epigenomics

ANNUAL REPORT 2013

Epi proColon®

2013

FINDING CANCER EARLY. IN BLOOD

CONTENTS

FOREWORD
BY
DR. THOMAS TAAPKEN
CEO/CFO

DEAR SHAREHOLDERS,

The year 2013 was pivotal for Epigenomics in laying the foundations for our future as a commercially successful molecular diagnostic company. We are finally approaching the potential U.S. approval of our lead product Epi proColon®, the innovative and convenient blood-based colorectal cancer (CRC) screening assay, and commercialization in the world's largest market followed by China and Europe.

➛ **THREE AREAS OF KEY FOCUS IN 2013.** As you will read in more detail over the following pages, during the year we achieved major steps towards the commercialization of our key value driver, Epi proColon® and have successfully paved the way for a U.S. approval of this vital test for a disease where early detection is most crucial for successful treatment. In addition to this, we have begun opening up new markets, for example in China, in collaboration with local partners with deep understanding and experience operating in those geographies. Lastly, we closed 2013 in a much improved financial position, ending the year with EUR 8.0 million in the bank, following successful fund raisings that included some of our new partners.

➛ **PREMARKET APPROVAL (PMA) PROCESS OF EPI PROCOLON®: FDA APPROVAL DECISION PENDING.** During 2013, we kept clear focus on the regulatory path towards U.S. approval of Epi proColon®. After completion of our PMA submission, the U.S. Food and Drug Administration (FDA) announced in February 2013 that it had accepted our application for review and granted us priority review status. During the year, we completed the necessary and required activities in connection with the PMA registration of Epi proColon®. We did this through a very efficient process of interactions with the FDA's review team, answering their questions to our submitted documents, providing additional information upon request and undergoing a series of facility inspections. This process required significant involvement of all areas within the Company and has dominated the focus of our internal activities for most of the year.

As an important step towards the approval decision, the FDA convened an independent medical expert review panel to discuss our PMA application. The meeting of the Molecular and Clinical Genetics Panel of the Medical Devices Advisory Committee was held on Wednesday, March 26, 2014. The final decision regarding the PMA is now awaited in due course.

→ COMMERCIALIZATION OF EPI PROCOLON® ON GOOD PATH, KEY ALLIANCES FORGED.
Prior the anticipated U.S. commercialization of Epi proColon®, we have entered into a joint commercialization agreement with Polymedco, the U.S. market leader in the field of CRC screening products. With more than 1,500 established customers in the sector and an exclusively CRC-dedicated sales force, we are convinced that this alliance will enable an accelerated commercial roll-out in the U.S. after a potential approval. While we are now putting in place key internal people to complement the commercial efforts of our partner, we are also already working closely with Polymedco on the marketing, launch and development strategies. We will continue to be responsible for product manufacturing and supporting it from the medical and regulatory point of view. To support a successful product launch, we are scaling-up manufacturing and are engaged in the activities necessary to create awareness for the test and generate support in the medical and laboratory customer communities in order to achieve inclusion of the test in screening guidelines. To this effect, we are also working together with our partners and future customers to obtain favorable reimbursement coverage for Epi proColon® from key U.S. payers.

In line with our strategy for the U.S.A. to familiarize future potential customers with our test in order to prepare the market launch before the potential FDA approval of Epi proColon®, we were pleased to observe an encouraging and ongoing market acceptance for Septin9 tests in North America where the test is sold through our LDT (Laboratory Developed Test) arrangements with Quest, ARUP, Gamma Dynacare and Companion Dx. To facilitate the switch to the regulated product Epi proColon® once it becomes available, we keep a close working relationship with our laboratory customers and partners to ensure the sustainable commercial success upon launch. We expect these partners will become Epigenomics' customers once Epi proColon® is approved.

Dr. Thomas Taapken, CEO/CFO

In October 2013 we entered into another strategically important agreement with BioChain, a leading clinical diagnostics company in China. The Chinese market has approximately 290 million people that are eligible for CRC screening and the growing awareness of CRC is creating a greater need for early detection. BioChain, which had previously signed a non-exclusive license agreement for our methylated Septin9 marker in March 2013 and started offering testing services through its' Beijing based Chinese independent reference laboratory, has now acquired an exclusive license to develop and commercialize the Septin9 in vitro diagnostic (IVD) tests for CRC screening in the large Chinese market. At its own expense, BioChain has initiated a major clinical trial to validate the Septin9 CRC screening assay with the goal to gain market approval for the blood-based test by the Chinese Food and Drug Administration (CFDA). In order to execute the clinical trial, BioChain has placed an order for 5,000 Epi proColon® tests with Epigenomics in 2013. In the context of this agreement we were very pleased to announce that BioChain and its owners also invested USD 1.3 million into Epigenomics. This shows their high commitment to Epigenomics and their intention to further expand the partnership.

In Europe, a moderate but steady uptake of our product can be observed. This trend is especially encouraging since it happens without any meaningful investment into marketing and sales, which as a result of our restructuring in 2011 was significantly downsized. We see a clear trend towards centralization of testing by a smaller number of laboratories that are increasing the amounts of tests ordered, thus increasing their efficiency and profitability. We also made additional steps on the reimbursement front. MACSF, (Mutuelle d'Assurance du Corps de Santé Français) the leading French supplementary insurance provider with about 800.000 policy holders from the medical community, now became the second healthcare provider in France to reimburse the blood-based Septin9 test. We also hope to raise awareness and convince doctors of our Septin9-based test Epi proColon®, so they increasingly recommend its use to their patients.

➛ **EPI PROLUNG®, OUR SECOND PRODUCT, STARTING TO GAIN MORE ATTENTION.** Early in 2014, we signed a licensing and supply agreement for our Epi proLung® BL Assay for the diagnosis of lung cancer, with Kindstar, the largest Chinese diagnostic testing company for clinical diagnostics. Kindstar will offer Epi proLung® testing in China through its vast network of laboratories across the country, while Epigenomics will supply the product and provide support with respect to medical and regulatory considerations. The ability to leverage the established know-how and the reference laboratory infrastructure of our new partner will provide a significant advantage for Epigenomics in the market introduction and technology roll-out of Epi proLung® in China.

On the academic side, recent results reported from a clinical study conducted in Germany, demonstrated further potential of our proprietary SHOX2 DNA methylation biomarker. We were excited to notice that cell-free mSHOX2 DNA isolated from plasma is not only a proven sensitive and specific marker for the detection of lung cancer but also demonstrated to enable rapid and sensitive determination of tumor response and therapy monitoring. Currently, there is no sensitive and standardized biomarker to indicate a response to therapy or the need to change a therapy due to tumor progression in lung cancer patients. Moreover, the findings encourage us further in our plans to initiate the development of a blood based lung cancer diagnostic test, which would have a significant market potential.

➛ **SUCCESSFUL FINANCING YEAR 2013; INCREASED INVESTOR INTEREST.** Over the last year, we have been able to raise more than EUR 12 million in gross proceeds in order to help finance our operating business beyond the FDA approval of Epi proColon® and to build and strengthen the distribution capacities for the test's introduction into the U.S. market.

In January, we completed a financing round of EUR 5 million. At the end of October we raised an additional EUR 4.2 million in a private placement to institutional investors and partners in Europe and the U.S.A. We were glad to see that also the owners of our strategic partners Polymedco and BioChain participated in this financing. Additionally, in August, we entered into an agreement with YA Global, securing a convertible bond financing for up to EUR 5 million. This agreement allows us to access additional funds with great flexibility to improve our financial position as needed, from which so far, we generated cash inflows of EUR 1 million. Finally, in December, we also successfully placed additional convertible bonds, generating further gross proceeds of EUR 2.5 million. The structure of these bonds allows us to access up to an additional EUR 13 million of gross proceeds in case of conversion, thus allowing for greater financial flexibility at the time of U.S. market introductory preparation.

Driven by our operational and commercial progress throughout 2013 as well as by our strengthened financial position, a higher level of confidence within the investment community finally seems to be returning. Our share price multiplied its value since the beginning of this year to EUR 6.12 at year-end. We are proud to note that there has been a pick-up of analyst coverage for Epigenomics during the year, which has placed us on the radar of a growing number of international investors. Several independent analysts initiated their coverage of Epigenomics with "buy" recommendations.

Ahead of the upcoming FDA decision we are seeing a growing interest in Epigenomics, particularly from U.S. investors. Consequently, in July 2013, we established a Level 1 American Depositary Receipt (ADR) program to provide these investors an easy way to trade our shares and thus broaden our U.S. shareholder base. To target U.S. investors even more effectively, since January 2014 the ADRs trade on OTCQX International, a segment reserved for high quality non-U.S. companies under the ticker symbol EPGNY.

→ **LOOKING AHEAD,** the most important milestone for Epigenomics in 2014 is the FDA's approval decision for Epi proColon®. In combination with our strengthened corporate position in terms of finance and organizational efficiency it is our view that we can bring sustainable value to our shareholders through product launches in the major markets and subsequent revenue generation.

Over the coming months, we look forward to keeping you informed about major updates and progress especially on major milestones in relation to the FDA regulatory process for Epi proColon®. Since, the approval decision for our lead product is still outstanding, 2014 will become the decisive year for our Company and we remain grateful for your ongoing support and trust. At the same time, we would like to take the opportunity to thank our employees for their continuing dedication and our customers and partners for their loyalty.

Yours sincerely,

Dr. Thomas Taapken

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

In 2013, your Company made important progress. The documentation for the approval of Epi proColon® in the U.S.A. was submitted to the FDA, and the typical questions that arise after such a submission were answered in such a satisfactory manner, that the FDA has invited the Company to make a presentation in front of the Medical Devices Advisory Committee on March 26, 2014. The FDA will subsequently take their approval decision.

In 2013, employee uncertainty about the future of the Company has given way to confidence, and the considerably improved financial situation also contributed to this. Further implementation of our strategy has led to successful conclusions of further partnerships and cooperations in many parts of the world. Cost optimization started in previous years has reduced our expenditures, even though costs associated with gaining approval in the U.S.A. have increased.

In close cooperation with the Management Board, the Supervisory Board will be considering additional strategies. In the medium-term, safeguarding our future financial position will continue to be of primary focus to the Management in 2014, and as such it will be regularly reviewed with the Supervisory Board. At this time, the Supervisory Board would like to express their appreciation to all employees for their outstanding efforts in 2013.

WORK OF THE SUPERVISORY BOARD

Throughout 2013, the Supervisory Board fulfilled all its duties assigned to it by law, the Articles of Association and the Rules of Procedure. The Supervisory Board advised and monitored the Executive Board in managing the Company. The Supervisory Board was continuously informed about operational progress and key challenges, as well as the overall financial situation and findings from the risk management system of the Company. All corporate planning, including financial, capital expenditure and human resources as well as general business performance was reported on a regular basis by the Executive Board. To the extent that German corporate law or the existing Rules of Procedure required consent for certain decisions or actions of the Executive Board, such approvals were granted by the Supervisory Board after thorough deliberation and careful examination of oral reports and written documentation, which were provided.

Heino von Prondzynski, Chairman of the Supervisory Board

Among the important issues discussed regularly at the Supervisory Board meetings in 2013, the FDA regulatory process for Epi proColon® in the United States, the closing of the broad strategic collaboration in China with BioChain, the joint commercialization agreement for Epi proColon® in North America with Polymedco, human resources issues, and the overall financial situation of the Company were overarching topics of ongoing discussion. Particularly the capital increases in January and October, the agreement with YA Global in August, as well as the placement of additional convertible bonds in December were important topics of deliberation and decision in 2013. Furthermore, a regular assessment of possible business transactions was a matter of review and discussion throughout the year.

Also, the approval of the annual and consolidated financial statements and the Company's business development issues concerning approvals for terms and conditions of new collaboration contracts were discussed. The Supervisory Board always took into account the interests of Epigenomics' shareholders.

During 2013, six ordinary plenary meetings of the Supervisory Board with the Company's Executive Board took place on January 25, March 19, May 6, June 24, October 2 and November 29. These meetings were held in Berlin. All members of the Supervisory Board attended all 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 numerous telephone conferences 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 29, 2013, and a telephone conference on December 22, 2013, the Supervisory Board considered in detail the operational budgets, financial planning and human resource allocation plan for the fiscal year 2014 and adopted the business plan for 2014. It also agreed the Executive Board's remuneration.

For each formal meeting, all members of the Supervisory Board received comprehensive written reports in advance, prepared by the Executive Board with the input of the respective functional managers of the Company. These documents were sufficiently detailed and comprehensive to analyze and discuss all relevant topics of the respective agenda of the Supervisory Board meetings and to pass all required resolutions. Written minutes of all official meetings and telephone conferences were prepared. Between meetings, the Supervisory Board was informed in detail by means of written and oral reports about all ongoing projects and plans of particular importance to the Company. 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 2013

In April 2013 the Supervisory Board appointed Dr. Uwe Staub to the Executive Board of the Company as Chief Operating Officer, a position he held since September of last year in a non-executive function. Since that date the Executive Board consists again of two members. In the third quarter of 2013, the Supervisory Board re-appointed Dr. Thomas Taapken as CFO and CEO of Epigenomics until the end of 2015. The appointment of Dr. Uwe Staub ends on March 31, 2015.

CONFLICTS OF INTEREST

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

COMMITTEES

As a consequence of the reduction of the number of Supervisory Board members from six to three at the Annual General Shareholder's Meeting on May 2, 2012, the Supervisory Board does not consider the formation of committees to be adequate. In lieu of the Audit Committee, the Supervisory Board designated Prof. Dr. Günther Reiter as the main expert for Financial Reporting and Audit Matters. In this role, he regularly discussed with the Executive Board and Senior Vice President Finance, Accounting and Controlling as well as with the Auditor of the Company, in order to provide advice on the preparation of financial reports, audits and quarterly reviews. He provides regular reports and highlights any findings and observations in this area to the entire Supervisory Board. At the same time, in lieu of the Personnel and Compensation Committee, the Supervisory Board designated Ann Clare Kessler, Ph.D., as the main expert on compensation and nomination matters. Heino von Prondzynski was designated the main expert regarding corporate governance.

CORPORATE GOVERNANCE

The Supervisory Board continuously reviewed all issues of legal and regulatory compliance by the Company. Due to the continued challenging global economic environment and the financial position of the Company, it also dealt intensively with the adequacy of the risk management system. Both the Executive Board and the Supervisory Board regard the commitment to good corporate governance as exceedingly important to strengthen the confidence of current and future shareholders, corporate partners and employees of the Company. In October 2013, the Executive Board and the Supervisory Board issued a new Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (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.html)*. In its declaration, the Company has committed itself to adherence to the German Corporate Governance Code, and only deviates in explicitly mentioned, Company-specific cases from its recommendations.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The independent audit company UHY Deutschland AG Wirtschaftsprüfungsgesellschaft (UHY), Berlin, has audited the annual financial statements and the related management report of Epigenomics AG for fiscal 2013 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 2013 according to International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU). UHY did not raise any objections for either of the financial statements and approved them with unqualified audit opinions. However, UHY highlighted that the Group is dependent on the supply of additional financial resources no later than in the beginning of 2015 to avoid illiquidity according to the Company's plans. In case this required fund raising would not be realised by that time, it might be necessary for the Epigenomics AG to file for insolvency at the latest in the beginning of 2015.

The consolidated financial statements and the Group management report were prepared in accordance with Section 315a HGB using international accounting standards IFRSs, as adopted by the European Union (EU). UHY's audit was conducted in accordance with German generally accepted standards for the audit of financial statements promulgated by the "Institut der Wirtschaftsprüfer in Deutschland e. V." (IDW, Institute of Public Auditors in Germany). The audit reports and the audit certificates were submitted to the Supervisory Board by the Executive Board in a timely manner.

The UHY audit reports were presented to all members of the Supervisory Board and were discussed in depth at the meeting on March 17, 2014, in the presence of the external auditor, who reported on the main findings of its audit. At this meeting, the Executive Board explained the annual financial statements 2013 and consolidated financial statements 2013, as well as the Company's risk management system. UHY also provided a report on the scope and focal points of the audit. As a result of its findings and examination, the Supervisory Board raised no objections and accepted and confirmed the results of the audit. The Supervisory Board in the presence of the external auditor formally approved the annual financial statements and the consolidated financial statements as of December 31, 2013, without exception and modification. By the Supervisory Board's approval, the annual financial statements 2013 of Epigenomics AG are thus adopted as submitted in accordance with Section 172 AktG.

With respect to the existing internal control and risk management systems as well as 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 entire Supervisory Board worked towards the implementation of appropriate risk management measures during 2013.

The Supervisory Board would like to thank the Executive Board, the senior management as well as all employees of Epigenomics for their commitment and dedication throughout the challenging year 2013.

Berlin, March 2014

On behalf of the Supervisory Board

Heino von Prondzynski

OUR STOCK

POSITIVE SHARE PRICE DEVELOPMENT BASED ON OPERATIONAL AND COMMERCIAL PROGRESS THROUGHOUT 2013 AND A STRENGTHENED FINANCIAL POSITION

Epigenomics' shares closed the year at EUR 6.12 (Xetra), representing an increase of 191% in 12 months to December 31, 2013. Over the previous 14 months, the shares gained 635% from their lowest point in early November 2012. The Company's share price development outperformed most of the relevant stock market indices in 2013 – an impressive performance, even in a year of booming worldwide stock markets.

