore be amortized now over two more years.

12 TANGIBLE ASSETS

EUR thousand		Fixtures/ leasehold improvements	Technical equipment	Other fixed assets	Prepayments and assets under construction	**Total tangible assets**
Jan 1, 2014	**Acquisition costs**	**505**	**2,025**	**71**	**0**	**2,601**
	Additions	773	122	10	1	906
	Disposals	-481	-800	-15	0	-1,296
Dec 31, 2014	**Acquisition costs**	**797**	**1,347**	**66**	**1**	**2,211**
	Additions	-229	46	25	0	-158
	Disposals	0	0	1	-1	0
Dec 31, 2015	**Acquisition costs**	**568**	**1,320**	**78**	**0**	**1,966**
Jan 1, 2014	**Accumulated amortization**	**505**	**1,796**	**53**	**0**	**2,354**
	Additions	19	111	5	0	135
	Disposals	-481	-796	-14	0	-1,291
Dec 31, 2014	**Accumulated amortization**	**43**	**1,111**	**44**	**0**	**1,198**
	Additions	57	101	8	0	166
	Disposals	0	-68	-14	0	-82
Dec 31, 2015	**Accumulated amortization**	**100**	**1,144**	**38**	**0**	**1,282**
Dec 31, 2014	**Carrying amounts**	**754**	**236**	**22**	**1**	**1,013**
Dec 31, 2015	**Carrying amounts**	**468**	**176**	**40**	**0**	**684**

13 ASSETS SCHEDULE

EUR thousand		Intangible assets	Tangible assets	**Total intangible and tangible assets**
Jan 1, 2014	**Acquisition costs**	**6,560**	**2,601**	**9,161**
	Additions	6	906	912
	Disposals	-1,272	-1,296	-2,568
Dec 31, 2014	**Acquisition costs**	**5,294**	**2,211**	**7,505**
	Additions	3	-158	-155
	Disposals	0	-87	-87
Dec 31, 2015	**Acquisition costs**	**5,297**	**1,966**	**7,263**
Jan 1, 2014	**Accumulated depreciation/amortization**	**4,640**	**2,354**	**6,994**
	Additions	635	135	770
	Disposals	-1,272	-1,291	-2,563
Dec 31, 2014	**Accumulated depreciation/amortization**	**4,003**	**1,198**	**5,201**
	Additions	502	166	668
	Disposals	0	-82	-82
Dec 31, 2015	**Accumulated depreciation/amortization**	**4,505**	**1,282**	**5,787**
Dec 31, 2014	**Carrying amounts**	**1,291**	**1,013**	**2,304**
Dec 31, 2015	**Carrying amounts**	**792**	**684**	**1,476**

14 DEFERRED TAXES

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

	Deferred tax assets from temporary differences		Deferred tax liabilities from temporary differences	
EUR thousand	**Dec 31, 2014**	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2015**
Intangible and tangible assets	81	70	334	201
Current assets	45	0	17	100
Non-current liabilities	0	0	31	88
Current liabilities	0	0	96	317
Total	**126**	**70**	**478**	**706**
Total after netting	**0**	**0**	**352**	**636**

EUR thousand	**Dec 31, 2014**	**Dec 31, 2015**
Deferred tax assets due to German tax loss carryforwards	50,557	53,201
Deferred tax assets due to U.S. tax credits (R&D)	2,158	2,407
Deferred tax assets due to U.S. tax loss carryforwards	48	346
Total deferred tax assets due to tax loss carryforwards	**52,763**	**55,954**
Deferred tax position (net) from temporary differences	-353	-636
Total deferred tax assets	**52,410**	**55,318**
Allowance on deferred tax assets	-52,362	-54,972
Recognized deferred tax assets	**48**	**346**

Overview on tax loss carryforwards (2015 estimated):

EUR thousand	**Dec 31, 2014**	**Dec 31, 2015**
Tax loss carryforwards in Germany (Corporation tax)	166,870	176,162
Tax loss carryforwards in Germany (Trade tax)	165,378	174,670
Tax loss carryforwards in the U.S.A. (Corporation tax)	140	1,020
R&D tax credit in the U.S.A.	2,158	2,406

Since all deferred tax assets and liabilities arising from temporary differences must be settled with the same fiscal authority that created those deferred tax assets and liabilities, in accordance with IAS 12.71 et seqq. *Income Taxes*, only those deferred tax assets and liabilities which were created from the same fiscal authority have been netted.

Since its inception through to December 31, 2014, the Company's tax loss carryforwards in Germany amounted to EUR 167 million for corporate tax and to EUR 165 million for trade tax. Furthermore, the Company estimates that the accumulated tax loss carryforwards in both aforementioned tax categories will increase by approximately EUR 9.3 million when it files its tax returns for 2015. In accordance with German tax law, such tax losses have an unlimited carryforward period. As the deductibility of the tax loss carryforwards has been partially 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. However, the undisputable part of the tax loss carryforwards amounts to more than EUR 20 million. The resulting deferred tax asset is therefore sufficient to offset the aforementioned deferred tax liability from temporary differences of EUR 636 thousand as of December 31, 2015. Due to the current financial situation of the Company, without sufficient liquidity to achieve the break-even point, valuation allowances have been recognized for the calculated exceeding amount of deferred tax assets at the balance sheet date.

In the reporting year, deferred tax assets were recognized due to tax loss carryforwards of Epigenomics, Inc. and temporary differences between IFRSs and U.S. tax law. Tax loss carryforwards in the U.S.A. can be utilized for up to twenty years. A utilization of the remaining tax loss carryforward of Epigenomics, Inc. in the amount of EUR 1.0 million over the next three years is very likely according to the Company's business plan which is based on the assumption of an FDA approval for Epi proColon® in the first half year of 2016. The R&D tax credit in the U.S.A. expires on various dates beginning in 2022 through 2034.

Changes in recognized deferred tax assets in the reporting year:

EUR thousand	2014	2015
January 1	**0**	**48**
Deferred tax income/expenses	48	286
Foreign currency adjustments	0	12
December 31	**48**	**346**

CURRENT ASSETS

15 INVENTORIES

EUR thousand	Dec 31, 2014	Dec 31, 2015
Consumables, raw materials, supplies	162	192
Semi-finished goods	160	202
Finished goods	431	683
Total inventories	**753**	**1,077**

The cost of inventories recognized as R&D costs through profit or loss in 2015 amounts to EUR 465 thousand (2014: EUR 106 thousand) and was attributable to write-offs of finished goods due to the determination of an unlikelihood that these goods could have been sold before the end of their shelf lives or because their shelf lives had already expired, respectively.

16 TRADE RECEIVABLES

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

EUR thousand	Dec 31, 2014	Dec 31, 2015
Trade receivables, gross	347	216
Allowance for bad debt	-40	-39
Trade receivables, net	**307**	**177**

At the balance sheet date, trade receivables in the amount of EUR 49 thousand were not due (Dec 31, 2014: EUR 190 thousand). Further trade receivables in the amount of EUR 92 thousand were not yet invoiced at the balance sheet date (Dec 31, 2014: EUR 22 thousand).

