epigenomics

INTERIM STATEMENT

JANUARY 1 – SEPTEMBER 30

9M 2016

QUARTERLY DEVELOPMENT OF KEY FIGURES (UNAUDITED)

in EUR thousand (except where indicated)	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Statement of Profit or Loss					
Revenue	471	757	295	1,260	864
Gross profit	163	266	263	426	265
EBIT	-2,530	-1,002	-4,625	-3,485	-2,615
EBITDA	-2,394	-876	-4,501	-3,400	-2,544
Net loss for the period	-2,411	-951	-4,325	-3,295	-2,338
Balance Sheet (at the respective reporting dates)					
Non-current assets	1,842	1,822	2,054	2,270	2,624
Current assets	12,414	10,776	10,802	15,553	9,780
Non-current liabilities	1,372	217	665	641	700
Current liabilities	5,488	5,283	7,020	7,939	4,855
Equity	7,396	7,098	5,171	9,243	6,849
Equity ratio (in %)	51.9	56.3	40.2	51.9	55.2
Total assets	14,256	12,598	12,856	17,823	12,404
Statement of Cash Flows					
Cash flow from operating activities	-2,970	-550	-2,342	-1,858	-4,099
Cash flow from investing activities	-25	258	-52	-44	-439
Cash flow from financing activities	2,184	-891	1,993	7,009	-1,365
Net cash flow	-811	-1,183	-401	5,107	-5,903
Cash consumption	-2,995	-292	-2,394	-1,902	-4,538
Cash and cash equivalents at the respective reporting dates	8,962	7,779	7,388	12,482	6,589
Stock					
Weighted-average number of shares issued	17,816,484	18,088,384	18,700,159	20,065,342	20,544,009
Earnings per share (basic and diluted, in EUR)	-0.14	-0.05	-0.23	-0.16	-0.11
Share price at the respective reporting dates (in EUR)	4.85	2.22	5.34	4.99	4.99
Number of employees at the respective reporting dates	40	39	36	43	45

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INTERIM STATEMENT ON OPERATIONAL HIGHLIGHTS
AND FINANCIAL RESULTS FOR 9M 2016

EPIGENOMICS AG – INTERIM STATEMENT ON OPERATIONAL HIGHLIGHTS Q3 2016

DEAR SHAREHOLDERS,

At the end of September, we were very pleased to be aligned with the colorectal cancer (CRC) screening initiative by Democratic Congressman Donald M. Payne, Jr. (New Jersey) who introduced the bipartisan "Colorectal Cancer Detection Act of 2016" to the U.S. Congress. This initiative, led on the Republican side by Congressman Charles Dent, aims to provide coverage under the Medicare program for qualifying blood-based CRC screening tests as approved by the U.S. Food and Drug Administration (FDA). The mission of Congressman Payne, Jr. and Congressman Dent to fight CRC in the United States, provides a most unique opportunity to overcome existing testing barriers and disparities and provide millions of unscreened Americans access to a simple and convenient CRC screening option. Improved access to new technologies for CRC screening will potentially contribute to reaching at least 80% screening rates amongst the eligible population by 2018.

Congressman Donald M. Payne, Jr., who lost his father to CRC, commented: "Colorectal cancer is one of the most preventable forms of cancer, yet it remains the second leading cause of cancer death in the United States, mainly because one in three Americans do not stay up-to-date with their screenings. We need new and innovative tools for early detection to reach these patients."

The legislation initiative was introduced at a panel discussion held in Washington, D.C. entitled "Screening the Unscreened: New Approaches to Reaching the Underserved to Prevent Colorectal Cancer" with leading experts within the CRC and gastroenterology community.

Michael Sapienza, member of the panel and Chief Executive Officer of The Colon Cancer Alliance said: "We are extremely pleased by Congressman Donald Payne's colorectal cancer screening initiative. Improving access to new technologies for colorectal cancer screening will contribute to reaching 80% screening rates by 2018 and to fulfilling our mission of ultimately knocking out colorectal cancer."

Jeffrey Cossman, M.D., Founder of United States Diagnostic Standards, Inc. (USDS) and Association for Molecular Pathology (AMP), added: "Death from colorectal cancer is preventable if caught early. But despite decades of our best efforts, still one in three or almost 23 million eligible Americans are not screened. A new DNA blood-test for cost-effective colorectal cancer screening is a unique opportunity to overcome existing testing barriers and disparities. There is overwhelming evidence that underserved and rural populations suffer most from low colorectal cancer screening rates."