Following the completion of a successful rights offering at EUR 1.58 per share in January 2013, the shares closed the first quarter at EUR 1.59. During the second quarter 2013, the shares oscillated between EUR 1.56 and EUR 1.98, albeit at very low trading volumes. In August, Epigenomics' share price jumped from EUR 1.75 to over EUR 2.00 and began a rally on the back of significantly increased trading volumes up to the 12-month highest price of EUR 7.72 on November 19, 2013. Based on the positive newsflow published in the second half of the year, capital market participants reacted positively to the Company's brighter prospects generated from the financing activities, which have secured sufficient liquidity beyond the date of the expected FDA approval decision for Epi proColon®. In 2013, Epigenomics' market capitalization increased by 332% to EUR 80.1 million at December 31, 2013.

With ongoing significant volatility, trading volumes on Xetra increased from a daily average of 43,700 in the first quarter to about 87,700 in the fourth quarter of 2013. As of December 31, 2013, the total number of shares outstanding was 13,082,892. The major shareholder groups mentioned on page 13 controlled more than 3% each of Epigenomics' total share capital.

TRANSPARENT DIALOG WITH SHAREHOLDERS

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. This dialog is designed to give the shareholders the clearest possible information for making informed investment decisions regarding Epigenomics. Throughout 2013, 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 Europe. Furthermore, the Company continued to provide opportunities for a close dialog with shareholders and interested investors at numerous roadshow meetings in Germany, Austria, Switzerland, France, Sweden as well as in the United Kingdom and the United States.

During this year, the primary focus for investors was the progress of the premarket approval (PMA) process at the FDA for Epi proColon® in the U.S.A. Further important issues were the commercialization agreement with Polymedco for the U.S. market, the strategic collaboration with BioChain in China and the overall financial situation of the Company including implemented capital measures during the year.

On March 21, 2013, Epigenomics hosted its annual press conference and analyst meeting in Frankfurt am Main. The Annual General Shareholders' Meeting (AGM) took place in Berlin on May 6, 2013. At the AGM, all proposals of the Company were agreed by large majorities with a representation of approximately 25.65% of the Company's share capital.

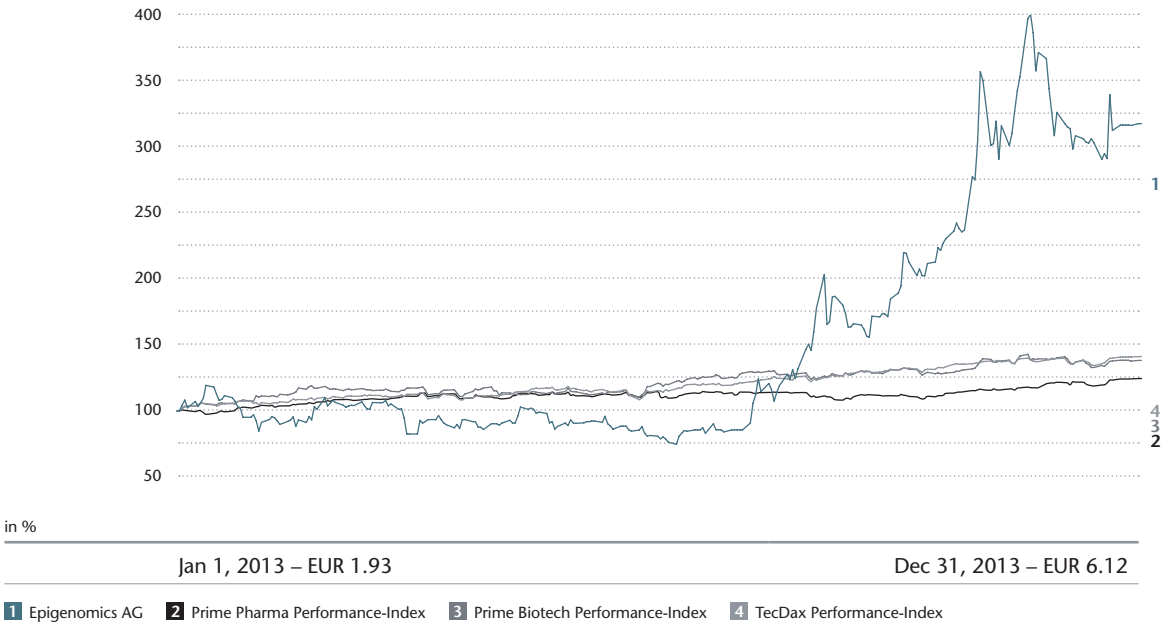
ANALYST COVERAGE & ADR PROGRAM

Five analysts, Marietta Miemietz (equinet Bank AG), Jens Hasselmeier (First Berlin Equity Research GmbH), Sachin Soni (Kempen & Co. N.V.), Wang Chong (Edison Investment Research until June 2013) as well as Michael King (Nomura Code Securities until September 30, 2013), covered Epigenomics' stock during 2013 providing updates on their views and recommendations.

In July, the Company established a Level 1 American Depositary Receipt (ADR) program to serve the growing interest of U.S. investors and provide them an easy way to trade Epigenomics shares. ADRs of Epigenomics are U.S. dollar denominated certificates representing ordinary shares of the Company at a ratio of five ordinary shares to one Epigenomics ADR.

Since January 2014, these ADRs are traded on the OTCQX International market, a segment reserved for high quality non-U.S. companies. BNY Mellon acts as the Company's "Principal American Liaison" (PAL) on OTCQX responsible for providing professional guidance on OTCQX requirements.

EPIGENOMICS STOCK PERFORMANCE



Shareholder	Voting rights threshold
Abingworth LLP*	>10%
Gilbert Gerber	>5%

*(total held, controlled or advised)

Key data on Epigenomics' stock

ISIN	DE000A1K0516
Security code number	A1K051
Stock exchange abbreviation	ECX
Reuters	ECXG.DE
Stock exchange	Frankfurt Stock Exchange Regulated Market (Prime Standard)
1st day of trading	July 19, 2004
Designated Sponsor	equinet Bank AG
Number of shares outstanding (Dec 31, 2013)	13,082,892
Free float (Dec 31, 2013)	86.80%
Market capitalization (Dec 31, 2013)	80,067,299
Year-end closing price	EUR 6.12
Highest price in 2013	EUR 7.72
Lowest price in 2013	EUR 1.44

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

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CONSOLIDATED MANAGEMENT REPORT

ECONOMIC ENVIRONMENT IN 2013 AND OUTLOOK FOR 2014

The growth of the world economy in 2013 has been classified as "subdued", according to the United Nations "World Economic Situation and Prospects 2014" report published in December 2013, with a reported increase of the world gross product by approximately 2.1%. This rather modest development could be "observed across almost all regions and major economic groups". The aftermath of the 2008/09 financial crisis still prevailed for the economies in the developed countries as well as for many emerging economies. The International Monetary Fund (IMF) had expressed more optimism three months earlier, as it predicted the global economic growth at around 3.6% for 2014. In spite of this, IMF experts admitted the presence of still significant structural problems and imbalances in many regions of the globe.

A more optimistic outlook was described for Europe in 2013 after a disastrous 2012, when the European currency union appeared to be on the verge of collapse. The crisis countries emerged from recession throughout 2013 and Europe's overall gross domestic product finally showed some signs of recovery. At the end of the year, Spain and Ireland were able to exit the euro rescue fund somewhat earlier than generally expected. Nevertheless, the euro zone as well as the other European countries still suffered from public and private debt problems and partially high unemployment rates. Even an official EU report stated a "growing divergence" over the past years with regard to the economic standards of living among some of its member states. The outlook for 2014 for Europe cannot be too optimistic based on the status quo and some remaining problems like the sovereign debt crisis of Greece and some other states. While a moderate continuation of the developments observed in 2013 would be a positive perspective, troubled banks and poor domestic demand will still burden many of the large economies in Europe, according to the IMF projections. Especially France seems actually to be a top candidate for a political and economic crisis.

Germany again proved to be the European "model boy" in 2013 with a moderate growth rate driven by strong private consumption, a low inflation rate, a controllable fiscal deficit, further decreasing unemployment rates and still a strong export performance, despite an ailing domestic industry demand and problems within key trade partner countries like France. As twelve months before, the question for 2014 remains the same: can Germany resist against the infectiousness of its neighbors and international partners? Definitely, the answer to this question will depend significantly on the overall performance of Germany's new government as elected in fall 2013. Both government parties made a lot of compromises to ultimately come to a joint agreement. Fears regarding an accelerated spending of the new government and overall skepticism on the future government performance and stability have been voiced, especially since the social democratic party has to deliver on expensive promises it made to their voters.

In the United States, the economic recovery continued, despite massive political problems faced by the Obama administration, especially in respect to its implemented healthcare reform ("Obamacare"). The problems escalated at the beginning of the fourth quarter and resulted in a government shutdown, with a breakdown of nearly all public services for more than two weeks. However, this political disaster went along with economic growth rates which were surprisingly high. More than 4% GDP growth and an improving labor market were reported in the third quarter. Personal consumption and business investment were higher than expected by experts and the outlook for 2014 is moderately optimistic towards a continuation of this trend. The United States Federal Reserve (the "Fed") continues with an extremely loose monetary policy by regularly supplying massive amounts of fresh money into the economy. While this has led to the accumulation of record deficits over many years, the effects on interest rates have helped to fuel the reported economic growth. It will be interesting to see how the Fed will continue under its new chairwoman Janet Yellen, who will face the challenge of reverting the quantitative easing policy in the nearer future while avoiding any long-term detrimental effects to the economy.

China will continue trying to gain control over its economic and ecological problems that surged in connection with the rapid growth of the Chinese economy in the years before. The government in Beijing now tries to stimulate the domestic consumption as the most populous country in the world faces an increased dependency on its exports and its investments.

The exchange rate between the euro and the U.S. dollar started at the beginning of 2013 with a rate of EUR/USD 1.32. It dropped down to around EUR/USD 1.28 at the end of the first quarter and again at the beginning of the third quarter, but during the second half of the year, the U.S. dollar weakened ending at EUR/USD 1.38. In spite of this development, it was again a year of rather low volatility. As usually, the experts' forecasts regarding the development of the EUR/USD ratio in the following year have a wide span. As the Fed is expected to raise the interest rates sooner or later and ahead of the European Central Bank (ECB), a slight majority of the analysts see a stronger U.S. dollar towards the Euro in 2014, predominantly in a range from EUR/USD 1.20 – 1.30. As usual, there are also economists awaiting exchange rates to move into the opposite direction, even beyond the EUR/USD 1.40 line.

Stock markets in 2013 closed by setting record highs and world equity markets ended at six-year peaks. The MSCI World index climbed by more than 20% after a 14% increase the year before. This was not only driven by U.S. stocks but also by the German and Japanese markets. Germany's DAX index rose by another 25.5% over the 9,500 points barrier. Japan's Nikkei index closed at the highest level for the last six years. Simultaneously, the price for gold and other assets collapsed in 2013 more than anyone did foresee. The observed rallies of stock markets around the world are partly explainable by the low interest policies of central banks, leading to massive asset inflation, a development which cannot always be justified by the underlying value of the equities in question. While some experts argue that these are emerging signs of another big bubble which could burst once the central banks start to increase interest rates again, there is no consensus in the experts' and analysts' reports and projections. The scenarios range from a big crash over separate correction phases up to new record peaks in the market indices during 2014.

In line with this development, the healthcare sector also performed very well in 2013. Globally, a total of 65 IPOs in the biotech/healthcare segment were completed with a total amount of more than EUR 5.5 billion raised by these companies, versus an already impressive 38 IPOs in 2012. Not surprisingly, 52 of these IPOs (with more than EUR 5 billion raised) took place in the U.S.A., where this industry could celebrate an exciting year for investors. The Nasdaq Biotech Index gained 65% throughout 2013, the companies posted their best returns since 1999 and the FDA approved quite a significant number of new drugs from biotech companies. Compared to this "blockbuster year" in the U.S.A., it was only a moderately positive year for the German biotech/healthcare industry. A handful of the publicly listed companies in the sector performed rather well towards the end of the year, including Epigenomics as one of the biggest index winners in 2013. Not all listed companies were able to show such a positive development and the amounts of funds raised by public companies were quite moderate in comparison to the U.S. funds. There are still no signs by any of the private companies in the sector that IPOs in the German market will happen again soon and the list of potential candidates has not become any longer. There were no spectacular trade sales or M&A transactions reported by privately financed companies in 2013. Overall, while there are some weak signs of recovery, the domestic capital market environment for healthcare companies suffers more and more from diminishing attractiveness for international investors.

Traditionally, the healthcare and life sciences industry has been viewed by investors as a "defensive sector" because demand for its goods and services is typically not dependent on the prevailing economic environment or cyclical developments. However, the mounting pressure on general healthcare spending due to budgetary restrictions exerted through growing economic and political restrictions across all geographies continues to affect earnings of most life sciences companies and increases pressure on margins in the sector.

More importantly, the U.S. healthcare reform will likely have implications on healthcare spending in general and diagnostics in particular. Over time, an erosion of historically high profit margins of healthcare businesses is likely since pricing is coming under increasing pressure in the U.S.A. as the world's largest single healthcare market. Our industry segment – life sciences and diagnostics – should be able to benefit from an increased focus on prevention and early detection of disease, among others driven by policies in connection with the introduction of the Affordable Care Act in the U.S.A. ("Obamacare"). Colorectal cancer screening looks set to be a high priority for the United States and as well for many other national healthcare bodies, including China.

The molecular diagnostics sub-segment of the life sciences industry continues to be one of the most attractive and sought-after investment opportunities in spite of the increasing margin and cost pressure on companies. An ongoing high level of M&A activity has led to a heightened interest in this sector since 2011. Analyst reports suggest that this will be sustained throughout 2014 and 2015, among others driven by technology developments in this space. Growth rates in the molecular diagnostics industry are substantially higher than in the diagnostics industry overall. In particular, oncology diagnosis, in which we predominantly operate, is expected to be a major contributor to future growth of the molecular diagnostics space. With 600 million people in North America, Europe, China and Japan over the age of 50 being potentially eligible for CRC screening products, this market opportunity alone could exceed revenue of USD 3 billion p.a. to the diagnostics industry. About 320,000 new cases of CRC per year are diagnosed in the EU and over 140,000 in the United States.

Still today, over 60% of all CRC cases are detected in symptomatic stages when survival rates are much lower if compared to earlier-stage detection. Thus, the overall market potential for a test such as Epigenomics' Epi proColon® is very significant.

In the "Opportunities and Risks" and "Prognosis Report" sections of this management report, reference is made to the individual implications that the global economic situation could have on our business and our Group.

ORGANIZATION, BUSINESS ACTIVITIES AND STRATEGY

GROUP STRUCTURE AND BUSINESS ACTIVITIES

Epigenomics AG is headquartered in Berlin, Germany, and operates a wholly owned subsidiary, Epigenomics Inc. in Seattle, WA, U.S.A. Our business activities are mainly targeting at the important markets of Europe, North America and Asia. Epigenomics AG, as 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 the Berlin location. Epigenomics Inc. is mainly active in developing our business and commercial activities in North America and beyond.

We are a molecular diagnostics company focusing on developing and commercializing of in vitro diagnostic (IVD) tests for the screening 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 informative and disease-specific biomarkers which are at the core of every diagnostic test we have developed so far.

We develop and commercialize cancer diagnostic tests in colorectal cancer (CRC) and in lung cancer. The latter via direct marketing and sales efforts of IVD kits and through non-exclusive licensing partnerships for the biomarkers constituting the basis for these products. In this model, we are directly addressing certain market segments through our own products, while others are or will be served by our partners through the licenses granted to them. All our cancer molecular diagnostic products target substantial market opportunities and address significant unmet medical needs with a view to providing patients and physicians with benefits from more convenient and superior diagnostic tests.

Our lead product is Epi proColon®, a blood-based test for the early detection of CRC which relies on our proprietary DNA methylation biomarker, Septin9. The majority of our activities is currently focused on the introduction of Epi proColon® as an IVD kit in the United States, the world's largest commercial market for molecular diagnostic products. In 2012, we had completed the Premarket Approval (PMA) application and had expected an approval decision from the U.S. Food and Drug Administration (FDA) already before the end of 2013. However, the approval procedure turned out to be more comprehensive and complex than we assumed and was additionally slowed down by the temporary U.S. government shutdown in October 2013. Finally, we were informed by the FDA that it had scheduled the long-awaited Advisory Committee Meeting with respect to the PMA application for March 26, 2014. Such Advisory Committee Meetings are usually held towards the end of PMA approval procedures to provide independent expert's recommendations to the FDA. We now expect FDA's final PMA approval decision to be announced after this advisory board committee meeting in the course of 2014. A further product is the Epi proLung® BL Reflex test for the diagnosis of lung cancer, which is CE marked and offered for sale in Europe.

Furthermore, we leverage our extensive intellectual property portfolio by granting licenses to our technology and products to third parties, especially in areas in which we are not active ourselves. As part of these efforts, we have licensed some of our biomarkers like Septin9 to certain laboratories in North America, e.g. Quest Diagnostics, Inc. ("Quest"), ARUP Laboratories, Inc. ("ARUP"), Companion Dx Reference Lab, Gamma Dynacare and to international diagnostic companies like Abbott Molecular, Inc., or BioChain Institute, Inc. ("BioChain").

