

epigenomics

INTERIM STATEMENT

JANUARY 1 – MARCH 31

**Q1 2017**

## QUARTERLY DEVELOPMENT OF KEY FIGURES (UNAUDITED)

in EUR thousand (except where indicated)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>Statement of Profit or Loss</b>					
Revenue	295	1,260	864	1,782	281
Gross profit	263	426	265	1,613	251
EBIT	-4,625	-3,485	-2,615	-1,587	-2,693
EBITDA	-4,501	-3,400	-2,544	-1,511	-2,618
EBITDA before share-based payment costs	-2,216	-3,459	-2,494	-1,498	-2,353
Net loss for the period	-4,325	-3,295	-2,338	-1,205	-2,370
<b>Balance Sheet (at the respective reporting dates)</b>					
Non-current assets	2,054	2,270	2,624	3,019	3,238
Current assets	10,802	15,553	9,780	15,203	12,105
Non-current liabilities	665	641	700	89	103
Current liabilities	7,020	7,939	4,855	3,709	2,973
Equity	5,171	9,243	6,849	14,424	12,267
Equity ratio (in %)	40.2	51.9	55.2	79.2	80.0
Total assets	12,856	17,823	12,404	18,222	15,343
<b>Statement of Cash Flows</b>					
Cash flow from operating activities	-2,342	-1,858	-4,099	-4,984	-1,335
Cash flow from investing activities	-52	-44	-439	156	-283
Cash flow from financing activities	1,993	7,009	-1,365	9,785	-45
Net cash flow	-401	5,107	-5,903	-4,957	-1,663
Cash consumption	-2,394	-1,902	-4,538	-4,828	-1,618
Cash and cash equivalents at the end of the period	7,388	12,482	6,589	12,284	9,867
<b>Stock</b>					
Weighted-average number of shares issued	18,700,159	20,065,342	20,544,009	21,777,758	22,735,260
Earnings per share (basic and diluted, in EUR)	-0.23	-0.18	-0.11	-0.05	-0.10
Share price at the end of the period (in EUR)	5.34	4.99	4.99	4.55	4.98
<b>Number of employees at the end of the period</b>					
	36	43	45	45	43

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## INTERIM STATEMENT ON FINANCIAL RESULTS FOR Q1 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE PERIOD FROM JANUARY 1 TO MARCH 31 (UNAUDITED)

EUR thousand	Q1 2016	Q1 2017
<b>Revenue</b>	<b>295</b>	<b>281</b>
Cost of sales	-32	-30
<b>Gross profit</b>	<b>263</b>	<b>251</b>
<i>Gross margin (in %)</i>	89	89
Other income	418	85
Research and development costs	-2,134	-1,066
Selling, general and administrative costs	-3,144	-1,938
Other expenses	-28	-25
<b>Operating result/ Earnings before interest and taxes (EBIT)</b>	<b>-4,625</b>	<b>-2,693</b>
Interest income	4	4
Other financial result	0	-1
<b>Net loss for the period before taxes on income</b>	<b>-4,621</b>	<b>-2,690</b>
Taxes on income	296	320
<b>Net loss for the period</b>	<b>-4,325</b>	<b>-2,370</b>
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of available-for-sale securities	-109	113
Foreign currency effect from consolidation	-5	-6
<b>Other comprehensive income for the period</b>	<b>-114</b>	<b>107</b>
<b>Total comprehensive income for the period</b>	<b>-4,439</b>	<b>-2,263</b>
<b>Earnings per share (basic and diluted, in EUR)</b>	<b>-0.23</b>	<b>-0.10</b>

The earnings per share (basic and diluted) are calculated by dividing the Group's net loss for the period by the weighted-average number of shares issued and admitted to trading in the respective period. The outstanding stock options and convertible notes issued by the Company are anti-dilutive according to IAS 33.41 and 33.43. Therefore, the earnings per share (diluted) equal the earnings per share (basic). In Q1 2017, the weighted-average number of shares issued was 22,735,260 (Q1 2016: 18,700,159).