At the end of October, the Journal of the American Medical Association (JAMA) provided important clarification on the clinical evidence and the publication status of Epi proColon. In June 2016, JAMA had published the United States Preventive Services Task Force (USPSTF) recommendation statement on CRC screening. The statement listed a number of screening tests, including serologic testing for methylated SEPT9 DNA (Epi proColon). However, the data cited for Epi proColon is based on a previous version of the assay and does not reflect the test approved by the FDA. In their "letter to the editor", the study authors Klaus Mergener, MD, PhD, Department of Medicine, University of Washington, and Nicholas T. Potter, PhD, Molecular Pathology Laboratory Network, Inc. highlight the performance data of the FDA-approved and commercially available Epi proColon test as published in peer-reviewed journals. Therefore, we will continue to work closely with guideline bodies, expert groups, and medical societies, in order to promote the existence and clinical utility of our test. Our focus is on the inclusion of Epi proColon in various professional medical society guidelines and on securing appropriate reimbursement for our test.

We are also focused on making Epi proColon available to patients worldwide and at the end of the reporting quarter, we signed an exclusive distribution agreement for South-East Asia (Thailand, Vietnam, Malaysia, Singapore) with distributor SPD Scientific PTE Ltd. based in Singapore. In addition we have taken further steps to broaden our global distribution base and expect further international distribution agreements to be secured in the future.

Another important goal for this year was to move forward with Epi proLung. Currently, low-dose computed tomography is used for screening for lung cancer in high-risk patients in the United States. The definition of high-risk patients and the impact of frequent false-positive results of low-dose computed tomography remains a challenge. We have recently shown in a pre-clinical study that measurement of SHOX2 and PTGER4 methylation biomarkers in plasma DNA allowed detection of lung cancer and differentiation of malignant from nonmalignant lung disease. These positive pre-clinical results were subsequently published in the Journal of Thoraic Oncology. We have initiated the final clinical trials with Epi proLung with the goal of a CE-marked lung test by mid 2017.

As we enter the last quarter of this business year we are well positioned to continue towards achieving all of our goals. Our team shares the dedication and passion to radically improve cancer detection worldwide through our high-quality products – for the benefit of doctors and their patients. We will continually strive to truly make this vision come true.

Yours sincerely,

Greg Hamilton
(CEO)

Dr. Uwe Staub
(COO)

FINANCIAL RESULTS FOR 9M 2016

FINANCIAL POSITION AND CASH FLOW

In 9M 2016, cash outflow from operating activities increased by EUR 1,573 thousand from EUR 6,529 thousand in 9M 2015 to EUR 8,102 thousand. This increase was mainly attributable to the extended losses in the reporting year compared to 2015.

Cash flow from investing activities changed by EUR 943 thousand to an outflow of EUR 728 thousand in 9M 2016 compared to an inflow of EUR 215 thousand in 9M 2015. The main reasons for this change were proceeds received from an investment grant of EUR 314 thousand in 2015, while in the reporting period such inflows amounted only to EUR 3 thousand, and payments for the development of our blood-based Epi proLung product of EUR 442 thousand.

Cash inflow from financing activities in 9M 2016 amounted to EUR 7,636 thousand (9M 2015: EUR 8,561 thousand), mainly attributable to cash inflows from the conversion of five convertible notes between January and April 2016, and our capital increase in May 2016 by the issuance of 1.4 million new shares, which led to gross inflows of EUR 6,835 thousand. These inflows were partly offset by financing outflows in connection with the Company's preparation of a listing on a U.S. stock exchange and related measures of approximately EUR 1,300 thousand in the third quarter of 2016 when we paid liabilities accrued for legal advice and consulting services received over more than 18 months.

Our net cash outflow in the first nine months of 2016 was EUR 1,194 thousand, compared to a net cash inflow in 9M 2015 of EUR 2,247 thousand. Cash consumption increased to EUR 8,830 thousand in 9M 2016 from EUR 6,314 thousand in the comparable period of 2015. Cash and cash equivalents amounted to EUR 6,589 thousand at the reporting date (Dec 31, 2015: EUR 7,779 thousand).

RESULTS OF OPERATIONS

In Q3 2016, we recognized revenue in the amount of EUR 864 thousand – an 83% increase compared to Q3 2015 (EUR 471 thousand). In the first nine months of 2016, overall revenue grew as well by 83% from EUR 1,324 thousand in 9M 2015 to EUR 2,420 thousand.