Receivables past due at the balance sheet date:

EUR thousand	Dec 31, 2014	Dec 31, 2015
Trade receivables past due up to 90 days	14	29
Trade receivables past due more than 90 days	62	46
Trade receivables past due, net	**76**	**75**

17 MARKETABLE SECURITIES

The marketable securities in the amount of EUR 784 thousand as of December 31, 2015 (Dec 31, 2014: EUR 780 thousand), are so-called "Trust-preferred Securities" issued by a wholly owned subsidiary of Deutsche Bank AG. They are recognized as financial instruments "available for sale" in accordance with IAS 39.9 *Financial Instruments: Recognition and Measurement* and are redeemable anytime at the option of the issuer in whole since June 2015.

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

18 CASH AND CASH EQUIVALENTS

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

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

Cash and cash equivalents increased to EUR 7,779 thousand at the balance sheet date (Dec 31, 2014: EUR 6,715 thousand). 88.4% of those funds were denominated in euros at the balance sheet date. The remainder was denominated in U.S. dollars. The total amount was allocated to three different banks on current accounts.

19 OTHER CURRENT ASSETS

EUR thousand	Dec 31, 2014	Dec 31, 2015
Deferred expenses	0	303
Prepaid expenses	150	209
Receivables from tax authorities	156	156
Advance payments	0	152
Receivables from granted projects	0	69
Deposits	18	20
Interest receivables	9	9
Creditors with debt accounts	40	3
Other	40	38
– thereof: with a prospective maturity >1 year	*38*	*38*
Total other current assets	**413**	**959**

Expenses in the amount of EUR 303 thousand incurred in 2015 in connection with the preparation of potential financing measures. They have been deferred as the project was ongoing at the balance sheet date and as they might not be recognized through profit or loss when such measures take place.

EQUITY

20 SHARE CATEGORIES AND CAPITAL STRUCTURE

As of December 31, 2015, the share capital of Epigenomics AG consisted exclusively of no-par value ordinary registered shares with equal rights each.

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

EUR	Dec 31, 2014	Dec 31, 2015
Share capital	**15,480,422**	**18,088,384**
Authorized Capital	**5,404,346**	**7,838,840**
Authorized Capital 2014/II	*5,404,346*	*0*
Authorized Capital 2015/I	*0*	*1,567,768*
Authorized Capital 2015/II	*0*	*6,271,072*
Conditional Capital	**5,460,646**	**3,829,246**
Conditional Capital VII	*21,065*	*21,065*
Conditional Capital IX	*3,853,375*	*2,221,975*
Conditional Capital X	*1,586,206*	*1,586,206*

In the reporting year, 976,562 new shares have been issued from Authorized Capital 2014/II in a capital increase in May 2015. The remainder of Authorized Capital 2014/II has then been cancelled by resolution of the Annual General Shareholders' Meeting on May 13, 2015.

The Executive Board is authorized until May 12, 2020, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 1,567,768.00 against contribution in cash and/or in kind by issuing new no-par value ordinary registered shares (Authorized Capital 2015/I). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting in accordance with Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or paragraph 7 of the German Banking Act (KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- if the new shares are issued in accordance with Section 186 paragraph 3 sentence 4 AktG against contribution in cash at an issue price which is not significantly below the stock exchange price of the shares already listed, and the pro rata notional portion of the share capital represented by the new shares does not exceed ten per cent (10%) of the share capital at the time this authorization is registered with the commercial register, or, if lower, at the respective time when the authorization is exercised. Other shares which have been newly issued by the Company by way of a capital

increase against contribution in cash during the term of this authorization pursuant or corresponding to Section 186 paragraph 3 sentence 4 AktG, or which have been sold following a repurchase, in each case under exclusion of subscription rights, shall be counted towards the 10% limitation. Furthermore, shares in relation to which there is an option or conversion right or obligation, or a share delivery right in favor of the Company, based on bonds with warrants or convertible bonds or participation rights that have been issued during the term of this authorization under exclusion subscription rights pursuant to Section 221 paragraph 4 sentence 2 in connection with Section 186 paragraph 3 sentence 4 AktG by the Company or its subsidiaries, shall be counted towards the 10% limitation;

- for capital increases against contribution in kind in order to be able to offer the new shares to third parties with regard to mergers or upon the acquisition of enterprises, parts of enterprises, participations in enterprises or the acquisition of other assets (including receivables);
- as far as it is necessary to grant such a number of subscription rights for new shares to holders or creditors of option rights or creditors of convertible bonds or participation rights issued by the Company or its subsidiaries as they would have upon the exercise of the option or conversion rights or the exercise of share delivery rights, or performance of conversion or option obligations.

The Executive Board is further authorized to determine the point in time as of which the new shares carry dividend rights in deviation from Section 60 paragraph 2 AktG as well as the further details of the implementation of capital increases from the Authorized Capital 2015/I. The Supervisory Board is authorized to amend the wording of the Articles of Association after implementation of a capital increase from the Authorized Capital 2015/I in accordance with the respective capital increase or after expiry of the term of the authorization.

In the reporting year, no new shares have been created from Authorized Capital 2015/I.

The Executive Board is authorized until May 12, 2020, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 6,271,072.00 against contribution in cash and/or in kind by issuing new no-par value ordinary registered shares (Authorized Capital 2015/II). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting in accordance with Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or paragraph 7 of the German Banking Act (KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- for capital increases against contribution in kind in order to be able to offer shares to third parties with regard to mergers or upon the acquisition of enterprises, parts of enterprises, participation in enterprises or the acquisition of other assets (including receivables);
- for capital increases in cash, to the extent the capital increases are implemented for the purpose of a placement of the new shares in the context of a listing at a foreign stock exchange.

The Executive Board is further authorized to determine the point in time as of which the new shares carry dividend rights in deviation from Section 60 paragraph 2 AktG as well as the further details of the implementation of capital increases from Authorized Capital 2015/II.

In the reporting year, no shares have been issued from Authorized Capital 2015/II.

Conditional Capital VII can no longer be used to grant stock options as the corresponding authorizations for a granting time frame has expired. 21,065 new shares can still be created from Conditional Capital VII upon exercise of granted options from one of the underlying stock option programs (09–13).

The share capital is further conditionally increased by up to EUR 2,221,975.00 by issuance of up to 2,221,975 new no-par value ordinary registered shares (Conditional Capital IX). The conditional capital increase is only to be implemented if bonds or participation rights are issued on the basis of the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, until May 5, 2018, and to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant no-par value shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution of the Annual General Shareholders' Meeting of May 6, 2013, or in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, or the lower issue price determined in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

In 2015, a total number of 1,631,400 new shares were created from the conversion of convertible notes previously issued under the aforementioned amended authorization. At the end of 2015, ten convertible notes, issued by the Company in 2013, which can be converted by their holders until December 2016 in up to 2,039,250 shares from Conditional Capital IX were still outstanding.

The share capital is further conditionally increased by up to EUR 1,586,206.00 by issuance of up to 1,586,206 new no-par value ordinary registered shares (Conditional Capital X). The conditional capital increase is only to be implemented if bonds or participation rights are issued based on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on June 3, 2014, until June 2, 2019, to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or

- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution dated June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is also authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

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

21 CAPITAL RESERVE

The capital reserve comprises the premiums arising on the issuance of shares and the expenses relating to the issuance of shares. The capital reserve increased from EUR 33,582 thousand at December 31, 2014, to EUR 40,945 thousand at December 31, 2015. A net increase of EUR 3,970 thousand was attributable to the capital increase from the issuance of new shares from Authorized Capital 2014/II in May 2015. A net increase of EUR 3,393 thousand was recognized for the issuance of new shares in connection with the conversion of eight convertible notes throughout the reporting year.