Lastly, we contribute our expertise in the molecular diagnostic field successfully to R&D collaborations with third parties, both in industry and academia. Through this effort, we can achieve additional revenue.

CORPORATE STRATEGY

Despite a company history in pioneering DNA methylation technology development and biomarker discovery, it soon became obvious that interaction with patients and medical professionals is essential to develop innovative products that address urgent unmet challenges in cancer diagnosis and personalized medicine. Today, as a company, we cover all steps necessary to provide commercially successful molecular diagnostic tests from addressing relevant clinical challenges for accurate development and validation of biomarkers, IVD test kit development and finally marketing and sales of our products to laboratories, physicians and patients.

Although we are convinced that we are the best advocates of our own products and have to spearhead driving their medical adoption sustainably, we also realize that the opportunity in cancer molecular diagnostics is too vast to leverage the potential of our products just by ourselves. Therefore, we have adopted a dual-business strategy: We market our products in selected European markets like Germany, Austria, Switzerland and Spain ourselves while targeting other markets in Europe and other geographies through an established network of distributors. At the same time, we have entered into non-exclusive partnerships through licensing our Septin9 biomarker for colorectal cancer and the assay technologies to detect it in blood plasma to some of the most distinguished companies in the clinical diagnostic space. We typically participate in the commercial success of our partners through upfront and milestone payments, but most importantly through royalties on the sales they generate with their diagnostic products and services based on our biomarker and technologies.

Besides cancer early detection and diagnosis, personalized medicine and companion diagnostics are widely recognized drivers of growth, both in the pharmaceutical and diagnostics markets. Our experience in developing concept and biomarkers for drug response prediction goes back to the early days of personalized medicine, and we leverage this experience and know-how in multiple 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 our future product pipeline.

MANAGEMENT

Epigenomics is managed by a team characterized by a unique mix of seasoned diagnostics industry experience, science and management expertise, and the entrepreneurial commitment to build a world-leading cancer molecular diagnostics company.

Being a stock corporation under German law, the Company is led by an Executive Board and controlled by a Supervisory Board elected by our shareholders. Currently, Dr. Thomas Taapken is acting as Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the Company. He joined Epigenomics on April 1, 2011. Effective April 1, 2013, the Executive Board was complemented by the appointment of Dr. Uwe Staub as its second member. Dr. Staub joined Epigenomics in November 2008 as Senior Vice President for Product Development and was promoted to Chief Operating Officer (COO) in September 2012, when his duties were expanded to then encompass R&D, Medical and Regulatory Affairs, Customer Support and Manufacturing. The Supervisory Board of Epigenomics comprises of three members with the required industry experience and expertise.

For further details on the members of the boards, reference is made to the "Corporate Governance" section of this management report.

Epigenomics operates under a quality management system certified according to ISO 13485 for the design, development, manufacturing and distribution of IVD products. We have repeatedly demonstrated our ability to operate under highest regulatory standards, successfully undergoing audits of our ISO-certified quality management system covering all necessary requirements for IVD development, manufacturing and commercialization for both our sites in Germany and the United States.

CORPORATE GOALS

We take a very 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 goals 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 monitored.

Throughout 2013, the most important corporate goal was to bring the FDA approval process for Epi proColon® to a successful end, by leading a supportive dialog with the agency and by providing all required additional information with regard to the PMA filing. After the FDA has now finally called for the Advisory Committee Meeting at the end of March 2014, we have begun to prepare this meeting from our side with all the required diligence and expertise to make it a milestone success for our lead product.

In preparation of the next steps towards commercialization of Epi proColon® in North America after the expected approval decision, we had the important goal to establish a commercialization alliance in order to execute our business strategy. Therefore, in the fourth quarter of 2013, we have entered into a long-term commercialization agreement with Polymedco, Inc. ("Polymedco"), a leading provider of CRC tests in the U.S.A. and in Canada. This commercialization alliance will be instrumental in the roll-out of our lead product into the U.S. market, once regulatory approval is granted. Going forward, it will be our most important corporate goal to introduce Epi proColon® to the U.S. healthcare market and together with Polymedco to support our customers to establish favorable reimbursement for this product by the payor organizations throughout the United States.

Looking at other large and important healthcare markets outside of North America, we have agreed to a broad licensing and development collaboration with the Chinese company BioChain in 2013. According to this agreement, BioChain will initiate a major clinical trial to validate Epi proColon® with the goal to gain market approval in China by the China Food and Drug Administration ("CFDA") for this assay. Going forward, BioChain will develop a second-generation product as a blood-based test under BioChain branding. The agreement with BioChain also encompasses a broad collaboration in R&D and manufacturing. Therefore, it will become another fundamental corporate goal for us to support our partner over the months to come in all his endeavors by supplying not only our kits for this large clinical trial, but as well by all our knowledge and expertise in the CRC screening area.

To become commercially successful worldwide, the inclusion of our test in relevant screening guidelines and the availability of reimbursement by insurance carriers remains one of the most important elements. Also in 2013, we have made significant progress to generate the necessary support in the medical and laboratory customer communities and we will not reduce our efforts towards this goal in the future.

Finally, we also keep providing high-value-added biomarker research services and solutions to customers in the pharmaceutical and life sciences industry and to a certain extent retained this ability in spite of ceasing certain research operations as a consequence of the implemented restructuring. We remain convinced that these efforts in the area of personalized medicine and our deep understanding of the field will set us apart from our competitors and establish us as one of the leaders in this emerging area of our industry.

PERFORMANCE INDICATORS

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

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 and operating results or earnings per share. All of these indicators are monitored closely on a monthly basis and are published on a quarterly basis in our mandatory and voluntary financial reports. They are regularly compared against planned and forecasted values and against external benchmarks if appropriate. Not having yet achieved to become profitable, our cash flow and our cash consumption are amongst the most important financial indicators and are therefore monitored closely and reported regularly.

Non-financial performance indicators that are important for conducting our business are mainly derived from our R&D and commercial activities. The set of indicators comprises of the number of (granted) patents, sensitivity and specificity numbers for our products as obtained from scientific studies or as well publications of study results 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 yardsticks 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 are monitoring customer satisfaction by indicators like delivery and/or turnaround times, audit observation numbers and customer complaint rates.

OVERVIEW OF OUR BUSINESS IN 2013

Our operational efforts in 2013 were highly focused on all activities in connection with the regulatory process for our key product Epi proColon® in the U.S.A. At the same time, we had the target to put a contractual framework of partnerships in place to successfully commercialize the product upon regulatory approval. In parallel, we secured the funds necessary to move through these important steps ahead of U.S. regulatory approval.

COMPLETION OF PMA APPLICATION FOR EPI PROCOLON®

At the end of 2012, we had completed the modular submission of our PMA application for Epi proColon®, which was subsequently accepted for review and granted priority review status by the FDA in February 2013. Following this submission, we led a constant and productive dialog with the agency throughout the entire year 2013, encompassing physical meetings, telephone conferences and regular correspondence. In parallel, we successfully went through a series of inspections by the FDA, which were part of the regulatory review process. We diligently answered all open questions and information request that the FDA reviewers had with regard to our test and its documentation.

Finally, in November 2013, we were informed by the FDA that the meeting of the Molecular and Clinical Genetics Panel of the Medical Devices Advisory Committee – long awaited by us – had been scheduled for March 26, 2014. Such meeting is usually scheduled at the end of a PMA application. After the Committee has held its meeting, it will immediately give a non-binding recommendation to the FDA. The agency will publish subsequently its decision based on this recommendation.

COMMERCIALIZATION AND BUSINESS DEVELOPMENT

Throughout 2013, we continued to follow our business goals according to our adjusted strategy. From the commercial perspective, two years ago, we had taken the decision to focus the organization and its commercial activities to the key market for our lead product, the United States. While we kept the product on the market in Europe, we are working with customers and distributors to resell the product. Lastly, we had been taking a focused approach to find new partners in countries in which we do not intend to operate ourselves, e.g. China, and leverage the capabilities of these partners in our commercial efforts.

Europe

As part of the realignment of our business, our commercialization focus in Europe shifted from addressing generalists and end-customers to a more targeted key account approach, aimed at key players in the healthcare system and payers. As a result of this, on the laboratory side we were able to observe a stronger concentration of product orders to fewer customers together with an increased volume per laboratory. This situation helps us to better support our customers and on the other side – due to economies of scale – also increases the attractiveness for the laboratories active to offer Septin9 testing on the basis of Epi proColon®.

After the first positive coverage decision by Swiss Life in France in the previous year, we could announce in 2013 that MACSF (Mutuelle d'Assurance du Corps de Santé Français), the leading French supplementary insurance provider for the medical community, will offer reimbursement for the blood-based Septin9 test as part of their additional health insurance program. MACSF will reimburse EUR 50 on what its policy holders pay for undergoing Septin9 testing. MACSF offers about 800,000 policy holders from the medical community and their families, such as doctors from the private and public sector, other medical or paramedical workers including medical students an additional health insurance, called "Mutuelle". After Swiss Life, MACSF is now the second healthcare provider in France and the first "Mutuelle" to reimburse blood-based CRC screening.

In spite of these positive news in the French market, the overall situation in Europe remains difficult, mainly due to the lack of reimbursement in other respects and our missing capacities to broadly market the product in all major European markets simultaneously. At this point, Germany and Spain remain our two largest markets for Epi proColon® and the growth rates in 2013 were modest.

U.S.A.

While we await U.S. regulatory approval for our product, we are already laying the foundation for the commercial roll-out of the product. To accomplish this, we had granted licenses earlier to certified laboratories in the United States in order to enable them to offer their laboratory-developed tests ("LDTs") targeted on Septin9 as a service and an aid in the diagnosis of CRC. These partners include Quest, ARUP and Companion Dx in the United States as well as Gamma Dynacare in Canada. This has led to an initial market acceptance for our test in North America with an estimated 45,000 Septin9 tests being performed in 2013 by our license partners. Furthermore, the availability of the test has led to the assignment of a dedicated reimbursement code (CPT 81401), which has supported the laboratories offering the test to create precedent for reimbursement. We anticipate that our test will be broadly reimbursed after approval at a price of USD 125-150.

To ensure a successful commercialization of the approved product in the U.S.A., in October 2013, we announced an agreement with Polymedco on the joint commercialization of Epi proColon® in North America.

Under the terms of this agreement, Polymedco will deploy its CRC-dedicated sales force and service organization to ensure the optimum market introduction and roll-out of Epi proColon® once the test is potentially approved by the FDA. Both parties will work jointly on the marketing, launch and development strategies and with key payors to obtain favorable reimbursement coverage. Epigenomics will retain the responsibility to manufacture the product and to support it from the medical and regulatory point of view, including activities necessary to achieve inclusion in major cancer screening guidelines post approval. A working group comprised of representatives of both companies will oversee the launch and commercial roll-out and engage in activities necessary to ensure the commercial success of the product once it becomes available to the market. The companies agreed to a combined transfer price and profit sharing agreement subject to minimum annual sales of test kits from Epigenomics to Polymedco.

Polymedco's commitment to the CRC screening space should accelerate our commercial roll-out in North America and will mean a significant time and resource advantage for Epigenomics in the launch of Epi proColon®.

Polymedco is the largest provider of CRC screening tests in North America, with more than USD 50 million in annual sales for its cancer diagnostics products. The Company's product range includes multiple platforms for automated and manual Fecal Immunochemical Test (FIT) solutions for CRC testing. It has an established customer base of more than 1,500 laboratories, of which about 100 are major medical centers. Polymedco's staff devoted to the joint collaboration is comprised of more than 50 specialized sales and support experts, which target exclusively laboratories and medical centers engaged in cancer screening and diagnostics.

We are very excited about this agreement with Polymedco, since it will greatly facilitate the market introduction of our product into this key market.

China

In March 2013, we announced that BioChain, a leading clinical diagnostics company in cancer and genetic tests, had licensed our methylated Septin9 marker for the blood-based detection of CRC and will offer a Septin9 test to customers through its Beijing-based Chinese independent reference laboratory. A few months later, in October, we announced that both companies had signed an agreement regarding a far broader strategic collaboration. In addition, BioChain and its shareholders invested EUR 0.9 million into our Company, resulting in 217,935 newly issued Epigenomics shares.

As part of the agreed collaboration, which significantly expands the license agreement for a laboratory-developed test announced previously, BioChain acquired an exclusive license to develop and commercialize Septin9 IVD tests for CRC screening in the Chinese market. We received a upfront payment and are entitled to future minimum annual payments as well as to mid-single-digit royalty payments once the product is approved by the China FDA (CFDA). Until then, Epigenomics will continue selling laboratory-developed test (LDT) components to BioChain.

At its own expense, BioChain has now initiated large clinical trials to validate the Septin9 CRC screening assay with the goal to gain market approval by the CFDA. In order to execute these clinical trials, we have sold 5,000 Epi proColon® tests to BioChain. The trial is expected to be completed in the second half of 2014.

Both parties also agreed to work together on the validation of other methylation biomarkers in the cancer field. Epigenomics owns intellectual property around a variety of cancer diagnostic markers for lung, prostate and bladder cancer as well as for other solid tumor diseases and markets a CE-marked product for lung cancer diagnosis based on its proprietary SHOX2 biomarker. BioChain's advanced sample preparation technology is a valuable asset for the clinical validation of our other DNA methylation cancer markers. Should the companies develop any future products, BioChain will have the option to acquire commercialization rights for the Chinese market, while we will retain the rights for the rest of the world.

Summary

Throughout 2013, we made solid progress on the commercial side. Together with our existing and new partner 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 United States, throughout Europe and in other major markets worldwide.

RESEARCH AND DEVELOPMENT (R&D)

In light of our focused strategy, activities of our R&D team were geared towards advancing our key products in their development and assisting in their commercial establishment.

Colorectal cancer (Septin9)

In May 2013, we presented results of the head-to-head comparative study between Epi proColon® and fecal immunochemical testing (FIT), gained in our larger clinical study in 2012, at a workshop of the WEO (World Endoscopy Organization) Colorectal Cancer Screening Committee during this year's DDW (Digestive Disease Week) Conference in Orlando, FL, U.S.A.

The results were presented by Nicholas Potter, Ph. D., Molecular Pathology Laboratory Network, Inc. Maryville, TN, U.S.A., on behalf of the authors, including lead author Prof. David A. Johnson, Gastroenterology Division, Eastern VA Medical School, Norfolk, VA, U.S.A. David A. Johnson is one of the leading gastroenterologists in the U.S.A. and co-author of several CRC screening guidelines including those of the U.S. Multisociety Task Force and the American College of Gastroenterology.

In the final analysis of the study results, it was demonstrated that Epi proColon® was able to detect 74% (subsequently amended to 73% as presented to the FDA) of all evaluable CRC cases in this large multi-centric clinical study, in comparison to 67% (subsequently amended to 68% as presented to the FDA) of CRC cases detected by FIT. Nicholas Potter concluded that it was demonstrated that sensitivity of the plasma-based methylated Septin9 test is statistically non-inferior to a widely recommended stool-based screening test.

Analysis of Septin9 DNA methylation in plasma represents a straightforward, minimally invasive method to detect all stages of CRC which either alone or in combination with other screening strategies has the potential to satisfy unmet needs for increased compliance in the screening population. Prof. Johnson commented: "This technology introduces a new opportunity to increase patient acceptance and compliance with CRC screening. Anything that increases screening should be viewed as a favorable advance in the goal to decrease CRC mortality."

In July 2013, we announced the findings from a health economic study by Prof. Uri Ladabaum, M.D., M.S., et al. from the Division of Gastroenterology and Hepatology, Stanford University School of Medicine, U.S.A.

According to the study, Septin9 testing provides potential for saving lives while being health economically beneficial as an attractive screening alternative to established methods for a population that would otherwise be non-compliant to colorectal cancer screening.

The study, which was published in "Cancer Epidemiology, Biomarkers & Prevention", concluded that Septin9 tests would decrease CRC incidence by 41% and CRC mortality by 61% assuming optimal uptake. In addition, Septin9 tests have the potential to demonstrate significant economic benefits at acceptable costs by increasing screening rates and improving adherence over time compared to other strategies.

Results from the pivotal trial and from the FIT comparison study have been submitted to peer review journals for publication. It is anticipated that these publications will appear soon and pose the basis for subsequent discussions with payors and medical guideline representatives. However, we anticipate that there will be a need for even more clinical evidence which will have to be established in additional studies post approval of the product.

Lung cancer (SHOX2)

Together with independent academic partners, we also continue to make progress towards further developments in our second product Epi proLung® as an aid in the diagnosis of lung cancer.

In November 2013, we announced the results from a clinical study conducted by Dr. Michael Fleischhacker and Dr. Bernd Schmidt from the Department of Pulmonology of University Hospital Halle/Saale (UKH).