Product revenue increased sharply by 95% from EUR 440 thousand in Q3 2015 to EUR 857 thousand in Q3 2016, as a consequence of the start of our sales activities in the U.S.A. following FDA approval for Epi proColon in April 2016. North America accounted for 79% of our total revenue in Q3 2016 (EUR 686 thousand). Looking at the first nine months of 2016, North America accounted for nearly 60% of our total revenue, up from only 6% in the first nine months of 2015. At the same time, income from licensing and R&D services is further losing significance and amounted to a combined EUR 7 thousand in Q3 2016 and EUR 167 thousand in 9M 2016, respectively (Q3 2015: EUR 31 thousand, 9M 2015: EUR 426 thousand).

Revenue by type:

	Q3 2015		Q3 2016		9M 2015		9M 2016	
	EUR thousand	in %	EUR thousand	in %	EUR thousand	in %	EUR thousand	in %
Product sales (own and third-party)	440	93.5	857	99.2	898	67.8	2,253	93.1
Licensing income	12	2.6	7	0.8	65	4.9	117	4.9
R&D income/reimbursements	19	3.9	0	0.0	361	27.3	50	2.0
Total revenue	**471**	**100.0**	**864**	**100.0**	**1,324**	**100.0**	**2,420**	**100.0**

Revenue by geographical market:

	Q3 2015		Q3 2016		9M 2015		9M 2016	
	EUR thousand	in %	EUR thousand	in %	EUR thousand	in %	EUR thousand	in %
Europe	99	21.1	84	9.7	730	55.1	371	15.3
North America	28	5.9	686	79.4	81	6.2	1,446	59.8
Rest of the world	344	73.0	94	10.9	513	38.7	603	24.9
Total revenue	**471**	**100.0**	**864**	**100.0**	**1,324**	**100.0**	**2,420**	**100.0**

Cost of sales amounted to EUR 599 thousand in Q3 2016 (Q3 2015: EUR 308 thousand) and accumulated to EUR 1,466 thousand in the first nine months of 2016 (9M 2015: EUR 683 thousand). Product revenue in the U.S.A. was generated initially through sales to our commercialization partner Polymedco. Our gross margin was at 31% in Q3 2016 and 39% in 9M 2016 (Q3 2015: 35% and 9M 2015: 48%). It is expected to improve significantly, once our contractual share in Polymedco's revenue is credited to us.

Other income of EUR 109 thousand in Q3 2016 decreased significantly from EUR 222 thousand in Q3 2015 when income from our research grants in the amount of EUR 186 thousand had been recognized through profit or loss. In the reporting quarter, grant income in the amount of EUR 304 thousand was to a large extent offset against the capitalized development costs.

Our R&D costs decreased from EUR 1,442 thousand in Q3 2015 to EUR 926 thousand in Q3 2016. This decrease is attributable to the absence of study-related costs compared to Q3 2015 and to the capitalization of development activities for our Epi proLung product. In the nine month period, R&D costs dropped from EUR 5,287 thousand in the previous year to EUR 4,275 in 2016, mainly due to the same reasons.

Our selling, general and administrative (SG&A) costs rose in Q3 2016 to EUR 2,043 thousand from EUR 1,450 thousand in the comparable period of 2015. This increase was partly attributable to sales and marketing expenses in the context of our initial market activities in the U.S.A. after the product launch of Epi proColon and to higher legal fees. The lawsuit with Maxim Group LLC (Maxim) as described in our H1 2016 report was settled out-of-court in the reporting quarter. A payment to Maxim, significantly below their requested amount, has been made after the reporting date. A provision created already in Q2 2016 in an appropriate amount has been utilized for this payment.

Other expenses of EUR 20 thousand in the reporting quarter (Q3 2015: EUR 23 thousand) were nearly exclusively attributable to foreign exchange rate losses.

Altogether, our operating costs amounted to EUR 3.6 million in Q3 2016, up from EUR 3.2 million in the comparable period of 2015, apart from higher costs of sales due to the revenue increase, mainly due to higher staff costs for an increased headcount. In the nine month comparison, total operating costs climbed from EUR 10.0 million to EUR 13.8 million.

We closed Q3 2016 with a net loss of EUR 2.3 million (Q3 2015: EUR 2.4 million) which added up to EUR 10.0 million for 9M 2016 (9M 2015: EUR 8.0 million). Nevertheless, the net loss per share for this period decreased from EUR 0.14 in Q3 2015 to EUR 0.11 due to an increased number of shares, but increased slightly from EUR 0.48 for the nine month period 2015 to EUR 0.50 for the nine month period 2016. Again, it must be emphasized that the significant increase in net loss compared to last year's nine months is partially due to the fact that the non-cash expenses for share-based payment rose sharply to EUR 2.3 million in 2016 (9M 2015: EUR 0.8 million) – with the bulk of this in the first quarter of 2016 – as a consequence of the high volatility of our share between November 2015 and January 2016.