## CONSOLIDATED BALANCE SHEET AS OF MARCH 31 (UNAUDITED)

<b>ASSETS</b> (EUR thousand)	<b>Dec 31, 2016</b>	<b>Mar 31, 2017</b>
<i>Non-current assets</i>		
Intangible assets	755	684
Tangible assets	713	703
Deferred tax assets	1,551	1,851
<b>Total non-current assets</b>	<b>3,019</b>	<b>3,238</b>
<i>Current assets</i>		
Inventories	257	470
Trade receivables	2,248	248
Marketable securities	753	865
Cash and cash equivalents	11,531	9,867
Other current assets	414	655
<b>Total current assets</b>	<b>15,203</b>	<b>12,105</b>
<b>Total assets</b>	<b>18,222</b>	<b>15,343</b>

<b>EQUITY AND LIABILITIES</b> (EUR thousand)	<b>Dec 31, 2016</b>	<b>Mar 31, 2017</b>
<i>Equity</i>		
Subscribed capital	22,735	22,735
Capital reserve	54,873	54,979
Retained earnings	-51,719	-62,880
Net loss for the period	-11,161	-2,370
Other comprehensive income	-305	-198
<b>Total equity</b>	<b>14,424</b>	<b>12,266</b>
<i>Non-current liabilities</i>		
Provisions	89	103
<b>Total non-current liabilities</b>	<b>89</b>	<b>103</b>
<i>Current liabilities</i>		
Trade payables	1,089	652
Deferred income	302	0
Other liabilities	466	593
Provisions	1,852	1,729
<b>Total current liabilities</b>	<b>3,709</b>	<b>2,974</b>
<b>Total equity and liabilities</b>	<b>18,222</b>	<b>15,343</b>

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM JANUARY 1 TO MARCH 31 (UNAUDITED)

EUR thousand	Q1 2016	Q1 2017
<b>Cash and cash equivalents at the beginning of the period</b>	<b>7,779</b>	<b>11,531</b>
<i>Operating activities</i>		
<b>Net loss for the period</b>	<b>-4,325</b>	<b>-2,370</b>
Adjustments for:		
Depreciation of tangible assets	31	30
Amortization of intangible assets	93	45
Stock option expenses	0	106
Foreign currency exchange results	0	-32
Financial income	-4	-3
Taxes	-296	-320
<b>Operating result before changes in operating assets and liabilities</b>	<b>-4,501</b>	<b>-2,544</b>
Inventories	-42	-213
Trade receivables	-178	2,001
Other current assets	-306	-242
Non-current and current provisions	2,387	-101
Trade payables and other liabilities	532	-228
Deferred income	-231	-7
Taxes paid	-3	-1
<b>Cash flow from operating activities</b>	<b>-2,342</b>	<b>-1,335</b>
<i>Investing activities</i>		
Payments to acquire intangible fixed assets	-39	-1
Payments to acquire tangible fixed assets	-13	-13
Payments related to capitalized development costs	0	-269
<b>Cash flow from investing activities</b>	<b>-52</b>	<b>-283</b>
<i>Financing activities</i>		
Payments for the issue of new shares	-91	-45
Proceeds from the conversion of convertible notes	2,084	0
<b>Cash flow from financing activities</b>	<b>1,993</b>	<b>-45</b>
<b>Total net cash flow</b>	<b>-401</b>	<b>-1,663</b>
Currency translation effects	10	-1
<b>Cash and cash equivalents at the end of the period</b>	<b>7,388</b>	<b>9,867</b>

At the reporting date, EUR 24 thousand of cash and cash equivalents included restricted cash.

## FINANCIALS Q1 2017

The Group's financial transactions are predominantly settled in euro (EUR) or U.S. dollar (USD). The exchange rate as of March 31, 2017 was EUR/USD 1.0691 (March 31, 2016: EUR/USD 1.0541). The average exchange rate applied in the reporting period was EUR/USD 1.0681 (Q1 2016: EUR/USD 1.1064).

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### RESULTS OF OPERATIONS

In Q1 2017 we recognized revenue in the amount of EUR 281 thousand – a 5% decrease compared to Q1 2016 (EUR 295 thousand). The decrease was mainly attributable to the termination and the expiry of agreements with licensing partners on the sale of products, while our licensing revenue nearly doubled year on year from EUR 104 thousand to EUR 206 thousand and we saw an increase in our own product sales from EUR 49 thousand in Q1 2016 to EUR 75 thousand in the reporting quarter.

Cost of sales amounted to EUR 30 thousand in Q1 2017 (Q1 2016: EUR 32 thousand). Our gross margin was 89% in Q1 2017, unchanged against the comparable period in 2016.

Other income of EUR 85 thousand in Q1 2017 decreased significantly from EUR 418 thousand in Q1 2016, when income from research grants in the amount of EUR 280 thousand had been recognized through profit or loss. In the reporting quarter, grant inflows in the amount of EUR 337 thousand were offset to a large extent against the capitalized development costs.