The study demonstrated methylated SHOX2 to be a sensitive and specific biomarker for therapy monitoring and early detection of tumor response in lung cancer. Blood samples from a total of 32 advanced-stage lung cancer patients were taken prior to and during therapy every seven to ten days for approximately three months. Re-staging after that period was confirmed by a local tumor board based on clinical and imaging (CT scan) results. The results showed a strong correlation between decreased SHOX2 methylation and response to chemotherapy treatment already after two weeks and were presented by Dr. Fleischhacker at the CNAPS 8th conference in Baltimore, Maryland, U.S.A. Based on these encouraging results, an additional multi-centric study with a larger patient population is planned to further verify these results.

While treatment monitoring could be an interesting entry point to the market, it is very remarkable that it was possible to generate these results with a blood-based SHOX2 test. Further work has been initiated to establish a blood-based SHOX2 product which at a later stage might also be used for lung cancer screening products.

DR. UWE STAUB APPOINTED TO EXECUTIVE BOARD OF THE COMPANY

Effective April 1, 2013, Dr. Uwe Staub, COO of the Company, has been appointed to the Executive Board, completing the board as a second member next to Dr. Thomas Taapken, CEO and CFO of Epigenomics AG.

Dr. Staub joined Epigenomics in November 2008 as Senior Vice President for Product Development and was promoted to COO in September 2012, when his duties were expanded to then encompass R&D, Medical and Regulatory Affairs, Customer Support and Manufacturing.

FINANCING ACTIVITIES

2013 was a very eventful year on the financing side. Due to our insufficient liquidity base at the beginning of the year, we executed our first transaction at the end of January and could then announce the successful completion of a capital increase by way of a rights issue and a subsequent private placement. We implemented the capital increase from authorized capital for a total number of 3,149,430 new shares and generated gross proceeds of nearly EUR 5.0 million. The offering was significantly oversubscribed.

As a next step to secure our financial actionability, we entered into an agreement with YA Global Master SPV Ltd. ("YA Global") in August 2013, through which we secured a convertible bond financing for up to EUR 5.0 million. Under the terms of the agreement, YA Global, over a period of up to two years, is now obliged to purchase convertible notes with a total nominal amount of up to EUR 5.0 million at a purchase price of 95% of the nominal amount. We may issue the convertible notes in tranches of EUR 0.5 million each at our sole discretion. The bonds carry no interest, have a term of nine months and are convertible into shares of Epigenomics immediately upon issuance at the discretion of the bearer of the bonds. We then issued the first tranche of notes to YA Global in August and a second one in November. Already in 2013, YA Global has completely converted both tranches into 236,850 new shares. Until August 2015, we still can issue eight more tranches to YA Global and have thereby access to additional liquidity of up to EUR 3.8 million.

In connection with entering into the collaboration agreement with BioChain (see also under Section "Commercialization and Business Development") in October 2013, we issued 217,935 new shares which were subsequently subscribed by BioChain and its owners at a price of EUR 4.32 per share, and we therefore received inflows from this issuance of EUR 0.9 million in total. This transaction was accompanied by another capital increase structured as a private placement to institutional investors in Europe and in the U.S.A. under exclusion of the pre-emptive rights of our shareholders and so we successfully issued 660,260 new shares at an issue price of EUR 4.993 per share, thus generating gross proceeds of EUR 3.3 million. Among other investors, the owners of Polymedco, our new commercialization partner in the U.S.A. (see also under Section "Commercialization and Business Development"), participated in the transaction.

Finally, in December 2013, we announced the successful placement of 25 convertible bonds with an aggregate principal amount of EUR 2,675 thousand, convertible into up to 2,675,000 new shares. The issuance of the convertible bonds generated gross proceeds of EUR 2.5 million, of which we received EUR 2.3 million still in the reporting year. The bonds are convertible into 107,000 new shares each at any time during their term (December 2015) against payment of a conversion premium amounting to EUR 0.5 million on each bond, equaling a conversion price of EUR 5.87. In the event of a conversion of all 25 bonds against payment of the conversion premium, we may generate further gross proceeds of up to EUR 13.0 million. Alternatively, after August 1, 2014, each bond will be redeemable upon request of the bondholder at its principal amount of EUR 107 thousand. Upon maturity of the bonds or upon FDA approval of Epi proColon®, on certain conditions, we are entitled to require mandatory conversion.

With all these aforementioned transactions, we generated gross proceeds of EUR 12.5 million in total in the reporting year, an impressive proof of the ongoing confidence of our investors in Epigenomics.

FINANCIAL RESULTS

The financial results of 2013 were encouragingly good for the Company. Most notably, revenue increased compared to 2012 by slightly more than 50% to EUR 1.6 million. As the decrease in our operating costs year on year was significant (down to EUR 9.5 million) but not as strong as expected, the increased revenue finally helped to keep EBIT and net loss within our projected range and fortunately cash consumption even slightly below our expectations twelve months ago.

The increased revenue was based on a solid growth in product sales and benefited from our new collaboration with BioChain, through which we now have the interesting opportunity to enter the huge Chinese market. Decreasing licensing income in 2013 compared to 2012 was compensated by higher than expected R&D income.

Operating costs in 2013 were significantly lower than in previous years. This was mainly due to the effects of the headcount adjustments over the last years as well as the fact that we were not engaged in any major clinical studies in 2013. However, the regulatory process for Epi proColon® in the U.S.A. still required more time and input from experts and advisors than we had originally expected so that additional expenses were incurred on this topic. Management continues to carefully watch over cost control measures in order to ensure appropriate utilization of funds.

Our total liquidity at year-end 2013 amounted to EUR 8.0 million with additional buffers from the agreement with YA Global and potentially from convertible bonds which we issued in late 2013 (see also under Section "Financing Activities"). The increase in liquidity of EUR 5.3 million compared to the beginning of the reporting year was mainly a result from our financing activities with gross proceeds of EUR 12.5 million, but it has also to be considered that we reduced our cash consumption more than expected to EUR 6.5 million in 2013.

OUR SHARE

Xetra Trading	Dec 31, 2012	March 31, 2013	June 30, 2013	Sept 30, 2013	Dec 31, 2013
Number of shares outstanding	8,818,417	11,967,847	11,967,847	12,042,881	**13,082,892**
Closing price (in EUR)	2.10	1.59	1.57	3.65	**6.12**
Market capitalization (in EUR)	18,518,676	19,028,877	18,789,520	43,944,473	**80,067,299**

	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Average daily trading volume (units)	50,348	43,781	12,448	60,638	**87,769**
Highest price (in EUR)	2.25	2.30	1.98	3.92	**7.72**
Lowest price (in EUR)	0.83	1.59	1.56	1.44	**3.75**

Epigenomics shares traded at a price of EUR 2.10 (Xetra) at the end of 2012. After the completion of a successful share capital increase via a rights offering at a share price of EUR 1.58 in January 2013, the share price declined at the end of the first quarter of 2013 down to EUR 1.59. During the second quarter, the share price oscillated in a range between EUR 1.56 to EUR 1.98, however, at very low trading volumes. After August 5, 2013, the share price suddenly jumped from EUR 1.75 over the EUR 2.00 barrier and started a rally at remarkably increased trading volumes up to the highest yearly price of EUR 7.72 on November 19, 2013.

Based on the positive news published in the second half of the year, capital markets reacted positively and valued the Company's brighter prospects due to the financing activities which should have secured our liquidity over the date of the expected FDA approval decision for Epi proColon®. Especially in the fourth quarter, we saw strikingly high trading volumes in our share, which finally closed at year-end by EUR 6.12, meaning an increase of 191% compared to December 31, 2012, or even 635% over the last fourteen months when it quoted at EUR 0.83 in early November 2012. Our share price therefore outperformed most of the relevant stock market indices in 2013 – an amazing performance in a year of worldwide booming stock markets. Considering our increased number of shares due to the financing activities in the reporting year, our market capitalization in 2013 increased by 332% up to EUR 80.1 million at the end of the year.

With regard to the increasing importance of the U.S.A. for us as the key market in the years to come, we also decided to show more visibility in the financial markets of the United States and consequently established a Level 1 American Depositary Receipt (ADR) program in 2013 in order to broaden our shareholder base there. Epigenomics' ADRs can now be traded on the OTC (over-the-counter) market in the United

States under the ticker symbol EPGNY. We are seeing a growing interest from U.S. investors ahead of the upcoming FDA decision, and the ADR program will provide these investors an easy way to trade our shares.

After the end of the reporting period, in early January 2014, we were finally approved for trading at the OTCQX International marketplace, a segment of the OTC marketplace reserved for high-quality non-U.S. companies that are listed on a qualified international exchange, produce quarterly management reports and provide their home country disclosures to U.S. investors. BNY Mellon will act as the Company's PAL, responsible for providing professional guidance on OTCQX requirements.

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 Code of Federal Regulations (CFR) 820 and ISO 13485. The 21 CFR 820, Quality System Regulation, covers the U.S.-American current good manufacturing practice requirements for medical device manufacturers. ISO 13485 is an internationally recognized quality management standard developed for medical devices 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 related services 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 be a solid foundation for regulatory approval of our products on a global basis.

FINANCIALS

RESULTS OF OPERATIONS

Our revenue in the reporting year developed better than expected and rose by more than 50% from a good EUR 1.0 million in 2012 to EUR 1.6 million. On the one hand, this increase was driven by product revenue of EUR 0.6 million (2012: EUR 0.4 million), not at least resulting from our new strategic collaboration with BioChain in China but as well from further growing Septin9-targeted LDT sales by our U.S. lab partners. On the other hand, our R&D service fees increased stronger than expected to EUR 0.5 million in 2013 compared to EUR 0.2 million the year before. Against our hopes we could not tap new opportunities for additional licensing income but realized at least revenue of EUR 0.4 million – unchanged compared to 2012.

The shift in the composition of our revenue – a higher percentage of product sales and less licensing income share – can be seen as the main reason for a slight decrease of our gross margin from 72.0% in 2012 to 69.4% in 2013, as cost of sales increased year on year from EUR 0.3 million to EUR 0.5 million. However, gross profit rose up to EUR 1.1 million from EUR 0.7 million in 2012.

Other income decreased significantly to EUR 0.6 million in the reporting year from EUR 1.0 million in 2012, when a larger part (EUR 0.6 million) resulted from the reversal of provisions. In the reporting year, income was mainly derived from research grant payments, corrections of deferred liabilities and various reimbursements.

Research and development (R&D) costs showed a massive decline in 2013 and amounted to EUR 4.4 million after EUR 8.0 million in 2012 when the execution of the FIT comparison study expanded our operating activities. In the absence of a comparable study in 2013 and with a slightly reduced R&D headcount than in 2012, costs for materials and consumables, for our staff and for various external services dropped significantly. However, they were still slightly higher than expected, as the ongoing FDA approval process afforded some unbudgeted activities and the increase of our IP-related costs has been higher than expected.

Selling, general and administrative ("SG&A") costs dropped from EUR 5.5 million in 2012 to EUR 4.5 million in 2013, mainly due to a sharp decrease in personnel costs, whereas last year's figure included a large one-off payment in connection with the retirement of our former CEO Geert Nygaard.

Adjusted for this one-off effect, the decline was not as strong as planned. To some extent this applies to some pre-commercialization activities prior to the market entry of Epi proColon® in the U.S.A. Furthermore, we forced the evaluation of all kind of strategic options for the Company throughout the entire reporting year, partially ending in the various financing measures we have executed. This had an accelerating effect especially on our legal and consulting costs. Moreover, some headcount reductions had to be compensated by external services to a higher extent than planned.

Finally, the aforementioned general decrease of our personnel costs was partially against plan compensated by the remarkable jump in our share price especially in the fourth quarter, which led to an increase of the share-based payment expenses.

Other expenses amounted to EUR 0.1 million in 2013 (2012: EUR 0.3 million), mainly due to foreign exchange rate losses.

Total operating costs finally added up to EUR 9.5 million – a strong decrease from EUR 14.1 million in the year before – whereas our own projections at the beginning of the year (a range between EUR 7.5 and 8.5 million) were not fully met due to the aforementioned reasons.

In the reporting year, operating loss (EBIT) improved by 39.9% from EUR 12.1 million in 2012 to EUR 7.3 million. This improvement was in line with the communicated numbers at the beginning of the year, even if the increase in revenue could not completely compensate for the smaller as assumed decrease in our operating costs.

In 2013, our net loss finally amounted to EUR 7.4 million – a 39.2% improvement compared to the previous year (EUR 12.2 million). This equals a loss per share of EUR 0.62 (2012: EUR 1.38)

FINANCIAL POSITION AND CASH FLOW

Our cash consumption amounted to EUR 6.5 million in 2013, significantly down from EUR 10.9 million in 2012 and therefore at the lower end of our prognosis. Due to a cash inflow from financing of EUR 11.5 million in the same timeframe (2012: EUR -0.4 million), net cash flow added up to EUR 5.0 million (2012: EUR -10.4 million). In the absence of any substantial investing activities, cash consumption in 2013 almost equaled our cash flow from operating activities (EUR 6.5 million; 2012: EUR 10.9 million).

Cash flow from financing comprised of the gross proceeds from our capital increase in January 2013 (EUR 5.0 million), from the proceeds of the issuance of convertible notes under the agreement with YA Global in the second half of the year (EUR 1.0 million), from the proceeds of the issuance of new shares in October (EUR 4.2 million; once in connection with the strategic collaboration with BioChain and once in a private placement) and finally from the proceeds of the issuance of convertible bonds at the very end of the reporting year (EUR 2.3 million with another inflow of EUR 0.2 million shortly after the reporting period). These gross proceeds of EUR 12.5 million in total were reduced by payments for the execution of these transactions mainly to lawyers and banks amounting to EUR 1.0 million.

As a consequence of these financing activities, our liquidity at year-end 2013 amounted to EUR 8.0 million (comprising of cash and cash equivalents of EUR 7.2 million and securities available for sale of EUR 0.8 million) and amounted therefore significantly above the EUR 2.7 million at the beginning of the year. This should give the Company enough buffer time to be operational without limitations until the expected FDA approval for Epi proColon® probably in the second quarter of 2014 or even beyond.

NET ASSET POSITION

Due to our ongoing losses from operations and to financial debt raised by the issuance of convertible notes, the equity ratio of the Group decreased to 58% at December 31, 2013, down from 61% at the beginning of the reporting period. Recorded losses (including the net loss of 2013) amounted to EUR 33.9 million, while total equity increased year on year from EUR 4.2 million to EUR 6.5 million at the balance sheet date as net loss was overcompensated by freshly raised capital in 2013.

Total liabilities amounted to EUR 4.6 million at the balance sheet date (Dec 31, 2012: EUR 2.7 million), with EUR 0.5 million in non-current provisions included, attributable to the issuance of phantom stock rights to our staff. Current liabilities included convertible notes issued in December 2013 of EUR 1.9 million. This amount mirrors only 23 of 25 issued notes, while the remaining two notes were settled shortly after the balance sheet date. The increase in our current provisions from EUR 0.4 million at the beginning of the year to EUR 0.6 million at year-end was also attributable to the phantom stock rights issuance.

Total current assets increased in the reporting year from EUR 3.8 million to EUR 8.9 million, nearly completely attributable to the increase in our liquidity from EUR 2.7 million to EUR 8.0 million during the same period. Finally, non-current assets dropped from EUR 3.1 million at the beginning of 2013 to EUR 2.2 million at year-end, mainly attributable to regular amortization and depreciation on intangible and tangible assets, in the absence of any significant capital expenditures in the reporting year.

EMPLOYEES

Epigenomics counted an average number of 34 employees throughout 2013 (2012: 45). While the final numbers as of December 31, 2012, amounted to 32 employees in Berlin and seven employees in Seattle, we saw a decrease in 2013 to 30 employees in Berlin and four employees in Seattle at the end of the reporting year. This decrease was mainly a consequence of the finalization of our large clinical study and the final submission of our PMA application to the FDA towards the end of 2012. Hence, we closed down our operating activities in Seattle as previously announced and kept only a small team of experts there in order to prepare the commercialization of Epi proColon® in North America following the expected approval decision by the FDA. Currently, we are planning to expand this team stepwise over the months to come, to support our joint activities with Polymedco regarding market preparation and market entry for Epi proColon® in the U.S.A. In this connection, we will relocate our U.S. entity to the East Coast in the nearer future.

The number of 34 employees as of year-end 2013 comprised 19 employees directly involved in R&D activities. The remaining number of 15 comprised five employees in sales, marketing and business development functions and ten in general administration.

Overall personnel costs in 2013 totaled EUR 3.7 million, a 22% decrease compared to 2012 (EUR 4.8 million). Included are share-based payment expenses of EUR 0.6 million. In the middle of the reporting year, we have launched a new phantom stock program in order to create a new incentive scheme for our employees and have granted rights from this program throughout the staff. The sharp increase in our share price between August 2013 and the end of the year was attributable for the valuation adjustment of these rights up to the aforementioned amount. These newly issued phantom stock rights, which will be settled in cash, will not be exercisable before mid of 2016. However, this was a head start for the new incentive measure and we are convinced that such programs will participate in our endeavors to keep the motivation of our employees at high levels and to reinforce their commitment to the Company.

SUPPLEMENTARY REPORT

After the balance sheet date on December 31, 2013, and prior to the release date of the present consolidated financial statements (February 25, 2014), one of the convertible bonds issued in December 2013 has been converted by its holder, resulting in a cash inflow to the Company of EUR 521 thousand. The liabilities were reduced by the amount of the fair value of this bond. A total number of 107,000 new shares have been issued.