NET ASSET POSITION

At the reporting date, total non-current assets increased from EUR 1.8 million as of December 31, 2015, to EUR 2.6 million, mainly due to a higher valuation of deferred tax assets and investments in technical equipment. Current assets decreased from EUR 10.8 million at the beginning of the reporting period, to EUR 9.8 million at September 30, 2016, mainly due to reduced inventories and cash outflow for operating activities.

The increase in subscribed capital (up by EUR 2.5 million) and the capital reserve (up by EUR 7.4 million) in the first nine months of 2016 was attributable to the conversion of five convertible notes and our capital increase in May 2016. Offset against the net loss of EUR 10.0 million in the first nine months of 2016, this led to a decrease in total equity of EUR 0.3 million to EUR 6.8 million at the reporting date (December 31, 2015: EUR 7.1 million). The equity ratio decreased slightly to 55.2% at the reporting date (Dec 31, 2015: 56.3%).

Compared to the closing balance of 2015, non-current liabilities increased by EUR 0.5 million to EUR 0.7 million as of September 30, 2016 (Dec 31, 2015: EUR 0.2 million) and mainly consisted of provisions for outstanding phantom stock rights. The higher value of these provisions is attributable to the increase in our share price from the beginning of the year to the reporting date.

Current liabilities decreased from EUR 5.3 million at December 31, 2015, to EUR 4.9 million at September 30, 2016, mainly due to a reduction in trade payables and deferred income as well as a decrease in convertible notes outstanding due to five conversions in the first nine months of 2016. An opposite effect came from a strong increase in current provisions (especially for phantom stock rights) from EUR 0.9 million as of December 31, 2015, to EUR 2.2 million at the reporting date, resulting to a large extent from the share price movement in the first nine months of 2016 as mentioned above.

CURRENCY TRANSLATION

The Group's financial transactions are predominantly settled in euro (EUR) or U.S. dollar (USD). The EUR/USD exchange rates applied in the reporting period were as follows:

Reporting date rates	Dec 31, 2015	Sept 30, 2016
EUR/USD	1.0887	1.1161

Average rates	9M 2015	9M 2016
EUR/USD	1.1118	1.1140

REPORT ON POST-REPORTING DATE EVENTS

There were no significant events after the reporting date affecting the interim financial statements of the Group.

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 2015 consolidated financial statements which are available on the Company's website (*www.epigenomics.com*). There was one significant change in the overall opportunities and risks situation in the reporting period: we no longer face the major risk of a non-approval for Epi proColon in the U.S.A. after the agency's positive decision in April 2016. Nevertheless, this introduces a new risk for us, as we will have to start the post-approval study as requested by the FDA. Once we have a final agreement with the agency on the design and the scope of this study, we will evaluate the risk associated with conducting it and will report on that in our subsequent financial report.

At the end of September, the Centers of Medicare & Medicaid Services (CMS) have published preliminary determinations with regard to the level of payment for new diagnostic tests as part of the 2017 Clinical Laboratory Fee Schedule. CMS initially decided to crosswalk our assay to a different reference code with a lower payment rate per test than we had proposed, even though our proposal was supported by an expert panel which acts as an advisor to CMS. We consequently have made use of the 30-days commenting period and submitted a comprehensive response to CMS, in which we request to alter the preliminary determination. We are convinced that there is a strong rationale to crosswalk our test to the proposed reference code. However, we are exposed to the risk of not getting the reference code bv CMS for our test which is underlying our current business model. CMS is expected to publish the final determinations for the 2017 Clinical Laboratory Fee Schedule during December 2016.

The risk from the Maxim lawsuit – as mentioned in our previous interim report (Q2 2016) – has ceased to exist after a settlement agreement between both parties was signed shortly after the end of the reporting period (see also the section "results of operations").