22 RETAINED EARNINGS

Retained earnings decreased from EUR -33,880 thousand at December 31, 2014, to EUR -42,734 thousand at December 31, 2015, attributable to the transfer of the Company's net loss for 2014.

23 OTHER COMPREHENSIVE INCOME

The other comprehensive income arises from the revaluation of financial assets available for sale not affecting net income. The effective sale of revaluated financial assets available for sale leads to a recognition of the cumulated differences through profit or loss.

EUR thousand	2014	2015
January 1	**250**	**220**
Revaluation of marketable securities	-30	-4
December 31	**220**	**216**

24 CAPITAL MANAGEMENT

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

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

In the reporting period, the Group's equity ratio increased from 54.0% as of December 31, 2014, to 56.3% as of December 31, 2015.

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

LIABILITIES

25 PROVISIONS

Statement of changes in provisions:

EUR thousand	Contract-related provisions	Payroll provisions	Provisions for claims from phantom stock rights	Statutory provisions	Other provisions	**Total**
January 1, 2014	**188**	**173**	**766**	**40**	**10**	**1,177**
thereof non-current	*0*	*0*	*542*	*0*	*0*	*542*
Utilizations	0	-50	-13	-40	-9	-112
Reversals	-188	-24	-55	0	0	-267
Additions	0	29	869	50	77	1,025
Unwinding of discount/ discount rate effect	0	0	0	0	0	0
December 31, 2014	**0**	**128**	**1,567**	**50**	**78**	**1,823**
thereof non-current	*0*	*0*	*1,368*	*0*	*39*	*1,407*
Utilizations	0	0	0	-50	-24	-74
Reversals	0	-15	-845	0	-8	-868
Additions	51	79	60	0	40	230
Unwinding of discount/ discount rate effect	0	0	0	0	0	0
December 31, 2015	**51**	**192**	**782**	**0**	**86**	**1,111**
thereof non-current	*0*	*0*	*181*	*0*	*36*	*217*

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

Provisions for claims from phantom stock rights (PSRs) were recognized based on the fair value of all issued and outstanding rights of the Company's phantom stock programs (PSPs) at the balance sheet date. Details of the non-current portion of these provisions are shown in the following table:

EUR thousand (except where indicated)	PSP 03–15	PSP 2013	PSP 2014	PSP 2015	**Total non-current provisions for claims from PSRs**
Fair value at January 1, 2015	71	1,187	110	0	**1,368**
Fair value at December 31, 2015	**0**	**12**	**159**	**10**	**181**
Earliest date of possible utilization	Jan 1, 2016	July 1, 2016	Oct 1, 2017	Oct 1, 2018	Jan 1, 2016
Latest date of possible utilization	Feb 28, 2019	Mar 31, 2019	Sept 30, 2019	Sept 30, 2020	Sept 30, 2020

Statutory provisions were recognized for expenses in connection with the Annual General Shareholders' Meeting and other provisions were recognized for various operating obligations which were uncertain at the reporting date regarding their exact amounts and/or the point in time when they will incur. A utilization of both of these categories of provisions is largely expected within the next twelve months.

26 TRADE PAYABLES

The reported trade payables are all non-interest-bearing and are generally due within 30 days.

27 DEFERRED INCOME

As of the balance sheet date, there are no repayment obligations for the Company resulting from deferred income. Deferred income at December 31, 2015, in the amount of EUR 635 thousand (Dec 31, 2014: EUR 55 thousand) consisted solely of received payments for an R&D project from public authorities. This grant was awarded to the Company under the EU's Horizon 2020 program (see Group management report 2015 for further details). The project will run until June 30, 2017. Under this project, Epigenomics is entitled to call for further funds of up to EUR 1.8 million. In the reporting year, the Company recognized also income from another EU grant project (Angiopredict). This project expires as of January 31, 2016. No deferred income has been recorded from this project at the balance sheet date. However, the Company is still entitled to call for further funds of up to EUR 126 thousand under the Angiopredict project.

28 CONVERTIBLE NOTES ISSUED

Convertible notes issuance from an agreement with YA Global Master SPV Ltd. (YA Global)

In August 2013, the Company entered into an agreement with YA Global securing itself a convertible bond financing for up to EUR 5 million. The agreement has expired as of August 17, 2015. The Company has not issued any more notes under this agreement in 2015. There are no residual obligations for the Company remaining from that agreement.

Convertible notes issuance by a pre-emptive rights offering in December 2013

In December 2013, the Company issued 25 convertible notes, each denominated at EUR 107 thousand with an issue price of EUR 100 thousand and an aggregate principal amount of EUR 2.675 million. Each note entitled the holder to convert to 107,000 new ordinary no-par value registered shares at a conversion price of EUR 5.87 per share. The notes bear no interest (zero coupon).

In the first quarter of 2014, four of these convertible notes were converted into 428,000 new shares against a conversion payment of EUR 2,084 thousand to the Company.

In October 2014, the Company increased its share capital by the issuance of new shares from the Authorized Capital 2014/I with an issue price of EUR 3.08 per share. In accordance with the terms and conditions of the convertible notes, the conversion price for the outstanding notes had to be adjusted subsequently. Hence, each remaining note entitles the holder now to convert to 203,925 new ordinary no-par value registered shares at a conversion price of EUR 3.08 per share. The cash amount that each holder has to pay at the conversion remains the same.

After this adjustment, three further notes were converted in 2014 by their holder into 611,775 new shares against a conversion payment of EUR 1,563 thousand to the Company. In the reporting year, eight further notes were converted by their holder into 1,631,400 new shares against a conversion payment of EUR 4,169 thousand to the Company.

In a taking of votes amongst the noteholders without a meeting in December 2015, it was agreed to amend the terms and conditions of the program. The holders voted unanimously in favor of an extension of the term of the notes from December 31, 2015, until December 31, 2016, and to amend the anti-dilution protection.

At the balance sheet date, a remainder of ten notes was still outstanding. These notes may be converted at any time until December 31, 2016. Notes which have not been converted earlier may be

- converted upon maturity
  - into such number of shares that result by dividing the notes' principal amount by the then applicable conversion price (i.e. the conversion price of EUR 3.08 eventually adjusted for dilutive measures during the term) or
  - into 203,925 shares alternatively, in the event that the holder pays the then applicable conversion payment to the Company, or
- redeemed by the Company at the notes' principal amount in cash.

Subsequently to an FDA approval of Epi proColon® before the final maturity of the notes, the Company is further entitled to require a mandatory conversion of all outstanding notes if at any time during the term the Xetra quotation of its shares equals or exceeds, on 20 of 30 consecutive trading days, 150% of the conversion price.

In the event of such a mandatory conversion, each note will be converted into

- such number of shares that result by dividing the note's principal amount (EUR 107 thousand) by 140% of the applicable conversion price or
- into 203,925 shares alternatively, in the event that the holder pays the then applicable conversion payment to the Company.

The holder of the notes may claim anytime in 2016 before December 31 an early redemption of their notes at the principal amount, so that the notes are classified as current financial liabilities for the Company.

The convertible notes consist of a liability element and an equity element. The equity element is presented in equity as "option premium on convertible notes". The effective interest rate of the liability element was 8.1% p.a. on initial recognition.