OPPORTUNITIES AND RISKS

OPPORTUNITIES AND RISK MANAGEMENT SYSTEM

Epigenomics is a globally operating cancer molecular diagnostics company and as such subject to many industry- and company-specific opportunities and risks. In line with the German "Corporation Sector Supervision and Transparency Act" ("Gesetz zur Kontrolle und Transparenz im Unternehmensbereich" – KonTraG), Epigenomics has an established, comprehensive and effective system to identify early, assess, communicate and manage 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 has been regularly discussed and is being developed further at product development team level, senior management level and at the Executive Board and the Supervisory Board levels. A core principle is transparency of risks and opportunities across all functions and businesses, 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 seeking an optimal balance of opportunities and risks.

Every risk has a clearly identified "Risk Owner" whose responsibility it is to continuously monitor and control 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 quarterly 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.

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. These are described below.

BUSINESS-RELATED OPPORTUNITIES AND RISKS

Epigenomics launched its first IVD product, the CRC screening test Epi proColon®, in October 2009 and the second IVD product Epi proLung® in July 2010. Furthermore, we introduced the second generation of Epi proColon® in early 2012. However, product revenue so far has not fully met our expectations. Following our decision to focus the organization and its commercial activities to the key market for our lead product Epi proColon®, the United States, FDA approval is most important for us to be able to generate product revenue there.

Beyond the U.S. market approval, the 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 the third quarter of 2013, we have teamed up with Polymedco, a well established and experienced partner for the commercialization of CRC diagnostic tests in North America. This agreement gives us access to already existing sales and marketing channels, which otherwise we would have to build up on our own. 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 some risks remaining with regard to the commercialization in the U.S.A. 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 we have to generate support in the medical and laboratory customer communities in parallel as well. To that effect, we extended our network in the medical expert community over the last years, in order to gain support for our product with key opinion leaders in the field. But, of course, it is not given that all of the parties and key people involved can be convinced of the advantages of a blood-based early detection test.

Important elements in being commercially successful are the inclusion of the test in screening guidelines and the availability of reimbursement by insurance carriers. One big risk factor regarding market acceptance of Epi proColon® in the U.S.A. is reimbursement. This is now looking more positive with the inclusion of Septin9 testing into the Current Procedural Terminology (CPT) coding document issued by the American Medical Association in 2012, where Septin9 testing is now explicitly included with its own code for possible future reimbursement. The reimbursement system for laboratory diagnostics has changed at the beginning of 2013, when Epi proColon® was included in the printed CPT for general distribution to healthcare providers. Nevertheless, there is still a significant risk that despite the inclusion of Epi proColon® in the CPT, major payors in the healthcare system might refuse reimbursement of the test, as evidenced by some other products and companies in this sector of the market, which have encountered serious obstacles in their attempts to gain reimbursement in the U.S. market.

Over the last years, we have established a small but growing number of customers for our products in Europe and achieved first positive reimbursement decisions by insurances, mainly in France. Nevertheless, considering the fragmented reimbursement landscape in Europe, there is still a major risk that the lack of broad positive reimbursement availability might continue hindering broad commercial acceptance of our main product in the different European markets. Also, the described difficult macroeconomic situation in several European countries might pose an additional obstacle in obtaining favorable reimbursement decisions and thus could also keep hindering broad market acceptance of our products.

As part of our dual-business model, we remain 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 these with all the expertise and know-how needed in order to see them succeed in the market. Dependence from the commercial success of our partners remains a risk factor, especially when strategic decisions of our partners lead to a change in their focus areas, which can only be mitigated by diversification of our partner base. To this effect, we have entered into a new partnership with the Chinese-American company BioChain for the sale of Epi proColon® and other Septin9-based tests in China. While we have expectations to gather regulatory approval in China in the mid-term future, there is a risk that this might not happen either in time or at all, which would limit the potential future business outlook for Epigenomics.

Upon the launch of a Septin9-based test in Europe and the Asia/Pacific region by our IVD partner Abbott in 2009, product sales by them have fallen significantly behind our expectations. There is a risk that our licensing partners will not commit sufficient resources to successfully introduce and commercialize their versions of the test in major markets. In order to be able to offer their product commercially in the United States too, Abbott would also need to get regulatory approval by the FDA, which bears additional risks beyond the opportunities in this connection.

Ahead of having an FDA-cleared product in the United States, we had entered into licensing agreements with selected reference laboratories in North America, which have introduced their own versions of Septin9-based LDTs. Our ability to receive significant royalty income from these relationships depends on their efforts to generate market acceptance. 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 with these partners and regulatory requirements, these partners would convert their product offerings from self-developed LDTs to commercially available tests like Epi proColon® once it has been approved by the FDA. There is a remaining risk that such a conversion might not occur in a timely manner or even at all.

We intend to enter into additional non-exclusive licensing and partnering agreements for Septin9 (IVD and LDT) and other markers in selected geographies in order to address the broadest possible market potential. There can be no assurance that this strategy will be successful and that we will obtain sufficiently favorable terms. If our existing partners do not market or do not sufficiently market our products or are not successful in marketing them at all, we may not find additional partners or the planned royalty income may not be achieved.

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. It is important that we and our partners defend the lead we have 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 additional 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 amongst other things a retention plan with the goal to secure the ongoing commitment of key employees.

IP-RELATED OPPORTUNITIES AND RISKS

Our business relies heavily on commercializing our intellectual property in the form of know-how, own patents, patent applications and licenses to third-party patents. Therefore, any negative impact on 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, our ability to in-license key IP etc. would negatively impact our cost base, our ability to compete as well as to commercialize our products and our ability to enter into alliances. Our revenue and ultimately our earnings and overall commercial success depend on the successful protection of our overall intellectual property base.

Consequently, we face the 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 scope of the claims in 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 could result in substantial costs, a delay in commercialization of our products and divert our management's attention and resources. We have faced continued opposition proceedings with regard to the MethyLight Patent (EP 1185695) which we in-licensed from the University of Southern California and which had been granted in July 2006. In these proceedings, the Opposition Division of the European Patent Office agreed with the arguments provided by the opponent and preliminarily revoked the patent. As we still believe, that the MethyLight technology is patentable, we filed an appeal against the decision of the Opposition Division. This appeal extends the effectiveness of the MethyLight patent until a final decision is reached. The next communication from the European Patent Office regarding our appeal is expected in the course of 2014 at the earliest.

Since we have moved our business from only developing new products to also marketing and selling our existing products launched in Europe in October 2009 and July 2010, patent protection is now even more important to prevent competitors from launching competitive products based on our biomarkers and technology. To that end, we have conducted extensive freedom to operate analyses also for our future U.S.

product, resulting in satisfactory results, at least for the time being. Further freedom to operate analyses will be conducted as soon as new products or changes to existing products are planned and such analyses become appropriate. As a precautionary measure, we constantly monitor the status of patent applications deemed to be relevant and work closely with our IP attorneys to ensure the best possible protection of our IP rights in light of ongoing developments in this field.

At the same time, the progress made in expanding our IP portfolio and obtaining key patents for cancer testing granted (regarding our Septin9, PITX2 and GSTP1 biomarkers) puts us in a unique position to provide attractive licensing opportunities for the growing number of commercial players active in DNA methylation. This opportunity has been underscored by 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® is both opportunity and risk. Having proved the non-inferiority of blood-based Epi proColon® against FIT in the detection of CRC, we have removed one major risk and have completed the full PMA for U.S. market approval early in 2013 as evidenced by receiving priority review status by the FDA in February. Throughout 2013, we have answered questions that the FDA raised with regard to our application and delivered all required additional information to the agency. The FDA finally has scheduled an advisory committee meeting, which is usually seen as one of the last hurdles before an approval decision. However, there is still a remaining risk that FDA will not approve Epi proColon® for commercialization in the U.S.A. which can hardly be quantified. At this time, we have no reason to believe this will be the case. So far we have had a positive and constructive interaction with the FDA and we look forward to the advisory committee meeting. In order to achieve our goal, we have retained some of the leading regulatory consulting groups with proven track record of successful client submissions of molecular diagnostics and oncology products to support our efforts. They are providing us with valuable assistance in our regulatory process and in preparations for the meeting.

Changes in the regulatory environment could negatively impact our revenue generation capabilities and put a burden on our cost base and earnings, financial position and ability to compete effectively. To mitigate this risk, we have established a corporate function dealing with quality systems as well as regulatory affairs. However, we also seek external advice from experienced consultants in the field in order to prepare the organization for any potential issues arising. Furthermore, during 2013, we further extended our network in the medical expert community in order to gain support for our product with key opinion leaders and have started our preparations for the advisory committee meeting, which has now been scheduled by the FDA. Strict management of our interactions with reference laboratories as well as seeking an ongoing dialog with the FDA as evidenced by meetings held with the agency throughout 2013 are an integral part of our risk management policies.

FINANCIAL OPPORTUNITIES AND RISKS

As of December 31, 2013, our available liquidity (cash, cash equivalents and marketable securities) amounted to EUR 8.0 million. Management is aware of the risk to have limited liquid assets to sustain the operations of the business in an appropriate manner. Especially in 2013, but also in the years before, we have however repeatedly demonstrated that additional financial resources are accessible to us, even under difficult conditions. With the current financial funding and based on our business strategy for the months to come, our cash runway should at least reach into early 2015. But even with a positive FDA approval decision for Epi proColon® shortly after the advisory committee meeting at the end of March 2014 and a U.S. market launch of the test without further delay, it cannot be expected, that we will generate fast enough sufficient income from product sales to reach the cash break-even point before the end of that runway. We have addressed that risk already by closing the agreement with YA Global in August 2013 on a stand-by facility which allows us to get additional funding on demand of up to EUR 4 million by issuing further notes to this investor. We have further addressed the risk by the issuance of 25 convertible notes at the end of 2013. Upon a positive FDA decision and subsequently a positive impact on our share price, we expect a conversion of a large number of these notes by their holders. Such a conversion could bring us more than EUR 13 million in additional liquidity due to the conversion premium.

However, the approval decision of the FDA could be significantly delayed, with an extended time of uncertainty for us and the markets or there could be unforeseeable conditions attached to an approval. And finally, there is a risk of a non-approval. In all of these scenarios, our share price could come under more or less pressure and a conversion of the convertible notes would become unlikely. We then would face the risk that the holders of the notes call for an early redemption of their loans from August 2014 on. Without any other alternative financing inflows before that point in time, our cash runway would then not be long enough to reach the end of 2014. In order to mitigate the risks attached to the outstanding approval decision, we will continue to evaluate and potentially execute all strategic options including the option to raise additional capital in the markets at anytime throughout 2014.

In case of a positive FDA decision and a market launch of Epi proColon® in the U.S.A. shortly thereafter, we have the opportunity to generate increasing income from product sales and to meet or even exceed our expectations regarding the successful market penetration of our test. On the other side, there are as well further risks attached, as the demand for our product could be below expectations or reimbursement decisions could be delayed or may not be taken at all. Such events could result in lower numbers of tests to be sold and/or in lower prices for the test than planned and, consequentially, we could not reach our revenue, margin and/or earning targets.

Due to the size and the capacities of our Company, we are currently not manufacturing the Epi proColon® test kits ourselves, but have outsourced these activities to a contract manufacturing provider. Thus, we 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. On the other side, we still do not have large order volumes and our test kits have a limited shelf life. Therefore, it is, at the time being, economically not reasonable for us to have two or more suppliers in a stand-by mode where we can place manufacturing orders alternatively on short notice. That is why we are constantly facing the risk of a dependence on the contract manufacturer. The replacement of a contract manufacturer would go along with significant costs and afford valuable time for the transition and the setup procedure with an alternative supplier. Simultaneously, the assembly of our test kits requires specific consumables and materials from audited suppliers of such goods. We can neither replace these consumables and materials nor their suppliers immediately in case of delivery or quality problems. In case of such a problem, any solution to it would be expensive, afford valuable time and could impede our ability to deliver our products to our customers.

As we are based in Germany and as well have operations in the United States and as we are operating on a global basis, we are subject to foreign exchange rate risks even though it is currently nearly exclusively limited to the euro/U.S. dollar relation. In the future, our partners' and distributors' net sales may also be subject to foreign exchange risks and therefore our expected royalties may indirectly be exposed to additional exchange rate risks. We monitor these risks on a regular basis and evaluate on a case-by-case basis whether the exposure due to a particular single risk or a risk bundle can be reduced by hedging transactions. 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 the last years to one remaining position of a low substantial value. The historical investment in this remaining position has been made under the Company's investment policy, which was approved by the Supervisory Board. This policy stipulates to open only positions with an "investment grade" rating. Though, such ratings underwent intense critical discussions worldwide over the last years and were challenged regarding their expressiveness. Our security portfolio faces price risks – in the form of interest rate, issuer and market-related impairment risks – and liquidity risks. Under specific market condition it could be difficult or impossible to liquidate the securities short-term at their fair value – irrespective of a good rating of the issuer. We have not made any investments in securities over the last years and as part of our risk mitigation strategy have exclusively been investing in money market instruments (i.e. time deposits) on euro or U.S. dollar basis to maximize availability of the liquidity. Simultaneously, we are accepting the rather poor returns that could be earned in the money market at the continuously low interest rates. In 2014 and going forward, we continue to maintain as much of our liquid assets in the form of cash and secure cash equivalents as much as possible.

OTHER OPPORTUNITIES AND RISKS

We continuously monitor all applicable environmental, health and safety, operational as well as other applicable statutory or industrial guidelines and have implemented functions to comply with all of these effectively at each of our business locations. To minimize the potential impact from manifold tax, corporate, employment, competition, IP and other legal frameworks, we base our decision-making and design of our policies and processes on the advice of internal experts in each of these areas and if necessary of external advisors. Wherever recognized and indicated, we set aside provisions to cover any potential liability.

There are also risks directly associated with our share price. Comparatively low levels of liquidity in the stock can lead to very high volatility based on trading decisions by few selected shareholders. However, we depend on the ability to raise funds from the capital markets, which requires a certain level of share price stability. We therefore pay greatest attention to maintain a very intensive dialog with our shareholders and with financial market participants in order to prevent such undesired effects. Working closely with consultants in this space and devoting significant time and effort to the direct dialog with financial markets participants provides the opportunity to generate above-average interest in Epigenomics as an investment case as well.

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

OVERALL OPPORTUNITIES AND RISK SITUATION OF THE EPIGENOMICS GROUP

The critical FDA decision on the approval of our lead product Epi proColon® in the United States is getting closer and is both a significant opportunity and risk. While there is still a risk that FDA will not approve Epi proColon® for commercialization in the United States, even although at this time we have no reason to believe this will be the case, we see the progress in the regulatory process made throughout 2013 and the fact that the FDA has now scheduled an advisory committee meeting for the end of March 2014 as an encouraging sign and an opportunity for approval of the product in 2014.

While initial commercial success from our LDT partners in North America as well as the recently signed joint commercialization agreement with Polymedco demonstrate the interest from the market for a product like ours, we are also convinced that wide adoption of the product in the United States remains dependent not only on regulatory approval, but also on inclusion in relevant screening guidelines and on secured reimbursement. Failure to obtain regulatory approval and reimbursement as well as lack of market acceptance and penetration in the United States would all have material impact on our revenue, earnings, financial position and on our ability to raise further capital and can therefore ultimately lead to a significant loss of value in our stock. Geographic diversification, as the recently announced strategic collaboration with BioChain in China, helps in mitigating this risk and poses additional business opportunities.

While slightly growing sales in the European markets together with first favorable reimbursement decisions are encouraging, we remain cautious not to expect a significant uptake of the product in Europe that could counterbalance a failure in the U.S. market in the absence of widely available reimbursement to the end user. 2014 will be a pivotal year for Epigenomics as financial resources are not yet necessarily sufficient to cope with potential additional hurdles along the regulatory path or in our commercial efforts. Having secured more than EUR 12 million from the financial markets in 2013 with the potential to generate an additional EUR 13 million in 2014 by conversion of the outstanding convertible bonds, provides us with a certain level of comfort, but ultimately, the need to furthermore get access to additional capital to reach our commercial goals remains the key risk for the Company.

PROGNOSIS REPORT

PLANNED STRATEGIC DIRECTION OF EPIGENOMICS IN THE NEXT TWO YEARS

Over the next two years, we plan to further develop our Company, to be commercially successful and to increase the public perception of Epigenomics. The key success factors on this way will be gaining U.S. market approval for our main product, Epi proColon®, by the FDA and subsequently launching the product into the U.S. market in collaboration with Polymedco later in 2014. To achieve this, we will continue to take care of manufacturing high-quality products, of medical marketing and will establish the basis for adequate reimbursement in the future. We are convinced that after U.S. market approval, gaining attractive coverage from payers and being included in screening guidelines of the relevant medical societies will be a decisive element of business success. At the same time, we will keep supporting partners in their efforts to build additional markets. Most notably, we will be working closely together with our partner BioChain for the Chinese market in order to support them in their efforts to introduce Septin9 blood-based testing for CRC into China.