Our R&D costs decreased from EUR 2,134 thousand in Q1 2016 to EUR 1,066 thousand in Q1 2017. This decrease was partly attributable the capitalization of development activities for our Epi proLung product in the reporting quarter and to significantly reduced share-based payment expenses for our staff compared to Q1 2016, when a steep increase in our share price led accordingly to a higher valuation of outstanding phantom stock rights (PSR). This PSR valuation in Q1 2016 had a corresponding impact on our selling, general and administrative (SG&A) costs, which amounted to EUR 3,144 thousand at that time and now in Q1 2017 decreased to EUR 1,938 thousand without share-based payment expenses in an exceptionally high amount.

Other expenses of EUR 25 thousand in the reporting quarter (Q1 2016: EUR 28 thousand) were exclusively attributable to foreign exchange rate losses.

Altogether, our operating costs decreased significantly from EUR 5.3 million in Q1 2016 to EUR 3.1 million in Q1 2017. EBIT amounted to EUR -2.7 million in Q1 2017 (Q1 2016: EUR -4.6 million) and EBITDA before share-based payment expenses was EUR -2.4 million (Q1 2016: EUR -2.2 million).

We closed Q1 2017 with a net loss of EUR 2.4 million (Q1 2016: EUR 4.3 million). The net loss per share for this period decreased from EUR 0.23 in Q1 2016 to EUR 0.10.

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## FINANCIAL POSITION AND CASH FLOW

In Q1 2017, cash outflow from operating activities decreased by EUR 1,007 thousand from EUR 2,342 thousand in Q1 2016 to EUR 1,335 thousand. This decrease was mainly attributable to a payment of EUR 1.4 million received in Q1 2017 for a sale of patents in the fourth quarter of 2016.

Cash outflow from investing activities increased by EUR 231 thousand from EUR 52 thousand in Q1 2016 to EUR 283 thousand in Q1 2017. This increase was mainly attributable to payments for the development of our blood-based Epi proLung product.

Cash flow from financing activities in Q1 2017 amounted to EUR -45 thousand, significantly below the comparable figure in Q1 2016 (EUR 1,993 thousand), when we received conversion payments in the amount of EUR 2.1 million for two convertible bonds.

Our net cash outflow in the first three months of 2017 was EUR 1,663 thousand, compared to a net cash outflow in Q1 2016 of EUR 401 thousand. Cash consumption decreased to EUR 1,618 thousand in Q1 2017 from EUR 2,394 thousand in the comparable period of 2016. Cash and cash equivalents amounted to EUR 9,867 thousand at the reporting date (Dec 31, 2016: EUR 11,531 thousand).

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## NET ASSET POSITION

At the reporting date, total non-current assets increased from EUR 3.0 million as of December 31, 2016, to EUR 3.2 million, mainly due to a higher valuation of deferred tax assets. Current assets decreased from EUR 15.2 million at the beginning of the reporting period, to EUR 12.1 million at Mar 31, 2017, mainly due to cash outflow for operating activities.

At the reporting date, subscribed capital amounted to EUR 22.7 million – unchanged as compared to December 31, 2016 – and the capital reserve increased by EUR 0.1 million in the first three months of 2017 from EUR 54.9 million to EUR 55.0 million. Offset against the net loss of EUR 2.4 million in the first three months of 2017, this led to a decrease in total equity by EUR 2.1 million to EUR 12.3 million at the reporting date (December 31, 2016: EUR 14.4 million). The equity ratio increased slightly to 80.0% at the reporting date (Dec 31, 2016: 79.2%).

Compared to the closing balance of 2016, non-current liabilities increased by EUR 14 thousand to EUR 103 thousand as of March 31, 2017 (Dec 31, 2016: EUR 89 thousand) and mainly consisted of provisions for outstanding phantom stock rights.

Current liabilities decreased from EUR 3.7 million at December 31, 2016, to EUR 3.0 million at March 31, 2017, mainly due to a reduction in trade payables and deferred income.



## REPORT ON POST-REPORTING DATE EVENTS

On April 26, 2017, after the end of the reporting period, we announced that we, Cathay Fortune International Company Limited ("CFIC") and Blitz F16-83 GmbH (in the future Summit Hero Holding GmbH, "Bidder"), a subsidiary of CFIC, have entered into a business combination agreement ("BCA") regarding the takeover of Epigenomics by the Bidder. Other than by CFIC, the Bidder will also be indirectly owned by the currently largest shareholder of Epigenomics, Biochain, the strategic partner of Epigenomics and a subsidiary of Team Curis Group.