OUTLOOK

We narrow our revenue outlook for the current financial year, forecasting full-year revenue now in the range of EUR 3.5 to 5.0 million. Adjusted for non-cash expenses related to phantom stock programs, we expect our EBITDA to be in the range of EUR -9.5 to -10.5 million.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM JANUARY 1 TO SEPTEMBER 30 (UNAUDITED)

EUR thousand	Q3 2015	Q3 2016	9M 2015	9M 2016
Revenue	**471**	**864**	**1,324**	**2,420**
Cost of sales	-308	-599	-683	-1,466
Gross profit	**163**	**265**	**641**	**954**
Gross margin (in %)	*35*	*31*	*48*	*39*
Other income	222	109	430	679
Research and development costs	-1,442	-926	-5,287	-4,275
Selling, general and administrative costs	-1,450	-2,043	-3,962	-8,014
Other expenses	-23	-20	-83	-67
Operating result/Earnings before interest and taxes (EBIT)	**-2,530**	**-2,615**	**-8,261**	**-10,723**
Interest income	4	4	13	13
Other financial result	0	0	-1	-1
Net loss for the period before taxes on income	**-2,526**	**-2,611**	**-8,249**	**-10,711**
Taxes on income	115	273	216	755
Net loss for the period	**-2,411**	**-2,338**	**-8,033**	**-9,956**
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of available-for-sale securities	-105	-38	-21	-104
Foreign currency effect from consolidation	0	3	0	-2
Other comprehensive income for the period	**-105**	**-35**	**-21**	**-106**
Total comprehensive income for the period	**-2,516**	**-2,373**	**-8,054**	**-10,062**
Earnings per share (basic and diluted, in EUR)	**-0,14**	**-0,11**	**-0,48**	**-0,50**

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 IAS 33.43. Therefore, the earnings per share (diluted) equal the earnings per share (basic). In Q3 2016, the weighted-average number of shares issued was 20,544,009 (Q3 2015: 17,816,484). The weighted-average number of shares for 9M 2016 was 19,769,837 (9M 2015: 16,793,340).

CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30 (UNAUDITED)

ASSETS (EUR thousand)	**Dec 31, 2015**	**Sept 30, 2016**
Non-current assets		
Intangible assets	792	764
Tangible assets	684	756
Deferred tax assets	346	1,104
Total non-current assets	**1,822**	**2,624**
Current assets		
Inventories	1,077	272
Trade receivables	177	601
Marketable securities	784	680
Cash and cash equivalents	7,779	6,589
Other current assets	959	1,638
Total current assets	**10,776**	**9,780**
Total assets	**12,598**	**12,404**

EQUITY AND LIABILITIES (EUR thousand)	**Dec 31, 2015**	**Sept 30, 2016**
Equity		
Subscribed capital	18,088	20,544
Capital reserve	40,945	48,302
Retained earnings	-42,734	-51,719
Net loss for the period	-8,985	-9,956
Other comprehensive income	-216	-322
Total equity	**7,098**	**6,849**
Non-current liabilities		
Provisions	217	700
Total non-current liabilities	**217**	**700**
Current liabilities		
Trade payables	1,923	1,278
Deferred income	635	7
Convertible notes issued	1,070	535
Other liabilities	761	811
Provisions	894	2,224
Total current liabilities	**5,283**	**4,855**
Total equity and liabilities	**12,598**	**12,404**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1 TO SEPTEMBER 30 (UNAUDITED)

EUR thousand	9M 2015	9M 2016
Cash and cash equivalents at the beginning of the period	**6,715**	**7,779**
Operating activities		
Net loss for the period	**-8,033**	**-9,956**
Adjustments for:		
Depreciation of tangible assets	132	91
Amortization of intangible assets	410	190
Losses from the disposal of non-current assets	6	0
Foreign currency exchange results	-5	0
Financial income	-13	-13
Taxes	-217	-755
Operating result before changes in operating assets and liabilities	**-7,720**	**-10,443**
Inventories	-655	805
Trade receivables	-150	-423
Other current assets	-420	-679
Non-current and current provisions	919	1,813
Trade payables and other liabilities	763	1,461
Deferred income	760	-629
Tax paid	-26	-7
Cash flow from operating activities	**-6,529**	**-8,102**
Investing activities		
Payments to acquire intangible fixed assets	-8	-147
Payments to acquire tangible fixed assets	-109	-160
Payments related to capitalized development costs	0	-442
Proceeds from investment grants received	314	3
Interest received	18	18
Cash flow from investing activities	**215**	**-728**

EUR thousand	9M 2015	9M 2016
Financing activities		
Proceeds from the issue of new shares	5,000	6,835
Payments for the issue of new shares	-86	-1,804
Proceeds from the conversion of convertible notes	3,647	2,605
Cash flow from financing activities	**8,561**	**7,636**
Total net cash flow	**2,247**	**-1,194**
Currency translation effects	0	4
Cash and cash equivalents at the end of the period	**8,962**	**6,589**

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

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

CORPORATE CALENDAR 2017

Annual Report 2016
January 1 – December 31, 2016 ..... Friday, March 24, 2017

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