Throughout 2013, we continued to see encouraging adoption of Septin9 testing in the United States as an LDT through our partners Quest and ARUP. Together with our partners we have taken a major step in having Septin9 testing reimbursable by inclusion of this test into the Current Procedural Terminology (CPT) coding document issued by the American Medical Association already in 2012. As a consequence, our LDT partners are already reimbursed by majority of payers in the U.S. healthcare system for the performance of the test. We expect that with FDA approval, the actual number of payers willing to grant favorable reimbursement will actually even increase.

In R&D, the key factor will be to concentrate on the current product pipeline in colorectal and lung cancer diseases to develop successive generations of our products with even higher performance, as well as line extensions to broaden the scope of our proprietary biomarkers to related clinical applications. We aim to maintain our leadership in DNA methylation technologies and to provide selected partners access to our know-how, expertise and intellectual property in this field via licenses and/or services. Going forward, we will shift some of our resources in R&D towards our second product, Epi proLung®, since we saw a significant level of interest in the scientific community over the recent past and since we believe that a blood-based version of the product will be a suitable product to achieve initial market penetration.

The goal remains to establish Epigenomics as a leading cancer molecular diagnostics company with proprietary products in the markets, either directly, through partners, and/or through distributors. With the anticipated FDA approval of Epi proColon® and the growing acceptance of Septin9 testing, we strongly believe that everything is coming together for Epigenomics and that our paradigm shift evolving from a R&D company to a revenue-generating company finally was successful.

EXPECTED ECONOMIC CONDITIONS IN THE NEXT TWO YEARS

We expect overall economic conditions and the capital market environment to continue to be challenging. Despite the recent worldwide development of the economies, we feel that uncertainty in the capital markets will prevail for the near- to mid-term future, due to the various circumstances and a still recognizable nervousness of all participants. Nevertheless, we also assume that despite any possible set-backs, life sciences companies should still be able to raise equity capital based on solid fundamental performance. Especially in the U.S.A., this has been proven over the last twelve to 24 months. However, as companies on the customer and on the partner side reduced and cut budgets and R&D spending, it has become harder to close front-loaded business deals providing us with cash inflows in advance as assumed according to our mid-term business plans.

With currency movements remaining volatile between the U.S. dollar and the euro and prognoses over the next twelve months anywhere in the range from EUR/USD 1.20 to EUR/USD 1.40, we have decided to lock-in our budget rate for 2014 at EUR/USD 1.30.

OUTLOOK ON THE EARNINGS SITUATION

Prior to securing the approval of Epi proColon® as an IVD diagnostic product in the U.S. market, our revenue estimate remains cautious. We do expect revenue from our activities with diagnostic partners again at comparable or slightly increasing levels compared to 2013 for the following year. A potential increase of our product sales due to the expected FDA approval and a subsequent market launch of Epi proColon® in the U.S.A. will only be possible in case of no further delays with regard to the FDA decision. Also it then relies on the speed in the adoption of our test kits by our lab customers in the U.S.A. in exchange for their current Septin9-targeted LDTs. Another revenue contributor can be potential future licensing income, especially if we succeed to gain additional partners for Septin9 licensing agreements in 2014 and thereafter. The ramp-up of revenue from other regions will not at least depend on the progress to be made by our Chinese partner BioChain in developing their own Septin9-based IVD product for their home market. At the same time, revenue growth from our Epi proColon® IVD kit sales in Europe will be moderate as long as we do not secure major agreements with key accounts and/or reimbursement through healthcare insurers.

We expect EBIT for 2014 to be at a slightly lower level than in 2013. The market launch of Epi proColon® in the U.S.A. following an assumed FDA approval will likely be not only the most important value driver but also a significant cost driver at the same time. R&D expenses will depend on the complexity and the size of a post-approval study which may be required from us by the FDA. It is hardly foreseeable to which extent and when such a study will affect our cost base, so that there must be some leeway in the net loss expectation. A range from EUR 7.5 to 8.5 million is assumed here for 2014, under the condition of a regulatory approval for Epi proColon® by the FDA soon after the advisory committee meeting. Nevertheless, we will still need to sponsor a limited number of additional clinical trials in the next two to three years to drive commercial adoption and to invest in automation development for higher throughput CRC testing, as well as in R&D activities towards next-generation products.

OUTLOOK ON THE FINANCIAL SITUATION

In line with the expected net loss range, cash consumption for fiscal 2014 is projected at a slightly increased level as in 2013, i.e. around EUR 7.0 to 8.0 million. It is expected to decrease only once revenue growth helps to create a ramp-up in cash inflows, be it from product sales in North America, in China or from new business opportunities. Coming from EUR 8.0 million in liquid resources (cash, cash equivalents and marketable securities) at year-end 2013 plus a remaining EUR 3.8 million standby facility in place as a buffer, current financial resources should be sufficient at this projected cash consumption for 2014 to support the Company's operations beyond the following year. However, we are highly dependent on timing and direction of the FDA decision. Any further delays in the decision after the advisory committee meeting end of March 2014, any significant restrictions and/or conditions attached to this decision and of course a negative decision could endanger our financial situation rapidly and significantly. We have issued convertible notes in the amount of EUR 2.5 million at the end of 2013 to get some additional flexibility as we may generate further inflows of more than EUR 13 million from it upon conversion. This amount – if received – would eventually ease the ongoing financing pressure from the

Company. However, the likelihood of a conversion by the holders of the notes depends as well highly on the FDA decision and the development of our share price. During this period of uncertainty we will continue to diligently explore and potentially execute all strategic options available to the Company. These options explicitly include further capital market transactions.

MID-TERM OPPORTUNITIES

Coming from a company history in pioneering DNA methylation technology and 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 there is still a phase of investment ahead of us in the mid-term, the decreasing development and regulatory risks around our products and in our key markets are encouraging facts. Furthermore, the increasing acceptance of early cancer diagnosis as a way of fighting disease as well as concerns about performance and acceptance of existing testing methods create a fertile ground for our business in the medium term.

The products developed by us and our partners for blood-based CRC testing have matured significantly and are now being introduced for commercialization in the global markets. The potential FDA approval for our Septin9 test Epi proColon® offers a significant near-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 biomarker and the Epi proLung® IVD kit present an opportunity to address such market needs and provide clear benefits to patients and physicians in fighting this dreadful disease. Having now further proven the utility of our test, and especially its potential applicability in patient blood samples, we anticipate being able to attract some interest from third parties with whom we might be able to commercialize this product in the global markets.

There are clear opportunities beyond CRC and lung cancer testing with other methylation biomarkers developed by Epigenomics. While we do not currently pursue these opportunities internally, they do represent further potential partnering and licensing opportunities.

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

OVERALL PROGNOSIS FOR THE EPIGENOMICS GROUP

The transformation of Epigenomics into a commercially successful molecular diagnostics company with growing revenue derived from product sales remains the goal for the medium and long term.

The most significant milestone for us over the next twelve months is the approval decision for Epi proColon® by the FDA and the subsequent product launch in close collaboration with our partner Polymedco to be able to start the commercialization of this product in the most relevant market of the world – the United States of America. The future value of the Company and its financial situation are heavily dependent on this milestone. But as well the exploitation of other international markets – especially China – could offer additional income sources to us.

In order to be able to protect the continuity of our business operations, sufficient liquidity has to be maintained or secured. We aim to have liquidity to finance at least following year's operations at all times. We still rely on the capital markets to raise additional funds. Basically, we will continue to evaluate and potentially execute all reasonable strategic options for our further development.

CORPORATE GOVERNANCE

To the Executive Board and the Supervisory Board of Epigenomics, corporate governance lies at the heart of responsible and ethical management. The very interactive dialog and regular communication between the Executive Board and the Supervisory Board throughout 2013 aimed at generating long-term value to our shareholders are central to good corporate governance. Openness and transparency in our corporate communications with all shareholder groups, employees, the general public, and other stakeholders are the overarching principle.

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 to the most recent version of the Code.

Epigenomics' corporate governance principles in certain aspects go well beyond legal requirements and recommendations of the Code. For example, we have established binding internal guidelines on insider trading and made these part of all employment agreements. We have appointed our Manager Legal Affairs as Corporate Governance Compliance

Officer to ensure adherence to the corporate governance principles. The Compliance Officer is required to submit regular compliance reports to the Executive Board, which are then passed on to the Supervisory Board.

There are a few notable exceptions based on certain Company specifics and peculiarities where we chose to deviate from the Code. There is a clear commitment to adhere to the Code going forward to the greatest extent possible.

DECLARATION OF COMPLIANCE 2013 WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – 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 2012 and until June 10, 2013, 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 May 15, 2012, and has since June 10, 2013, complied, and complies, with the recommendations of the Code in the version of May 13, 2013 (published by the Ministry of Justice in the official part of the Federal Gazette on June 10, 2013), in each case with the exceptions set forth below.

Section 4.1.5

When filling managerial positions in the Company, the Executive Board considers company-specific situations and seeks to achieve an appropriate diversity. This applies both to the internationality of the managerial staff and to the appropriate consideration of women. However, it is ultimately in the corporate interest to fill managerial positions with the most suitable male or female candidate. Therefore, in our opinion, sweeping requirements inadequately restrict the Executive Board in its decision on the filling of managerial positions.

Section 4.2.1

In view of the size and financial situation of the Company, the Company had only one Executive Board member until April 1, 2013. Accordingly, no chairman or spokesman of the Executive Board was appointed and the by-laws governing the work of the Executive Board did not contain provisions recommended in Section 4.2.1 sentence 2 to the extent they refer to Executive Boards composed of several persons. As a result of the appointment of Dr. Uwe Staub as a further member of the Executive Board, these deviations from Section 4.2.1 have ceased to apply. Since April 1, 2013, the Executive Board again consists of several members and Dr. Thomas Taapken has been appointed chairman of the Executive Board. The by-laws governing the work of the Executive Board have been revised to reflect the fact that the Executive Board again consists of several members.

Section 4.2.3 Paragraphs 3 of the Code in the version of May 15, 2012 or Section 4.2.3 Paragraph 2 of the Code in the version of May 13, 2013, respectively

The stock options granted to the Executive Board members provide for an exercise price which is 10% above the stock exchange price at the time when the stock options were granted. Beyond this, no other demanding, relevant comparison parameters have been stipulated. This course of procedure is, on the one hand, due to the fact that we believe that referring to additional comparison parameters does not improve the sense of responsibility and the motivation of the Executive Board members. On the other hand, it has become clear that an increase of the stock exchange price by 10% appears demanding against the background of the Company-specific situation and that the stock exchange price constitutes a relevant comparison parameter in view of the structure of our stock option programs.

Also in respect of the "Phantom Stock Program" which was newly established in 2013 and which replaces the existing stock option programs of the Executive Board members, the Executive Board and the Supervisory Board have decided, due to the Company-specific situation, not to relate the granting of virtual stock options to Executive Board members to demanding, relevant comparison parameters. As regards the resulting deviation from the Code, we believe that a reference to comparison parameters in variable remuneration components does not increase the sense of responsibility and the motivation of Executive Board members. Accordingly, we did not and will not comply with these recommendations of the Code.

Section 4.2.3 Paragraphs 4 and 5

So far, not all of the service contracts with Executive Board members of Epigenomics AG included and include severance payment caps in case of a premature extraordinary termination due to a change of control pursuant to Section 4.2.3 paragraph 5. In case of such an extraordinary termination, the payout of the basic compensation for the remaining contractual period was and is provided. This provision is based on concerns to the effect that an agreement of a severance payment cap would be contradictory to the nature of a

service contract for Executive Board members, which is regularly concluded for the term of appointment and could potentially not accommodate sufficiently for the particular circumstances in case of a change of control. Accordingly, we have not complied with the recommendation in Section 4.2.3 paragraph 5 so far with respect to all service contracts with Executive Board members.

As from January 2014, all service contracts with Executive Board members will contain a severance payment cap within the meaning of Section 4.2.3 paragraph 5. The current deviation from this recommendation will consequently cease to apply.

Section 5.1.2 Paragraphs 1 and 2 and Section 5.4.1 Paragraphs 2 and 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. In deviation from the recommendations in Section 5.1.2 paragraph 2 and in Section 5.4.1 paragraph 2, we 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 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 and assumed in Section 5.4.1 paragraph 3. We strive to achieve an appropriate diversity in the Executive Board and the Supervisory Board, especially with respect to the internationality and the participation of women and 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. 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

As a consequence to the reduction of the number of Supervisory Board members from six to three resolved upon in the Annual General Shareholders' Meeting on May 2, 2012 the Supervisory Board considers the formation of committees no longer 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.

Section 5.4.5 Paragraph 1 Sentence 2

The Supervisory Board cannot comply with the recommendation in Section 5.4.5 paragraph 1 sentence 2, that a Supervisory Board member who is the member of the Executive Board of a listed company, shall not accept more than a total of three Supervisory Board mandates in non-group listed companies or in supervisory bodies of companies with similar requirements. The Supervisory Board considers a corresponding limitation of the number of mandates as not necessary, as long as each Supervisory Board member has sufficient time to pursue the duties of his/her mandates. Accordingly, Epigenomics AG did not and will not comply with the recommendation in Section 5.4.5 paragraph 1 sentence 2, as long as it is ensured that all Supervisory Board members have sufficient time to pursue the duties of their mandates.

Section 5.4.6 Paragraph 1 Sentence 3 of the Code in the version of May 15, 2012, or Section 5.4.6 Paragraph 1 Sentence 2 of the Code in the version of May 13, 2013, respectively

As a consequence of the reduction of the number of the Supervisory Board members from six to three members which was resolved upon in the Annual General Shareholders' Meeting on May 2, 2012, the Supervisory Board committees no longer exist. Accordingly, a separate compensation for the chairmanship or the mere membership in committees is not provided for in deviation from the recommendation in Section 5.4.6 paragraph 1 sentence 3 (of the Code in the version of May 15, 2012) or Section 5.4.6 paragraph 1 sentence 2 (of the Code in the version of May 13, 2013).

Berlin, October 2013

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

DECLARATION OF GOVERNANCE

According to 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 language on Epigenomics AG's website under *www.epigenomics.com/en/news-investors/investors/corporate-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 top management who 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 supervision of the ICR takes place continuously by the Supervisory Board and the Executive Board. Apart from truth and fairness of the financial reporting, it also includes the securing of 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 supervision 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 the controlling as well as quality departments are of major importance here. Due to the 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 of the Company's lawyers as required.

Basically, the Epigenomics Group has established the principle of separation of functions as far as reasonable in a commercial organization with a given number of employees. This principle is supplemented by the four-eyes principle. Neither Executive Board members nor any employees are authorized to represent and sign on behalf of the Company alone.

For internal routine activities, instructions and regulations are provided if possible. Those instructions and regulations can be found within so-called "standard operating procedures" (SOPs) as well as in guidelines like e.g. an employee's manual, detailed job descriptions, a travel policy or an accounting manual. The guidelines are constantly accessible to all employees of the Company via the intranet. All guidelines are checked continuously and get amended if necessary. Legal advice from experts is taken as needed to ensure conformity of the internal regulations with the applicable legal requirements.

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

For internal control purposes, we set up an annual budget based on the current five-year 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 Executive Board and the senior management, and a final approval of the annual budget by our Supervisory Board is mandatory. 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. Each quarterly report is accompanied by an internal forecast, which provides 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 top management 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 according to the appropriate accounting standards or casewise, e.g. when a staff member reports 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 had been the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in the reporting year. He joined the Company in April 2011 as CFO and additionally took over the CEO position in October 2012. The management contract with Dr. Taapken has a term until December 31, 2015. Dr. Uwe Staub, Chief Operating Officer (COO) of the Company, has been appointed to the Executive Board as a second member effective April 1, 2013. He joined Epigenomics in November 2008 and is now responsible for R&D, Medical and Regulatory Affairs, Customer Support and Manufacturing. The management contract with Dr. Staub has a term until March 31, 2015.

The remuneration of the members of the Company's Executive Board is composed on the one hand 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 goals and Company performance goals, which are set by the Supervisory Board on a yearly basis. Total remuneration – which is reviewed by the Supervisory Board annually – is inter alia compared to national and international benchmarks. Remuneration takes into account the economic and financial situation of the Company as well as size and complexity of the Executive Board's operations and responsibilities.

A third remuneration component consists of a long-term performance-based remuneration in the form of phantom stock rights ("PSRs"). These PSRs mirror the structure of the stock option rights which the Company has used in the years before. Based on an exercise price, which is set at the time of granting based on the Company's share price, a PSR entitles to a bonus payment based on the difference between the exercise price and the share price at the time of exercise. PSRs vest over a period of three years and are only exercisable in the time between three and five years after granting.

The management contracts of the Executive Board members contain a post-contractual non-compete provision for a period of twelve months after the respective management contract has ended. During such period, both members of the Executive Board are entitled to 100% of their last basic salary as a non-competition payment. In case of a change of control, Dr. Taapken and Dr. Staub are entitled to terminate their contracts and would be entitled to receive payment of the fixed remuneration amount for the time remaining until his contract would have expired but in no case such payment will exceed 150% of the severance payment cap according to Section 4.2.3 of the German Corporate Governance Code.