EUR thousand	
Gross proceeds of the issue of convertible notes in 2013	2,300
Gross proceeds of the issue of convertible notes in 2014	200
Total gross proceeds of the issue of convertible notes	**2,500**
thereof: Liability element of convertible notes at issue date	*2,440*
thereof: Equity element of convertible notes at issue date	*60*
Total expenses related to the issue of the convertible notes for the liability element	-373
thereof: expenses in the reporting year	*-30*
Expenses related to the issue of the convertible notes for the equity element	-9
thereof: expenses in the reporting year	*-1*
Total interest expense	494
thereof: expenses in the reporting year	*486*
Conversion of notes in 2014	-657
Conversion of notes in 2015	-856
Liability element of convertible notes at December 31, 2015	**1,070**

The conversion of eight notes at a book value of EUR 856 thousand in 2015 led to additional cash proceeds from this conversion of EUR 4,169 thousand and resulted in an increase in Group equity of EUR 5,024 thousand from the conversion of convertible notes, comprising of an increase in subscribed capital of EUR 1,631 thousand and an increase in capital reserves of EUR 3,393 thousand.

29 OTHER LIABILITIES

EUR thousand	Dec 31, 2014	Dec 31, 2015
Down payments received from customers	0	276
Accrued audit fees	145	199
Payables due to staff	199	205
Payables due to tax authorities	159	76
Payables due to social security institutions	1	0
Other	7	5
Total other liabilities	**511**	**761**

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

30 FINANCIAL INSTRUMENTS

Primary financial instruments			as of Dec 31, 2014		as of Dec 31, 2015	
EUR thousand	Valuation principle	Fair value hierarchy level	Carrying amount	Fair value	Carrying amount	Fair value
Assets						
Loans and receivables	AC		413	413	316	316
Trade receivables			*307*	*307*	*177*	*177*
Other current assets			*106*	*106*	*139*	*139*
Financial assets available for sale	FV Rec. Eq.		780	780	778	778
Marketable securities		1	*780*	*780*	*784*	*784*
Cash and cash equivalents	(n/a)		6,715	6,715	7,779	7,779
Liabilities						
Financial liabilities measured at amortized cost	AC		3,032	3,032	3,306	3,306
Trade payables			*897*	*897*	*1,923*	*1,923*
Convertible notes		2	*1,926*	*1,926*	*1,070*	*1,070*
Other current liabilities			*209*	*209*	*255*	*255*

AC = Amortized Cost
FV Rec. Eq. = Fair Value Recognized in Equity
FV Rec. PL = Fair Value Recognized in Profit or Loss

NOTES TO THE GROUP STATEMENT OF CASH FLOWS

Due to common reporting practice the Group has changed the presentation of the consolidated statement of cash flows. The "interest received" line item is now reported under "cash flow from investing activities". In prior periods, the Group had chosen to attribute "interest received" to the "cash flow from operating activities" in accordance with the option provided by IFRS. The change has no significant impact on the presentation of the consolidated statement of cash flows for the reporting period and the comparable period.

Cash consists of bank deposits and cash in hand. Cash equivalents are defined as instruments convertible to a known amount of cash on a short-term basis and carrying a very low risk of changes in value. As of the balance sheet date, the Company's cash and cash equivalents position comprised exclusively cash.

31 OPERATING ACTIVITIES

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

32 INVESTING ACTIVITIES

Cash flow from investing activities is ascertained in respect of payment. As mentioned above the reporting line "interest received" is now attributed to the "cash flow from investing activities". Consequently, the total cash flow from investing activities in 2014 has been amended retroactively.

33 FINANCING ACTIVITIES

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

Proceeds from the issue of new shares in the reporting year of EUR 5,000 thousand (2014: EUR 4,178 thousand) were related to the Company's capital increase from authorized capital in May 2015. Proceeds from the conversion of convertible notes in the reporting year of EUR 4,169 thousand (2014: EUR 3,250 thousand) were related to eight single conversions throughout the reporting year. As of December 31, 2015, there are ten convertible notes still outstanding. Their term has been extended to December 31, 2016, following a noteholders' resolution.

34 CASH CONSUMPTION

The total of cash flow from operating activities and cash flow from investing activities less transactions in securities is monitored by the Company as "cash consumption" key figure.

EUR thousand	2014	2015
Cash flow from operating activities	-7,242	-8,172
Cash flow from investing activities	-853	159
Net proceeds from transactions in securities	0	0
Cash consumption	**-8,095**	**-7,968**

RISKS AND RISK MANAGEMENT

35 GENERAL

For a comprehensive overview of the risks the Company is facing, reference is made to the "Opportunities and Risks" section of the Group management report 2015.

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. It is therefore the task of the cash and liquidity management to assure the individual Group companies' liquidity at any time. The expected cash inflows and outflows are constantly monitored to ensure short-term liquidity. These activities are supported by internal cash forecasts and a corresponding strategy of managing time deposits with the Company's house banks.

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

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

37 FOREIGN CURRENCY EXCHANGE RISK

The Group constantly faces a foreign currency exchange risk mainly through the fluctuations between the euro and the U.S. dollar. The risk mainly originates from the need to purchase goods and services partially in U.S. dollars. Also, certain services of the Group are sold in U.S. dollars. The Group constantly tries to mitigate or to eliminate this risk as far as possible. Wherever possible, the Group exerts its influence in negotiations to avoid this risk and mainly uses derivative financial instruments in the shape of forward contracts to minimize this risk. Any financial instruments held at year-end, if any, are recognized at fair value on the consolidated balance sheet.

The foreign currency exchange risk between the euro and the U.S. dollar has not yet been addressed by the Company at the balance sheet date, as it mostly depends on our future activities in the U.S.A., whereby timing and size of these activities depend on the FDA decision on approval for Epi proColon®.

Due to the limited volume of positions denominated in foreign currencies at the balance sheet date, a 10% appreciation or depreciation of the euro against the U.S. dollar, provided that all other assumptions were to remain unchanged, would (as in the previous year) not have led to substantial changes in the net result of the Group or in its equity.

38 CREDIT RISK

The Company's overall credit risk is low. Trade receivables essentially relate to renowned commercial partners with acceptable ratings. Whenever possible, payments are collected upfront. 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. However, the worldwide financial market crisis over the last years has shown that even top-rated issuers can suddenly face a threatening situation or even collapse. Additionally, it has become clear that there is a pending risk of illiquid markets.

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

39 INTEREST RATE RISK

The Group holds interest-bearing financial instruments in the form of cash and cash equivalents (daily and time deposits) and of selected securities.

As the Group's time deposits have usually maturities of up to a maximum of 90 days and given the historically low interest rates on the international capital markets, the interest rate risk of these financial instruments can be considered negligible.

INFORMATION ON SHARE-BASED PAYMENT PLANS

40 STOCK OPTION PROGRAMS

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

SOP 06–10: Program is expired. No stock options can be granted from this program anymore and no new shares can be created anymore upon exercise of granted options from this program.

SOP 09–13: Program is expired. No stock options can be granted from this program anymore. 21,065 new shares can be created upon exercise of granted and outstanding options from this program.

SOP 11–15: Program is expired. No stock options can be granted from this program anymore. No granted stock options from this program are outstanding.

Details of the programs 09–13 and 11–15 can be found in the invitation to the Company's 2009 and 2011 Annual General Shareholders' Meeting, respectively. Both documents are available on the Company's website *(www.epigenomics.com)*.