Pursuant to the BCA, the Bidder has agreed to launch a voluntary public takeover offer pursuant to the German Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, "WpÜG") to acquire all of the outstanding ordinary shares of Epigenomics AG ("Takeover Offer").

Under the terms of the BCA, Epigenomics shareholders will be offered EUR 7.52 in cash per each ordinary share. The transaction values Epigenomics' equity, including net cash, at approximately EUR 171 million and reflects a 49.4% premium to the 3-month volume weighted average share price of EUR 5.03 (as published by Bloomberg.com) prior to announcement and a 51.9% premium to Xetra-closing price at April 25, 2017, of EUR 4.95 as well as a 32.0% premium to the highest closing price in the last 12 months. The offer shall be subject to certain closing conditions, including regulatory approval and a minimum acceptance threshold of 75% of all of Epigenomics' outstanding shares.

The Executive Board and the Supervisory Board of Epigenomics support the transaction. All members of the Executive Board and the Supervisory Board owning Epigenomics shares intend to accept the takeover offer.

The BCA sets out the purpose and the principal terms of the transaction and the future strategy. The Bidder and CFIC intend to support Epigenomics' strategy going forward and to promote the business growth of the Company and its position within its area of expertise. In this regard and in order to finance the short-term working capital requirements of Epigenomics, the Bidder and CFIC have agreed to invest, upon the request of Epigenomics and subject to certain conditions, a cash amount of up to about EUR 6.46 million in the Company.

The Bidder and CFIC also intend to maintain the locations of the business operations of the Company's Group and its main business activities at significant locations, including the Company's headquarter in Berlin. The current workforce of Epigenomics is not intended to be reduced as a consequence of the transaction.

In the event the takeover is successful, the Bidder and CFIC intend to keep the current members of the executive board in place, with Greg Hamilton as CEO of Epigenomics and Dr. Uwe Staub as COO. After closing of the transaction, the Bidder and CFIC plan to amend the composition of the Supervisory Board in order to reflect their ownership position in Epigenomics.

The transaction will be implemented through a voluntary public takeover offer of the Bidder for all outstanding ordinary shares of Epigenomics.

The Bidder expects the offer to commence in May 2017 after approval of the offer document by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The offer will be subject to certain conditions precedent, including regulatory approval and a minimum acceptance threshold of 75% of all of Epigenomics' issued shares. Closing is expected in the summer of 2017.

## OPPORTUNITIES AND RISKS

Opportunities and risks in relation to the Company's business operations are described in detail in the management report published with our 2016 consolidated financial statements, which are available on the Company's website ([www.epigenomics.com](http://www.epigenomics.com)).

## OUTLOOK

We confirm our outlook for 2017 as given in the management report of the annual report for 2016.

**Revenue:** Our business projections for 2017 are mainly based on the sales of Epi proColon in the U.S.A. As such, our revenue in 2017 can vary substantially based upon timing of medical guidelines and payor coverage specifically Medicare. Until we achieve greater clarity on guideline inclusion and payor coverage, we expect our 2017 revenue to be relatively consistent with our 2016 product and licensing revenue. 2016 product revenue was significantly impacted by initial stocking effects by our commercialization partner Polymedco post FDA approval. We do not anticipate such initial effects in 2017 and estimated revenue generated in 2017 is based upon increased test volume.

**EBITDA:** Our efforts to expand commercial activities in the U.S. market for our lead product will initially burden our operating result. Reflecting these commercialization costs, we expect EBITDA for 2017 to be at a lower level than in 2016. A range from EUR -12.0 to -13.5 million is assumed for 2017 before share-based payment expenses.

**Cash consumption:** Based on our business plan for 2017, we expect cash consumption in line with our EBITDA guidance. The cash outflows for 2017 are related to our commercialization activities in the United States, clinical studies such as the post approval study, and continued development of our pipeline products. While current financial resources are expected to be sufficient at our projected cash consumption to support the Company's operations beyond 2017, we may raise additional capital in 2017. These additional funds would be utilized to extend operations beyond 2017 and/or increase our investment in certain areas based upon market conditions and opportunities.

## DISCLAIMER

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

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

## CORPORATE CALENDAR 2017

Annual General Shareholders' Meeting 2017 in Berlin ..... Tuesday, May 30, 2017

Half-yearly Report 2017 – January 1–June 30, 2017 ..... Wednesday, August 9, 2017

Interim Statement 2017 – January 1–September 30, 2017 ..... Wednesday, November 15, 2017



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This interim statement is also available  
on the Company's website  
([www.epigenomics.com](http://www.epigenomics.com)) in both a  
German and an English version.