Individual remuneration of the Executive Board members:

		Fixed remuneration	Variable remuneration		Long-term incentive remuneration		
in EUR (except otherwise stated)	Reporting year	Base salary	Cash bonus	Other variable payments	Number of PSRs (2012: SOP) granted	Fair value at grant date	Total remuneration[1]
Dr. Thomas Taapken	**2013**	**238,750**	**0**	**50,000**	**110,000**	**69,410**	**358,160**
	2012	225,000	0	0	60,000[2]	54,600	279,600
Dr. Uwe Staub	**2013**	**165,000**	**0**	**12,244[3]**	**95,000**	**59,945**	**237,189**
(since April 1, 2013)	2012	n/a	n/a	n/a	n/a	n/a	n/a
Total	**2013**	**403,750**	**0**	**62,244**	**205,000**	**129,355**	**595,349**
	2012	225,000	0	0	60,000	54,600	279,600

[1] *Total remuneration includes the fair values of the granted PSR. These were no cash payments to the beneficiaries. Furthermore, it is uncertain whether these values will ever lead to a cash payment to the beneficiaries.*

[2] *All stock option rights granted to Dr. Taapken in 2012 have been cancelled in 2013.*

[3] *The other variable payment of EUR 12,244 to Dr. Staub paid at the reporting year was a bonus earned in the first quarter of 2013, when Dr. Staub was not yet a member of the Executive Board.*

In 2013, bonus claims in the amount of EUR 97 thousand for Dr. Taapken and in the amount of EUR 77 thousand for Dr. Staub were recognized through profit or loss. These amounts were already approved by the Supervisory Board and will lead to corresponding payments to the beneficiaries in 2014.

In addition to the aforementioned remuneration components, the Executive Board members are covered by a D&O insurance police paid by the Company. The insurance is subject to mandatory deductibles by the members of the Executive Board (10% of damages incurred or up to 150% of annual base salary) in accordance with Section 93 Paragraph 2 of the German Stock Corporation Act (AktG).

Members of the Executive Board also receive full reimbursement of their travel expenses incurred on business travel on behalf of the Company.

In accordance with Section 6.3 Paragraph 2 of the German Corporate Governance Code, the ownership of shares in the Company or related financial instruments by Executive Board and Supervisory Board members will be reported if these directly or indirectly exceed 1% of the shares issued by the Company.

As of December 31, 2013, Dr. Taapken owned 33,000 shares of the Company (Dec 31, 2012: 5,000). In the reporting year, he was granted 110,000 new phantom stock rights from the Company's phantom stock program PSP 2013. 40,000 stock option rights which Dr. Taapken held from grants of previous years have been transformed into 40,000 economically equivalent phantom stock rights under the Company's phantom stock program PSP 03–15.

As of December 31, 2013, Dr. Staub owned no shares of the Company. In the reporting year, he was granted 95,000 new phantom stock rights from the Company's phantom stock program PSP 2013. 38,800 stock option rights which Dr. Staub held from grants of previous years have been transformed into 38,800 economically equivalent phantom stock rights under the Company's phantom stock program PSP 03–15.

Member of the Executive Board	Reporting year	PSRs held	Weighted-average exercise price in EUR	Vested PSRs	Weighted-average exercise price in EUR	Exercised PSRs
Dr. Thomas Taapken	**2013**	**150,000**	**2.87**	**33,333**	**5.66**	**0**
	2012	(80,000)	(4.67)	(0)	(n/a)	(0)
Dr. Uwe Staub	**2013**	**133,800**	**3.57**	**24,666**	**11.43**	**0**
	2012	(n/a)	(n/a)	(n/a)	(n/a)	(0)

The exercise prices of the PSRs held by Dr. Taapken range from EUR 1.62 to EUR 9.60 and the exercise prices of the PSRs held by Dr. Staub range from EUR 1.62 to EUR 19.35.

Composition and remuneration of the Supervisory Board

Epigenomics AG's Supervisory Board consists of three members with broad experience in the life sciences industry and on financial matters. Since the Supervisory Board only comprises three members, the formation of committees is not considered to be adequate (for further details please refer to our Declaration of Governance permanently accessible on the Company's website under *www.epigenomics.com/en/news-investors/investors/corporate-governance)*.

The Supervisory Board members of the Company as of December 31, 2013, 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 a member of comparable boards with supervisory function of the following German and foreign entities:

  – Hospira, Inc., Lake Forest, IL (U.S.A.)
  – HTL-Strefa S.A., Warsaw (POL) - (chairman)
  – Koninklijke Philips Electronics N.V. (Royal Philips Electronics), Eindhoven (NL)

- **Ann Clare Kessler, Ph. D.** – Rancho Santa Fe, CA (U.S.A.) – Deputy 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 and foreign entities:

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

- **Prof. Dr. Günther Reiter** – Pfullingen (GER)
  Professor for Finance and Accounting 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 is a member of comparable boards with supervisory function of the following German and foreign entities:

  – Deltoton GmbH, Würzburg (GER)
  – CSA Verwaltungs GmbH, Würzburg (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 comprise any performance-related elements or long-term incentive components.

Remuneration of the members of the Supervisory Board:

in EUR	Reporting year	Fixed remuneration	Variable remuneration	Other remuneration	*Total remuneration*
Heino von Prondzynski	**2013**	**45,000**	**12,000**	**0**	**57,000**
	2012	39,839	8,000	0	47,839
Ann Clare Kessler, Ph.D.	**2013**	**20,000**	**12,000**	**0**	**32,000**
	2012	29,919	12,000	0	41,919
Prof. Dr. Günther Reiter	**2013**	**20,000**	**12,000**	**0**	**32,000**
	2012	16,640	12,000	1,680	30,320
Total	**2013**	**85,000**	**36,000**	**0**	**121,000**
	2012	86,398	32,000	1,680	120,078

Considering the financial situation of the Company at the beginning of the reporting year, all Supervisory Board members waived half of their contractual fixed remuneration for 2013. This effect is already included in the values disclosed in the table above.

In addition, the members of the Supervisory Board were reimbursed for expenses totaling EUR 43 thousand in 2013 (2012: EUR 42 thousand).

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.

Shares of the Company held by the members of the Supervisory Board as of December 31:

	Shares held	
	2012	**2013**
Heino von Prondzynski	12,100	90,100
Ann Clare Kessler, Ph.D.	2,800	2,800
Prof. Dr. Günther Reiter	0	0
Total	**14,900**	**92,900**

ADDITIONAL MANDATORY DISCLOSURES FOR LISTED COMPANIES PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)

According to Section 315 Paragraph 4 of the German Commercial Code (HGB), the Company is required to report on certain structures governed by company law and other legal relationships, 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

Shareholder	Notification date	Shareholdings in %
Abingworth LLP, London, U.K.	February 1, 2013	14.43

COMPOSITION OF SHARE CAPITAL

As of December 31, 2013, the share capital of Epigenomics AG comprized exclusively common shares with equal rights and a par value of EUR 1.00 each. The total number of outstanding shares as of December 31, 2013, was 13,082,892.

Under certain conditions, shareholders may not be entitled to vote according to 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 WITHDRAWAL OF MEMBERS OF THE EXECUTIVE BOARD AND GOVERNING AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and withdrawal of members of the Executive Board is subject to the provisions of 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 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.

AUTHORITY OF THE EXECUTIVE BOARD TO ISSUE SHARES

The Executive Board is authorized until May 5, 2018, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 318,589.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares (Authorized Capital 2013/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 according to 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 authorized until May 5, 2018, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 4,787,138.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares (Authorized Capital 2013/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 according to 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 share capital is increased conditionally by up to EUR 1,000.00 by issuance of up to 1,000 new non-par value bearer shares with a nominal par value of EUR 1.00 per share (Conditional Capital IV). 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 03–07 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. Conditional Capital IV cannot be used anymore to grant stock options as the underlying authorization for a granting time frame has expired. New shares cannot be created anymore upon exercise of granted options from the underlying program.

The share capital is further conditionally increased by up to EUR 102,195.00 by issuance of up to 102,195 new non-par value bearer shares with a nominal par value of EUR 1.00 per share (Conditional Capital V). 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 06–10 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. Conditional Capital V cannot be used anymore to grant stock options as the underlying authorization for a granting time frame has expired. 72,529 stock options granted from the stock option program 06–10 were still outstanding as of December 31, 2013. However, all these outstanding options had a remaining lifetime of two months at this point in time and as there is no exercise window opened between December 31, 2013, and February 27, 2014, new shares cannot be created anymore from these stock options.

The share capital is further conditionally increased by up to EUR 304,246.00 by issuance of up to 304,246 new non-par value bearer shares with a nominal par value of EUR 1.00 per share (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. 34,397 new shares can still be created upon exercise of granted and outstanding options from the underlying program.

The share capital is further conditionally increased by up to EUR 296,648.00 by issuance of up to 296,648 new non-par value bearer shares with a nominal par value of EUR 1.00 per share (Conditional Capital VIII). 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 11–15 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. No stock options from the underlying program are outstanding.

The share capital is further conditionally increased by up to EUR 4,893,150.00 by issuance of up to 4,893,150 new non-par value bearer shares with a nominal par value of EUR 1.00 per share (Conditional Capital IX). The conditional capital increase serves the purpose of granting shares to holders or creditors of convertible bearer or registered bonds with warrants, convertible bonds, participation rights or a combination of these instruments, issued by the Company or a subsidiary on the basis of the amended authorization resolution by the Annual General Shareholders' Meeting dated May 6, 2013, until May 5, 2018, if option or conversion rights are exercized, option or conversion obligations are performed or the Company exercises an election right to entirely or partially grant non-par value shares of the Company instead of payment of the due cash amount. The issuance of the new shares occurs at the respective option or conversion price or the lower issue price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution. The conditional capital increase is only to be implemented if bonds or participation rights are issued in accordance with the amended authorization resolution of the Annual General Shareholders' Meeting dated May 6, 2013, and only to the extent that

– option or conversion rights are exercized or
– holders or creditors of bonds or participation rights who are under an obligation to exercise an option or to convert perform their obligation to exercise the option or to convert or
– the Company exercises an election right to grant non-par value shares of the Company instead of paying a due cash amount

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. 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. In 2013, a total number of 236,850 new shares have been created from the conversion of convertible bonds previously issued under the aforementioned authorization. At the end of 2013, the Company has further issued 25 convertible bonds which can be converted by their holders until December 2015 in up to 2,675,000 shares from this Conditional Capital IX.

FIVE-YEAR OVERVIEW

– according to the consolidated financial statements –

in EUR thousand (except where indicated)	2009	2010	2011	2012	2013
Statement of Profit or Loss					
Revenue	4,260	1,787	1,437	1,039	1,588
Gross profit	1,462	1,313	1,080	747	1,101
EBIT	-10,218	-11,449	-15,245	-12,123	-7,288
EBITDA	-9,442	-10,307	-10,939	-11,200	-6,489
Net loss for the year	-10,223	-11,476	-15,575	-12,197	-7,411
Balance Sheet					
Non-current assets	5,716	5,463	4,042	3,053	2,167
Investments in non-current assets [1]	324	439	388	87	0
Current assets	10,638	28,375	15,421	3,825	8,914
Non-current liabilities	9	0	0	0	542
Current liabilities	4,261	2,543	3,277	2,720	4,080
Equity	12,084	31,295	16,186	4,158	6,459
Equity ratio in %	73.9	92.5	83.2	60.5	58.3
Total assets	16,354	33,838	19,463	6,878	11,081
Cash Flow Statement					
Cash flow from operating activities	-10,629	-9,479	-9,111	-10,884	-6,505
Cash flow from investing activities	-195	-315	-2,842	954	-20
Cash flow from financing activities	4,964	30,394	-44	-422	11,527
Net cash flow	-5,860	20,600	-11,997	-10,352	5,002
Cash consumption	-11,324	-10,294	-12,241	-10,930	-6,525
Cash and cash equivalents at year-end	3,954	24,554	12,557	2,205	7,207
Stock [2]					
Weighted-average number of shares issued	5,834,427	8,083,549	8,818,417	8,818,417	11,910,017
Earnings per share basic and diluted (in EUR)	-1.75	-1.40	-1.77	-1.38	-0.62
Share price (in EUR) at year-end	17.60	10.25	1.30	2.10	6.12
Number of employees at year-end	86	82	61	39	34

[1] Excluding capitalized development costs.

[2] In order to ensure comparibility, the figures for 2009–2010 have been adjusted retroactively, following the consolidation of shares in 2011.

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2013

– according to 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	2012	2013
Revenue	1	1,039	1,588
Cost of sales	3	-292	-487
Gross profit		**747**	**1,101**
Gross margin in %		*72*	*69*
Other income	2	979	621
Research and development costs	3	-8,016	-4,375
Selling, general and administrative costs	3	-5,520	-4,508
Other expenses	3, 6	-313	-127
Operating result/ Earnings before interest and taxes (EBIT)	7	**-12,123**	**-7,288**
Interest income	8	104	22
Interest expenses	8	0	-33
Other financial result	8	-24	22
Net loss for the year before taxes on income		**-12,043**	**-7,277**
Taxes on income	9	-154	-134
Net loss for the year		**-12,197**	**-7,411**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of available-for-sale securities	23	81	241
Other comprehensive income for the year		**81**	**241**
Total comprehensive income for the year		**-12,116**	**-7,170**
Earnings per share (basic and diluted) in EUR	10	**-1.38**	**-0.62**

GROUP BALANCE SHEET

ASSETS (EUR thousand)	Notes	**Dec 31, 2012**	**Dec 31, 2013**
Non-current assets			
Intangible assets	11, 13	2,589	1,920
Tangible assets	12, 13	358	247
Deferred taxes	14	106	0
Total non-current assets		**3,053**	**2,167**
Current assets			
Inventories	15	31	275
Trade receivables	16	314	258
Marketable securities	17	509	750
Cash and cash equivalents	18	2,205	7,207
Other current assets	19	766	424
Total current assets		**3,825**	**8,914**
Total assets		**6,878**	**11,081**

EQUITY AND LIABILITIES (EUR thousand)	Notes	**Dec 31, 2012**	**Dec 31, 2013**
Equity			
Subscribed capital	20	8,818	13,083
Capital reserve	21	22,299	27,506
Retained earnings	22	-14,272	-26,469
Net loss for the year	10	-12,197	-7,411
Other comprehensive income	23	-491	-250
Total equity		**4,158**	**6,459**
Non-current liabilities			
Provisions	25	0	542
Total non-current liabilities		**0**	**542**
Current liabilities			
Trade payables	26	1,681	1,030
Deferred income	27	306	67
Convertible notes issued	28	0	1,932
Other liabilities	29	357	416
Provisions	30	376	635
Total current liabilities		**2,720**	**4,080**
Total equity and liabilities		**6,878**	**11,081**

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

EUR thousand	Notes	2012	2013
Cash and cash equivalents at the beginning of the year	18	**12,557**	**2,205**
Operating activities	32		
Net loss for the year before taxes on income		**-12,043**	**-7,277**
Corrections for:			
Depreciation of tangible assets	5, 7, 12	172	127
Amortization of intangible assets	5, 7, 11	751	672
Losses from the disposal of assets		34	0
Stock option expenses		87	-2
Foreign currency exchange results		3	1
Interest income	8	-104	-22
Interest expenses	8	0	33
Taxes		-50	-28
Operating result before changes in net current assets		**-11,150**	**-6,496**
Changes in trade receivables and other current assets		56	399
Changes in inventories		252	-244
Changes in non-current liabilities		0	542
Changes in current liabilities from operating activities		-164	-728
Liquidity earned from operating activities		**-11,006**	**-6,527**
Interest received		122	22
Cash flow from operating activities		**-10,884**	**-6,505**
Investing activities	33		
Payments for investments in tangible assets		-41	-16
Proceeds from the sale of tangible assets		13	0
Payments for investments in intangible assets		-18	-4
Proceeds from the repayment of marketable securities		1,000	0
Cash flow from investing activities		**954**	**-20**
Financing activities	34		
Proceeds from the issue of new shares		0	9,215
Payments for the creation of new shares		-422	-555
Proceeds from the issue of convertible notes		0	3,250
Payments for the creation of convertible notes		0	-383
Cash flow from financing activities		**-422**	**11,527**
Net cash flow		**-10,352**	**5,002**
Cash and cash equivalents at the end of the year	18	**2,205**	**7,207**

STATEMENT OF CHANGES IN GROUP EQUITY

EUR thousand	Notes	Subscribed capital	Capital reserve	Retained earnings	Net loss for the year	Other comprehensive income	**Group equity**
December 31, 2011		**8,818**	**22,212**	**1,303**	**-15,575**	**-572**	**16,186**
Total comprehensive income	10, 23	**0**	**0**	**0**	**-12,197**	**81**	**-12,116**
Transfer of net loss for the year 2011 to retained earnings		0	0	-15,575	15,575	0	0
Stock option expenses		0	87	0	0	0	87
December 31, 2012		**8,818**	**22,299**	**-14,272**	**-12,197**	**-491**	**4,158**
Total comprehensive income	10, 23	**0**	**0**	**0**	**-7,411**	**241**	**-7,170**
Transfer of net loss for the year 2012 to retained earnings	22	0	0	-12,197	12,197	0	0
Capital increase from the issue of shares from Authorized Capital	20, 21	4,028	0	0	0	0	4,028
Premium from the issue of shares from Authorized Capital	21	0	5,187	0	0	0	5,187
Cost of the creation of new shares	21	0	-612	0	0	0	-612
Conversion of convertible notes	20	237	0	0	0	0	237
Option premium on convertible notes	21	0	772	0	0	0	772
Cost of the issue of convertible notes	21	0	-8	0	0	0	-8
Revaluation of granted stock option rights	21	0	-132	0	0	0	-132
December 31, 2013		**13,083**	**27,506**	**-26,469**	**-7,411**	**-250**	**6,459**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION, PRINCIPLES AND METHODS

DESCRIPTION OF BUSINESS ACTIVITY

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

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

GENERAL PRINCIPLES

The consolidated financial statements of Epigenomics AG have been prepared according to 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 at the closing date December 31, 2013, as mandatorily applicable in the European Union. Further, these statements are in accordance with the German Accounting Standards (GASs).