	Option holdings	Issued	Expired	Forfeited	Exercised	Option holdings	Options exercisable
	as of Dec 31, 2014 (Dec 31, 2013)		**in 2015 (2014)**			**as of Dec 31, 2015 (Dec 31, 2014)**	
Option holder							
Dr. Taapken (CEO/CFO)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Dr. Staub (COO)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other option holders	**21,065**	**0**	**0**	**0**	**0**	**21,065**	**0**
	(106,926)	0	(79,195)	(0)	(6,666)	(21,065)	(0)
All option holders	**21,065**	**0**	**0**	**0**	**0**	**21,065**	**0**
	(106,926)	0	(79,195)	(0)	(6,666)	(21,065)	(0)
Average exercise price	**15.65**	**n/a**	**n/a**	**n/a**	**n/a**	**15.65**	**n/a**
(in EUR)	(18.93)	(n/a)	(21.19)	(n/a)	(2.51)	(15.65)	(n/a)

Terms of outstanding stock options:

Term	Weighted-average exercise price (in EUR)	Stock options issued and outstanding	Weighted-average exercise price (in EUR)	Stock options issued and outstanding
	as of Dec 31, 2014		as of Dec 31, 2015	
2017	16.13	19,065	16.13	19,065
2018	11.05	2,000	11.05	2,000
Total	**15.65**	**21,065**	**15.65**	**21,065**

The weighted-average term of the outstanding stock options at December 31, 2015, was 1.3 years (Dec 31, 2014: 2.3 years).

41 PHANTOM STOCK PROGRAMS

As of the balance sheet date, the Company has four phantom stock programs (PSPs)/virtual share plans in place as an incentive scheme for management and staff by granting so-called phantom stock rights (PSRs) from such programs to the beneficiaries. The programs define a PSR as a conditional claim of its holder against the Company for a future payment in cash of a premium to the benefit of the holder.

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

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

The exercise price of a PSR from PSP 03–15 equals the exercise price of the stock option right that had been returned in exchange. The exercise of such a PSR simulates the exercise of the former stock option right in a so-called "ExerSale" transaction. Unlike the exercise of stock option rights, the holder of a PSR is not entitled to obtain a share of the Company by the exercise of a PSR. Upon the exercise of a PSR from PSP 03–15, the holder of the right obtains a claim against the Company on the payment of the PSR premium. The PSR premium is defined as the absolute difference between the then current market price of the Epigenomics share and the exercise price of the PSR. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise date is higher than the base value. The strike price equals the arithmetic average of the Xetra closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise date. By exercising the PSR, the holder earns an

entitlement to obtain the "PSR premium" from the Company. The PSR premium equals the absolute difference between strike price and base value of the right without any limitation. In contrast to the exercise of stock option rights, the exercise of PSR is not compulsory subject to pre-defined exercise periods (trading windows) and can be done at any time during the year. Nevertheless, the Executive Board and the Supervisory Board may stipulate compulsory exercise periods for holders of PSRs who are current employees of the Company. This shall particularly apply for holders of PSRs who may be identified as "insiders" in accordance with the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). It is the sole discretion of the Executive Board of the Company to define and to announce such exercise periods to the employees of the Company holding PSRs. Such exercise periods as announced by the Executive Board will then always apply simultaneously to the Executive Board members.

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

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

Phantom stock program 2013 (PSP 2013)

PSP 2013 was approved by the Executive Board and the Supervisory Board of the Company in May 2013. A total of up to 740,000 PSRs were issued under PSP 2013. This program expired in the reporting year. Eligible beneficiaries of this program were the members of the Executive Board and the employees of the Group, with an unterminated service or employment agreement with a Group company. The power of decision on the issuance of PSRs from this program to employees of the Company and to executives and employees of the subsidiaries was with the Executive Board and the power of decision on the issuance of such PSRs to the members of the Executive Board was with the Supervisory Board.

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

At the issuance of a PSR tranche, a so-called base value of the rights was determined. This base value equaled the average of the Xetra closing rates of the Epigenomics share at the Frankfurt stock exchange from the last five trading days before issuance. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise date is higher than the base value. The strike price equals the arithmetic average of the Xetra closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise date. By exercising the PSR, the holder earns an entitlement to obtain the PSR premium from the Company. The PSR premium equals the absolute difference between the strike price and the base value of the right up to a maximum of EUR 8.00.

Any PSRs held by a beneficiary that have not yet vested expire without compensation in any case upon termination of the service or employment agreement by the beneficiary himself or if the service or employment agreement has been terminated by the Company for cause. Any PSRs of a beneficiary that have not yet vested shall persist in any case upon termination of the service or employment agreement by the Company due to business operations. In cases of termination of the service or employment agreement in mutual consent it is up to the sole discretion of the Executive Board or the Supervisory Board to decide whether the PSRs of the beneficiary that have not vested yet at that point in time shall persist.

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

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

Phantom stock program 2014 (PSP 2014)

PSP 2014 was approved by the Executive Board and the Supervisory Board of the Company in May 2014. A total of up to 344,833 PSRs were issued under PSP 2014. Eligible beneficiaries of this program were the members of the Executive Board and the employees of the Group with an unterminated service or employment agreement with a Group company. The power of decision on the issuance of PSRs from this program to employees of the Company and to executives and employees of the subsidiaries was with the Executive Board and the power of decision on the issuance of such PSRs to the members of the Executive Board was with the Supervisory Board.

A certain amount of PSRs granted to a beneficiary at a certain point in time is defined as a tranche. The PSRs of each tranche which were issued to beneficiaries who are not executives of the Company at the issuance date, started to vest from the beginning of the first full calendar quarter over the three years following their issuance in five equal parts, beginning with the first day of the fifth full calendar quarter after the issuance of the tranche. Thereafter, the further four of the five parts will vest each after the end of the following four six-month periods. Thus, the last of the five parts will vest after the last day of the twelfth full calendar quarter after the issuance of the tranche and therefore at the end of a three-year waiting period. PSRs of each tranche can be initially exercised after their vesting, but not before the end

of the waiting period. The term of the PSRs begins with their issuance and ends five years after the beginning of their vesting period. Rights which were not exercised upon the end of their term will expire without compensation. Basically, PSRs can be exercised anytime in the two years between the end of their waiting period and the end of their term (exercise period). Nevertheless, Executive Board and Supervisory Board are allowed to stipulate adherence to timing restrictions in the exercise periods. This shall apply particularly for holders of rights who are identified by the Executive Board as an "insider" in the meaning of Section 15b of the German Securities Trading Act (WpHG). The Executive Board of the Company dutifully reserves the right to establish such timing restrictions in the exercise periods and to announce such restrictions in the exercise periods to rights holders who are employees of the Company at that point in time. Timing restrictions in exercise periods as announced by the Executive Board will always apply simultaneously to PSRs held by the Executive Board members themselves.

At the issuance of a PSR tranche, a so-called base value of the rights was determined. This base value equaled the average of the Xetra closing rates of the Epigenomics share at the Frankfurt stock exchange from the last five trading days before issuance. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise date is higher than the base value. The strike price equals the arithmetic average of the Xetra closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise date. By exercising the PSR, the holder earns an entitlement to obtain the PSR premium from the Company. The PSR premium equals the absolute difference between the strike price and the base value of the right up to a maximum of EUR 12.00.

If a holder of vested PSR leaves the Company before the expiry date of these rights, he remains entitled to these vested rights until the expiry date. In such case, the strike price of his rights will be limited to the arithmetic average of the Xetra closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the final termination day of his employment agreement with the Company. Any PSRs held by a beneficiary that have not yet vested expire without compensation in any case upon termination of the service or employment agreement by the beneficiary himself or if the service or employment agreement has been terminated by the Company for cause. Any PSRs of a beneficiary that have not yet vested shall persist in any case upon termination of the service or employment agreement by the Company due to business operations. In cases of termination of the service or employment agreement in mutual consent the Executive Board or the Supervisory Board shall have sole discretion to decide whether the PSRs of the beneficiary that have not yet vested at that point in time shall persist.

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

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

Phantom stock program 2015 (PSP 2015)

PSP 2015 was approved by the Executive Board and the Supervisory Board of the Company in September 2015. A total of up to 200,000 phantom stock rights (PSRs) were issued under PSP 2015. Eligible beneficiaries of this program were the members of the Executive Board and the employees of the Group with an unterminated service or employment agreement with a Group company. The power of decision on the issuance of PSRs from this program to employees of the Company and to executives and employees of the subsidiaries was with the Executive Board and the power of decision on the issuance of such PSRs to the members of the Executive Board was with the Supervisory Board.

A certain amount of PSRs granted to a beneficiary at a certain point in time is defined as a tranche. The PSRs of each tranche which were issued to beneficiaries who are not executives of the Company at the issuance date, started to vest from the beginning of the first full calendar quarter over the three years following their issuance in five equal parts, beginning with the first day of the fifth full calendar quarter after the issuance of the tranche. Thereafter, the further four of the five parts will vest each after the end of the following four six-month periods. Thus, the last of the five parts will vest after the last day of the twelfth full calendar quarter after the issuance of the tranche and therefore at the end of a three-year waiting period. PSRs of each tranche can be initially exercised after their vesting, but not before the end of the waiting period. The term of the PSRs begins with their issuance and ends five years after the beginning of their vesting period. Rights which were not exercised upon the end of their term will expire without compensation. Basically, PSRs can be exercised anytime in the two years between the end of their waiting period and the end of their term ("exercise period"). Nevertheless, Executive Board and Supervisory Board are allowed to stipulate adherence to timing restrictions in the exercise periods. This shall apply particularly for holders of rights who are identified by the Executive Board as an "insider" in the meaning of Section 15b of the German Securities Trading Act (WpHG). The Executive Board of the Company dutifully reserves the right to establish such timing restrictions in the exercise periods and to announce such restrictions in the exercise periods to rights holders who are employees of the Company at that point in time. Timing restrictions in exercise periods as announced by the Executive Board will always apply simultaneously to PSRs held by the Executive Board members themselves.

At the issuance of a PSR tranche, a so-called base value of the rights was determined. This base value equaled the average of the Xetra closing rates of the Epigenomics share at the Frankfurt stock exchange from the last five trading days before issuance. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise date is higher than the base value. The strike price equals the arithmetic average of the Xetra closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise date. By exercising the PSR, the holder earns an entitlement to obtain the PSR premium from the Company. The PSR premium equals the absolute difference between the strike price and the base value of the right up to a maximum of EUR 15.00.

If a holder of vested PSR leaves the Company before the expiry date of these rights, he remains entitled to these vested rights until the expiry date. In such case, the strike price of his rights will be limited to the arithmetic average of the Xetra closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the final termination day of his employment agreement with the Company. Any PSRs held by a beneficiary that have not yet vested expire without compensation in any case upon termination of the service or employment agreement by the beneficiary himself or if the service or employment agreement has been terminated by the Company for cause. Any PSRs of a beneficiary that have not yet vested shall persist in any case upon termination of the service or employment agreement by the Company due to business operations. In cases of termination of the service or employment agreement in mutual consent the Executive Board or the Supervisory Board shall have sole discretion to decide whether the PSRs of the beneficiary that have not yet vested at that point in time shall persist.

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

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

42 DETAILS ON PHANTOM STOCK RIGHTS ISSUANCES

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

PSP 03–15 Beneficiaries	year	Rights held as of Jan 1	**Rights** granted	expired	forfeited	exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2015**	**40,000**	**0**	**0**	**0**	**0**	**40,000**
	2014	40,000	0	0	0	0	40,000
Dr. Staub (COO)	**2015**	**38,800**	**0**	**0**	**0**	**0**	**38,800**
	2014	38,800	0	0	0	0	38,800
Other beneficiaries	**2015**	**116,079**	**0**	**0**	**0**	**0**	**116,079**
	2014	130,861	0	11,132	0	3,650	116,079
Total	**2015**	**194,879**	**0**	**0**	**0**	**0**	**194,879**
	2014	209,661	0	11,132	0	3,650	194,879
Average base value	**2015**	**8.66**	**n/a**	**n/a**	**n/a**	**n/a**	**8.66**
(in EUR)	2014	9.24	n/a	21.57	n/a	2.51	8.66

The aggregated, adjusted fair value of the PSR granted under PSP 03–15 amounted to EUR 25 thousand at the balance sheet date (Dec 31, 2014: EUR 269 thousand). It was recognized as a non-current provision of EUR 0 thousand (2014: EUR 71 thousand) and a current provision of EUR 25 thousand (2014: EUR 198 thousand). The following data were applied:

	Dec 31, 2014	Dec 31, 2015
Total number of outstanding PSRs from PSP 03–15	194,879	194,879
Exercisable rights as of balance sheet date	194,879	194,879
Weighted-average term of outstanding rights in years	2.9	2.0
Fair value of one PSR (in EUR) (weighted average)	1.38	0.13
Applied share price volatility (in %) (weighted average)	91.92	88.81
Risk-free interest rate (in %) (weighted average)	-0.09	-0.34
Assumed staff turnover (in %)	0.6	0.0
Expected dividend yield (in %)	0.0	0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)	n/a	n/a

A total of 194,879 outstanding rights granted from PSP 03–15 have vested before or at the balance sheet date. The expiry dates of these rights range from January 1, 2016, until March 1, 2019. The base values of the outstanding rights range from EUR 2.51 to EUR 19.35.

The fair value of the PSR was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised after their waiting period if the market price of the shares exceeds the base value of the PSR by more than 10%.

The risk-free interest rates are derived from the yield curve of German government bonds at the valuation date. The volatility of the share price can be derived from the historical volatility of the shares (in accordance with Bloomberg data) over the most recent past period equaling the remaining term of the rights. For adjustment purposes, a constant staff turnover was assumed based on the historical turnover of the Company's staff over the past three years if the rights had not yet vested. No dividend payments were assumed during the term of the rights. The aggregate maximum payment to be made by the Company if these rights will be exercised cannot be calculated as the program includes no cap for the PSR premium.

Phantom stock program 2013 (PSP 2013)

PSP 2013 Beneficiaries	Reporting year	Rights held as of Jan 1	**Rights** granted	expired	forfeited	exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2015**	**110,000**	**0**	**0**	**0**	**0**	**110,000**
	2014	110,000	0	0	0	0	110,000
Dr. Staub (COO)	**2015**	**115,000**	**0**	**0**	**0**	**0**	**115,000**
	2014	95,000	20,000	0	0	0	115,000
Other beneficiaries	**2015**	**515,000**	**0**	**0**	**18,000**	**0**	**497,000**
	2014	515,000	0	0	0	0	515,000
Total	**2015**	**740,000**	**0**	**0**	**18,000**	**0**	**722,000**
	2014	720,000	20,000	0	0	0	740,000
Average base value	**2015**	**1.89**	**n/a**	**n/a**	**1.64**	**n/a**	**1.89**
(in EUR)	2014	1.77	6.15	n/a	n/a	n/a	1.89

The aggregated, adjusted fair value of the PSR granted under PSP 2013 in the reporting year amounted to EUR 588 thousand at the balance sheet date (Dec 31, 2014: EUR 1,188 thousand). It was recognized as a non-current provision of EUR 12 thousand (2014: EUR 1,188 thousand) and a current provision of EUR 576 thousand (2014: EUR 0 thousand). The following data were applied:

	Dec 31, 2014	**Dec 31, 2015**
Total number of outstanding PSRs from PSP 2013	740,000	722,000
Exercisable rights as of balance sheet date	0	0
Weighted-average term of outstanding rights in years	3.7	2.6
Fair value of one PSR (in EUR) (weighted average)	2.29	0.89
Applied share price volatility (in %) (weighted average)	92.37	90.01
Risk-free interest rate (in %) (weighted average)	-0.08	-0.32
Assumed staff turnover (in %)	5.1	2.6
Expected dividend yield (in %)	0.0	0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)	5,920	5,776

A total number of 430,000 rights granted from PSP 2013 have vested before or at the balance sheet date. The expiry dates of these rights range from July 1, 2018, until April 1, 2019. The base values of the outstanding rights range from EUR 1.62 to EUR 6.45.

The fair value of these PSRs was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised in the fourth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 20% or in the fifth year after the grant date if the market price of the shares exceeds the base value of the PSR by more than 10%. An earlier exercise of the rights is not allowed in accordance with the program conditions.

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

Phantom stock program 2014 (PSP 2014)

PSP 2014 Beneficiaries	Reporting year	Rights held as of Jan 1	**Rights** issued	expired	forfeited	exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2015**	**73,333**	**0**	**0**	**0**	**0**	**73,333**
	2014	0	73,333	0	0	0	73,333
Dr. Staub (COO)	**2015**	**60,000**	**0**	**0**	**0**	**0**	**60,000**
	2014	0	60,000	0	0	0	60,000
Other beneficiaries	**2015**	**211,500**	**0**	**0**	**9,000**	**0**	**202,500**
	2014	0	211,500	0	0	0	211,500
Total	**2015**	**344,833**	**0**	**0**	**9,000**	**0**	**335,833**
	2014	0	344,833	0	0	0	344,833
Average base value	**2015**	**3.23**	**n/a**	**n/a**	**3.23**	**n/a**	**3.23**
(in EUR)	2014	n/a	3.23	n/a	n/a	n/a	3.23

The aggregated, adjusted fair value of the PSR granted under PSP 2014 in the reporting year amounted to EUR 159 thousand at the balance sheet date (Dec 31, 2014: EUR 110 thousand). It was recognized as a non-current provision. The following data were applied:

	Dec 31, 2014	**Dec 31, 2015**
Total number of outstanding PSRs from PSP 2014	344,833	335,833
Exercisable rights as of balance sheet date	0	0
Weighted-average term of outstanding rights in years	4.8	3.7
Fair value of one PSR (in EUR) (weighted average)	1.93	0.72
Applied share price volatility (in %) (weighted average)	85.49	87.48
Risk-free interest rate (in %) (weighted average)	-0.01	-0.21
Assumed staff turnover (in %)	6.3	5.2
Expected dividend yield (in %)	0.0	0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)	4,138	4,030

A total number of 67,166 rights granted from PSP 2014 have vested before or at the balance sheet date. The expiry date of these rights is October 1, 2019. The base values of the outstanding rights range from EUR 3.23 to EUR 3.70.

The fair value of these PSRs was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised in the fourth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 20% or in the fifth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 10%. An earlier exercise of the rights is not allowed in accordance with the program conditions.

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

Phantom stock program 2015 (PSP 2015)

PSP 2015 Beneficiaries	Reporting year	Rights held as of Jan 1	**Rights** issued	expired	forfeited	exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2015**	**0**	**59,000**	**0**	**0**	**0**	**59,000**
	2014	0	0	0	0	0	0
Dr. Staub (COO)	**2015**	**0**	**24,000**	**0**	**0**	**0**	**24,000**
	2014	0	0	0	0	0	0
Other beneficiaries	**2015**	**0**	**25,000**	**0**	**0**	**0**	**25,000**
	2014	0	0	0	0	0	0
Total	**2015**	**0**	**108,000**	**0**	**0**	**0**	**108,000**
	2014	0	0	0	0	0	0
Average base value	**2015**	**n/a**	**5.05**	**n/a**	**n/a**	**n/a**	**5.05**
(in EUR)	2014	n/a	n/a	n/a	n/a	n/a	n/a

The aggregated, adjusted fair value of the PSRs granted under PSP 2015 amounted to EUR 10 thousand at the balance sheet date. It was recognized as a non-current provision. The following data were applied:

	Dec 31, 2014	Dec 31, 2015
Total number of outstanding PSRs from PSP 2015	0	108,000
Exercisable rights as of balance sheet date	0	0
Weighted-average term of outstanding rights in years	n/a	4.8
Fair value of one PSR (in EUR) (weighted average)	n/a	0.64
Applied share price volatility (in %) (weighted average)	n/a	92.50
Risk-free interest rate (in %) (weighted average)	n/a	-0.08
Assumed staff turnover (in %)	n/a	6.6
Expected dividend yield (in %)	n/a	0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)	n/a	1,620

None of the PSRs granted from PSP 2015 in accordance with the table above has vested before or at the balance sheet date. The expiry date of these rights is October 1, 2020. The base values of all outstanding rights is EUR 5.05.

The fair value of these PSRs was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised in the fourth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 20% or in the fifth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 10%. An earlier exercise of the rights is not allowed in accordance with the program conditions.

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

OTHER INFORMATION

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

The Executive Board of the Company consists of Dr. Thomas Taapken as its Chief Executing Officer and Chief Financial Officer and of Dr. Uwe Staub as its Chief Operating Officer.

The remuneration of the members of the Company's Executive Board is composed of a fixed and a variable component. The variable amount is determined on the basis of a variety of criteria, including the achievement of individual performance targets and Company performance targets, which are set by the Supervisory Board on a yearly basis. Apart from the fixed and the variable component, a third remuneration component consists of a long-term performance-based compensation in the form of phantom stock rights (PSRs). In addition, the Executive Board members are beneficiaries of a D&O insurance with excess in accordance with the statutory minimum amount and receive full reimbursement of their business travel expenses by the Company.

In 2015, the total remuneration of the members of the Executive Board amounted to EUR 824 thousand (2014: EUR 889 thousand) based on the granted benefits and was comprised as follows:

EUR thousand	2014	2015
Fixed remuneration	460	467
One-year variable compensation	217	237
Multi-year variable compensation	212	120
Total remuneration (granted benefits)	**889**	**824**

The multi-year variable compensation of the Executive Board members in 2015 consisted of grants of 83,000 PSRs (2014: 153,333).

Based on the allocations (cash payments), the remuneration of the members of the Executive Board in the reporting year amounted to EUR 626 thousand (2014: 808 thousand) and was comprised as follows:

EUR thousand	2014	2015
Fixed remuneration	460	467
One-year variable compensation	348	159
Multi-year variable compensation	0	0
Total remuneration (allocations)	**808**	**626**

In the event of a change of control, both Executive Board members are entitled to terminate their service agreements 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 expired but in no case such payment will exceed 150% of the severance payment cap in accordance with Section 4.2.3 of the German Corporate Governance Code.

The composition of the Supervisory Board of the Company remained unchanged in 2015. The members of the Board are Mr. Heino von Prondzynski, Einsiedeln (CH), as its chairman as well as Mrs. Ann Clare Kessler, Ph.D., Rancho Santa Fe, CA (U.S.A.) and Prof. Dr. Günther Reiter, Pfullingen (GER).

The remuneration structure for the Supervisory Board is based on an annual cash retainer (fixed remuneration) and meeting-related payments (variable remuneration). The remuneration does not include any performance-related elements or long-term incentive components. In 2015, total remuneration of the members of the Supervisory Board amounted to EUR 206 thousand (2014: EUR 206 thousand) and was comprised as follows:

EUR thousand	2014	2015
Fixed remuneration	170	170
Variable remuneration	36	36
Total remuneration	**206**	**206**

Further details to the composition of the Executive Board and the Supervisory Board and details of the remuneration of their members in the reporting year can be found in the "Remuneration Report" section of the Group management report 2015.

44 OTHER FINANCIAL OBLIGATIONS

EUR thousand	term <1 year	term 1–5 years
Financial obligations from commercial lease agreements	114	368
Financial obligations from licensing agreements	99	230
Financial obligations from operating rental, lease, maintenance and service agreements	11	8
Financial obligations from manufacturing orders	266	0
Financial obligations from the purchase of goods and services	334	0
Total financial obligations	**824**	**606**

For the Epigenomics Group, obligations from commercial lease agreements arise from a lease at the Berlin location. For the office space at Geneststrasse 5, there is a fixed-term lease with a term expiring on April 30, 2020. In the reporting year the total expenses for rent and incidental costs amounted to EUR 118 thousand based on his agreement.

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

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

45 INFORMATION ON THE GERMAN STATUTORY AUDITOR OF THE COMPANY

At the Company's Annual General Shareholders' Meeting in May 2015, Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft was elected as the Company's German statutory auditing firm for the financial year 2015. During the reporting year, a total amount of EUR 172 thousand (2014: EUR 107 thousand) was expensed for miscellaneous services of this auditing firm for Epigenomics AG. Details are shown in the following table:

EUR thousand	2014	2015
Costs for audit services	87	73
Costs for other confirmation services	20	13
Costs for tax advice	0	37
Costs for other services	0	49
Total	**107**	**172**

The costs disclosed for the annual audits are related to the audits of the separate financial statements of Epigenomics AG in accordance with German GAAP as well as on the consolidated financial statements for the Epigenomics Group in accordance with IFRSs. Other confirmation services related to critical reviews of interim reports.

46 STATEMENT OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF EPIGENOMICS AG PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG) WITH RESPECT TO THE GERMAN CORPORATE GOVERNANCE CODE

In October 2015, the Executive Board and the Supervisory Board of the Company issued an updated declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). The declaration has been published on the Company's website *(www.epigenomics.com/en/news-investors/investors/corporate-governance)*.

47 INFORMATION ON OTHER TRANSACTIONS WITH RELATED PARTIES

At the reporting date, the Company's payables due to members of its Executive Board amounted to EUR 0 (Dec 31, 2014: EUR 20 thousand) and the liabilities due to members of its Supervisory Board amounted to EUR 0 thousand (Dec 31, 2014: EUR 110 thousand).

48 REPORT ON POST-BALANCE SHEET DATE EVENTS

On January 8, 2016, after the end of the reporting year, Epigenomics AG announced that the FDA has informed the Company on its decision that the already submitted and available data in its PMA filing process for Epi proColon® would allow the agency to come to a final determination on its safety and effectiveness. Given that no new data would be required before reaching a final decision on the PMA submission, the FDA expects that final stages of the review process would be completed in the near future. According to the FDA, final approval of our application is subject to the resolution of minor outstanding issues, such as the use of appropriate language in the product labeling.

In January and February 2016, after the end of the reporting period, three further convertible notes issued in December 2013 were converted by their holders. As a consequence, the Company's share capital was further increased by 611,775 shares and subsequently, the Company received a cash inflow from financing amounting to EUR 1.61 million.

49 CLEARED FOR PUBLICATION

These consolidated financial statements were approved and cleared for publication by the Executive Board of the Company on March 16, 2016.

Berlin, March 16, 2016

The Executive Board

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements 2015 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, March 16, 2016

The Executive Board

AUDITOR'S REPORT

We have audited the Group financial statements – comprising the balance sheet, the comprehensive income (statement of profit or loss and other comprehensive income), the statement of changes in equity, the statement of cash flows and the notes to the financial statements – and the Group management report of the Epigenomics AG, Berlin, for the business year from January 1, 2015 to December 31, 2015. The preparation of the Group financial statements and the Group management report in accordance with IFRS as adopted by the EU as well as under German commercial law in accordance with Section 315a paragraph 1 HGB ("Handelsgesetzbuch", "German Commercial Code") are the responsibility of the Company's management. Our responsibility is to express an opinion on the Group financial statements and on the Group management report based on our audit.

We conducted our audit of the Group financial statements in accordance with Section 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 Group financial statements in accordance with (German) principles of proper accounting 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 Group 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 Group 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 Group financial statements comply with the IFRS, as adopted by the EU, as well as with the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB 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 Group financial statements, and as a whole provides a true view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 16, 2016

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

(Weissinger)
Wirtschaftsprüfer
[German Public Auditor]

(Muggenthaler)
Wirtschaftsprüferin
[German Public Auditor]

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IMPRINT

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CONCEPT & DESIGN

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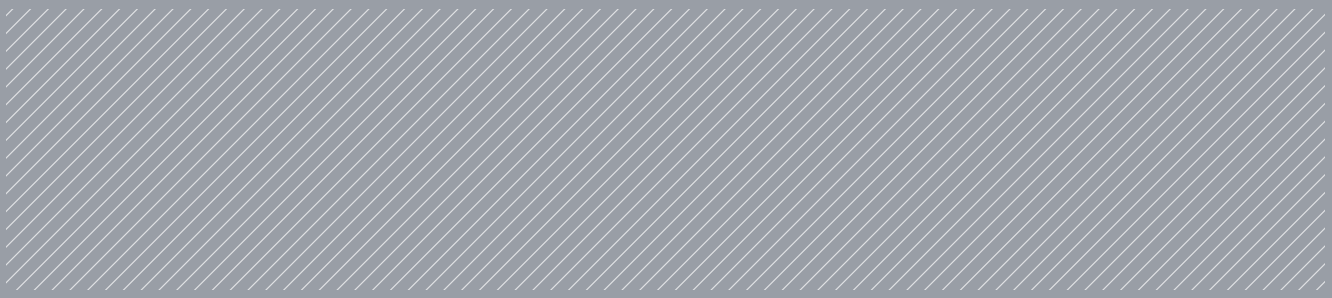
This annual report is also available in German.

CORPORATE CALENDAR

Report on Business 2015 – Annual press conference and analyst meeting	Friday, March 18, 2016
3-Month Report 2016 – January 1–March 31, 2016	Wednesday, May 11, 2016
Annual General Shareholders' Meeting 2016 in Berlin	Wednesday, May 25, 2016
6-Month Report 2016 – January 1–June 30, 2016	Wednesday, August 10, 2016
9-Month Report 2016 – January 1–September 30, 2016	Wednesday, November 9, 2016



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