The "going concern" principle according to IAS 1.25 *Presentation of Financial Statements* has been considered.

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, 2013 (2012). The reporting currency is the euro.

CONSOLIDATION GROUP

The consolidated Group comprises Epigenomics AG as the parent company (principal office: Kleine Präsidentenstrasse 1, 10178 Berlin, Germany) and Epigenomics Inc. (principal office: Suite 4100, 800 Fifth Avenue, Seattle, WA 98104, U.S.A.) as its only subsidiary during the reporting period. Epigenomics AG owned 100% of the share capital and the voting rights of Epigenomics Inc. between January 1 and December 31, 2013.

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

PRINCIPLES OF CONSOLIDATION

In the consolidation of capital, the acquisition values of the investment are balanced with the share of equity capital of the subsidiary applicable to them on the date of acquisition. A resulting difference is added to the assets and liabilities in the amount in which their market value deviates from their carrying value at the time of the initial consolidation. An amount in excess is capitalized 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS

In the reporting year, the Group has applied the following new and revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

- *Annual Improvements to IFRSs 2009–2011 Cycle*
  The annual improvements to IFRSs 2009–2011 include a number of various amendments. None of these amendments are relevant to the Group. Therefore, there has been no material impact on the disclosures or on the amounts recognized in the consolidated financial statements resulting from the application.
- *Amendments to IFRS 7 Disclosures – Offsetting financial assets and financial liabilities*
  The amendments to IFRS 7 require entities to disclose information about the offsetting of financial instruments and related arrangements. The amendments have been applied retrospectively. As the Group has not such offsetting arrangements in place, there has been no material impact on the disclosures or on the amounts recognized in the consolidated financial statements resulting from the application.
- *IFRS 13 Fair Value Measurement*
  According to IFRS 13, the fair value is defined as the price that would be received to sell an asset or paid to settle a liability in an orderly transaction in the principal market at the measurement date under current market conditions. Further, IFRS 13 includes extensive disclosure requirements. Transitional provisions were given to entities such that application of the new disclosure requirements is not mandatory in comparative information for earlier periods. According to these transitional provisions, the Group has not made any new disclosures for the 2012 comparative period. The first-time application of IFRS 13 led to additional disclosures in the consolidated financial statements but had no significant impact on the amounts recognized herein.
- *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*
  IAS 1 provides the option to rename the "Income statement" into "statement of profit or loss" and with regard to the "statement of comprehensive income" into "statement of profit or loss and comprehensive income" as well as the option to present those statements either in one single statement or in two consecutive statements. The amendments further require items of other comprehensive income to be classified in two categories (items that will not be reclassified subsequently to profit or loss and items that may be reclassified subsequently to profit or loss when specific conditions are met). The Group had already adopted these amendments in its 2012 consolidated financial statements and opted for the new names and the single statement presentation. Hence, there was no impact on the disclosure of the 2013 consolidated financial statements.
- *IAS 19 Employee Benefits (as revised in 2011)*
  IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. As the Group has no such benefit plans in place, there has been no material impact on the disclosures or on the amounts recognized in the consolidated financial statements resulting from the application.
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*
  IFRIC 20 is not relevant for the Group as it relates to mining operations only.

NEW AND REVISED IFRSs AND INTERPRETATIONS NOT YET EFFECTIVE

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

		Mandatorily applicable beginning on or after
IFRS 10 and subsequent amendments to IFRS 10	Investment Entities	January 1, 2014
IFRS 11 and amendments to IAS 28	Joint Arrangements and Investments in Associates and Joint Ventures	
IFRS 12	Disclosure of Interests in Other Entities	
Amendments to IAS 27	Separate Financial Statements	
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	
Amendments to IAS 36	Recoverable Amount Disclosures for Non-financial Assets	
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	
IFRS 9	Financial Instruments	January 1, 2018 (preliminary)

- The new standard IFRS 10 replaces parts of the former IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 changes the definition of control over an investment and gives some additional guidance on the new control concept. The subsequent amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.
- IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and simultaneously the related guidance of SIC-13 *Jointly Controlled Entities* is now included in IAS 28 (as revised in 2011). IFRS 11 deals with the classification and the accounting of joint arrangements between two or more parties.
- IFRS 12 is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

The amendments to IFRS 12 and IAS 27 are consequential to the amendments of IFRS 10 and introduce new disclosure requirements for investment entities.

The amendments to IAS 27 are related to the amendments to IFRS 10 and require new mandatory disclosure for investment entities. The amendments to IAS 32 clarify the requirements relating to offset financial assets and financial liabilities. The amendments to IAS 36 are related to the amendments to IFRS 13 and deal with the disclosure requirements on the recoverable amount of impaired assets. The amendments to IAS 39 are resulting from the amendments to IFRS 9 and deal with the over-the-counter trading of derivatives used in hedge accounting.

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities and for derecognition.

The Company intends to adopt these new and/or revised standards and amendments as soon as their adoption is mandatory and they are EU endorsed. The Company does as of today not expect a material impact of the adoption of these new and/or revised standards and amendments on its financial statements.

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 2014, but rather to remain stable as long as the sovereign debt crisis does not deteriorate again. The plans of the Group's management do not expect Epigenomics to be very dependent on the overall economic situation in the short term. The Group's operating activities are not very 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.

In the medium term, the euro currency is expected to remain stable vis-à-vis the U.S. dollar. Management plans are based on an average exchange rate of EUR/USD 1.26–1.38 throughout 2014. It also took note of the predictions of financial experts and banks, which are usually diverging with regard to this relation.

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 may influence activities of all life sciences companies. At the present time, however, it is uncertain, when, to which extent and whether this reform project will be implemented. 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.

The preparation of the Group financial statements in compliance 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.

In particular, assumptions and estimates are required for:

- determining, 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 (especially regarding intangible assets);
- determining the terms of in-licensed intellectual property rights;
- determining the useful lives of tangible and intangible non-current assets, in particular of capitalized development costs;
- 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 (especially the determination of the likelihood of occurrence).

ACCOUNTING AND VALUATION PRINCIPLES

Intangible assets

Intangible assets other than goodwill and capitalized development costs are valued at acquisition or production cost less scheduled amortization on a straight-line basis. Depending on the investment, useful life will be defined between three years (software) and twenty years (patents). For patents, the useful life in individual cases depends on the term of the patent protection. Amortization of intangible assets is allocated 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 financial advantage is associated with the use of such asset and that its cost can be reliably determined. An impairment test will be done annually for assets or groups of assets for which an unplanned decrease in value is assumed. If the carrying amount of an intangible asset exceeds the recoverable amount of this asset at the closing date, it will be taken into account by means of an unplanned amortization determined by the result of the impairment test. If there is no longer any reason for an impairment loss, an appreciation will take place 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 according to 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 asset 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 five 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 scheduled depreciation caused by usage. Apart from directly attributable costs, pro rata overhead cost and depreciation are also included in the production costs of internally produced equipment. Public and governmental investment grants lower the acquisition or production costs. Repair costs are immediately treated as an expense. Depreciation for leasehold improvements is applied on a straight-line basis over the remaining term of the underlying leases. Mobile fixed assets are depreciated in principle on a straight-line basis. The useful life is three to eight years for technical and electronic equipment and five to ten years for operational and office equipment.

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

If the carrying value of the tangible assets calculated according to the above principles exceeds the recoverable amount of these assets at the closing date, it will be taken into account by means of an unscheduled depreciation. The amount to be adjusted 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 done annually for assets or groups of assets for which an unplanned decrease in value is assumed. If there is no longer any reason for unscheduled depreciation, an appreciation will take place up to the amortized acquisition costs as a maximum.

Leasing contracts

A leasing contract qualifies as a finance lease, if the contractual conditions of the contract transfer all risks and opportunities in connection with the ownership to the lessee. All other leasing contracts are recognized as operating leases.

Deferred taxes

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

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

Inventories

Inventories comprise finished goods, 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 goods include directly attributable unit costs, depreciation, amortization of capitalized development costs and overheads attributable to the production process. For finished products the principle of separate valuation applies.

Financial instruments

Financial assets and liabilities are initially measured at fair value. Purchase and sale of financial assets is recognized using trading date accounting.

Primary financial instruments

The reported primary financial instruments comprise 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 at their fair value.

Marketable securities

According to the definitions of IAS 39.9 *Financial Instruments: Recognition and Measurement*, the Company's marketable securities are classified either as "financial assets at fair value through profit or loss" (FVTPL) or as "available-for-sale financial assets" (AFS). The Group does not hold financial assets for trading purposes. Irrespective of this classification, 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.

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.

Cash equivalents

A cash equivalent is defined as a financial instrument being readily convertible on a short-term basis to a known amount of cash and carrying an insignificant risk of changes in value (IAS 7.6 *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, which will be 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 according to 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.

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. Payments received in advance from customers for R&D services to render or for licenses are deferred and recognized through profit or loss over the term of the contract according to the progress of fulfillment.

Provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recognized if a present obligation as a result of a past event exists, if it is probable that an outflow of resources embodying benefits will be required to settle this obligation and if a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. 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.

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
- collection of the receivable is probable.

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

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

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

Cost of sales

Cost of sales include expenses for material used in sold products, 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 include directly allocable portions of personnel expenses, IP costs, depreciation and amortization as well as pro rata overheads.

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 above). To some extent, grants will only be paid after the work has been performed and proven. In such cases, another current asset is capitalized 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 claims 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, material expenses, scheduled 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 overheads 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,
- scheduled depreciation and amortization of the corresponding departments,
- other direct expenses of the corresponding departments and
- the pro rata overheads of the corresponding departments as well as the Company's statutory costs.

Other expenses

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

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. According to 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 approach 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.

Currency translation

In the individual financial statements, receivables and liabilities in foreign currencies are valued using the corresponding euro reference rate published by the European Central Bank and applicable at the closing 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 well.

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, 2012	Dec 31, 2013
EUR/USD	1.3194	1.3791
EUR/GBP	0.81610	0.83370
EUR/CAD	1.3137	1.4671

Average rates	2012	2013
EUR/USD	1.2932	1.3308
EUR/GBP	0.81193	0.85008
EUR/CAD	1.2906	1.3771

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

1 REVENUE

Revenue source by revenue type:

	2012		2013	
	EUR thousand	% of total	EUR thousand	% of total
Product sales (own and third-party)	406	39.0	649	40.9
Licensing income	386	37.2	425	26.7
R&D income and reimbursements	247	23.8	514	32.4
Total revenue	**1,039**	**100.0**	**1,588**	**100.0**

Revenue from product sales is generated by turnover through own sales channels and distribution partners or by the rendering of services based on the Company's products by third parties. Licensing income is generated by out-licensing of own intellectual property (e.g. technologies, biomarkers) to third parties. 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:

	2012		2013	
	EUR thousand	% of total	EUR thousand	% of total
Europe	712	68.6	1,024	64.5
North America	284	27.3	358	22.5
Rest of the world	43	4.1	206	13.0
Total revenue	**1,039**	**100.0**	**1,588**	**100.0**

Of total revenue, 66% (2012: 56%) was generated by the three largest customers of the Company.

2 OTHER INCOME

EUR thousand	2012	2013
Third-party research grants from public authorities	92	256
Correction of deferred liabilities	445	164
Recoveries and refunds	46	136
Foreign currency exchange rate gains	140	42
Income from the reversal of provisions	159	19
Income from the disposal of assets	79	0
Income from option exercises	18	0
Other	0	4
Total other income	**979**	**621**

3 COST ALLOCATION BY FUNCTION

2012 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	**Total**
Materials and consumables	116	908	49	0	1,073
Depreciation and amortization	3	739	101	80	923
Personnel costs	94	1,923	2,794	5	4,816
Other costs	79	4,446	2,576	228	7,329
Total	**292**	**8,016**	**5,520**	**313**	**14,141**

2013 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	**Total**
Materials and consumables	225	279	10	0	514
Depreciation and amortization	3	713	83	0	799
Personnel costs	164	1,482	2,090	0	3,736
Other costs	95	1,901	2,325	127	4,448
Total	**487**	**4,375**	**4,508**	**127**	**9,497**

4 PERSONNEL COSTS

EUR thousand	2012	2013
Personnel remuneration	4,259	2,759
Share-based payment expenses	87	632
– thereof: expenses for issuing of PSRs for Executive Board members	*0*	*252*
Social security expenses	470	345
– thereof:		
employer's contribution to a national pension fund (Germany)	*154*	*113*
employer's contribution to a 401(k) savings plan (U.S.A.)	*24*	*18*
Total personnel costs	**4,816**	**3,736**

5 DEPRECIATION AND AMORTIZATION

EUR thousand	2012	2013
Scheduled depreciation of tangible assets	171	127
Unscheduled depreciation of tangible assets	1	0
Scheduled amortization of intangible assets	673	672
Unscheduled amortization of intangible assets	78	0
Total depreciation and amortization	**923**	**799**

6 OTHER EXPENSES

EUR thousand	2012	2013
Foreign currency exchange rate losses	102	73
– thereof: due to the translation of deferred tax assets	*-4*	*-1*
Write-off of doubtful receivables	0	53
Extraordinary amortization of intangible assets	78	0
Restructuring expenses	66	0
Losses from the disposal of assets	34	0
Corrections for previous years	33	0
Other	0	1
Total other expenses	**313**	**127**

7 OPERATING RESULT (EBIT) AND EBITDA

EUR thousand	2012	2013
Operating result/earnings before interest and taxes (EBIT)	**-12,123**	**-7,288**
Depreciation on tangible assets	172	127
Amortization on intangible assets	751	672
EBIT before depreciation and amortization (EBITDA)	**-11,200**	**-6,489**

8 FINANCIAL RESULT

EUR thousand	2012	2013
Interest from cash and cash equivalents	78	2
Interest from available-for-sale financial assets	26	20
Interest and related income	**104**	**22**
Fair value adjustment for derivative instruments	2	23
Other financial income	**2**	**23**
Total financial income	**106**	**45**
Interest on convertible notes issued	0	-33
Interest and related expenses	**0**	**-33**
Fair value adjustment for derivative instruments	-25	0
Other finance costs	-1	-1
Total financial expenses	**-26**	**-34**
Total financial result	**80**	**11**

In the reporting year, a net gain of EUR 23 thousand for derivative instruments has been recognized (2012: net loss of EUR 23 thousand). For the net gains and losses of all other financial instruments reference is made to the overview above.

9 TAXES ON INCOME

The reported taxes on income in the amount of EUR 134 thousand (2012: EUR 154 thousand) comprise exclusively taxes recorded by the Company's U.S. subsidiary in Seattle.

EUR thousand	2012	2013
Current tax expenses	50	29
Deferred tax expenses due to loss carryforwards	104	105
Total taxes on income	**154**	**134**

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 %	2012	2013
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	2012	2013
Net loss for the year before taxes on income	**-12,043**	**-7,277**
Weighted-average tax rate for the Group	**30.6%**	**29.6%**
Expected tax expense	**-3,688**	**-2,154**
loss carryforwards not capitalizable	*2,085*	*2,182*
capitalization of development costs (net)	*189*	*165*
unscheduled amortization of non-current financial assets	*684*	*0*
non-deductible waiver	*884*	*0*
fair value recognition of available-for-sale securities	*24*	*72*
stock option expenses	*26*	*-39*
effect from other foreign taxes	*48*	*29*
tax effect from non-deductible operating expenses	*25*	*19*
provision for onerous contracts	*-55*	*-8*
capital-increase-related expenses	*-41*	*-186*
revenue recognition for taxation purposes	*-35*	*33*
other temporary effects	*8*	*21*
Effective tax expense	**154**	**134**
Effective tax rate	**-1.3%**	**-1.8%**

The expected tax expense for the reporting year has been calculated by applying the expected weighted-average tax rate for the Group to the net loss for the year before taxes on income.

10 EARNINGS PER SHARE

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

	2012	2013
Net loss for the year (in EUR thousand)	-12,197	-7,411
Weighted-average number of shares issued	8,818,417	11,910,017
Earnings per share (basic and diluted) in EUR	-1.38	-0.62

The outstanding stock options granted by the Company are antidilutive according to 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 13,082,892 (December 31, 2012: 8,818,417).

NOTES TO THE GROUP BALANCE SHEET

NON-CURRENT ASSETS

11 INTANGIBLE ASSETS

EUR thousand		Software	Licenses/ patents	Development costs	**Total intangible assets**
Jan 1, 2012	**Acquisition costs**	**816**	**2,299**	**3,559**	**6,674**
	Additions	18	0	0	18
	Disposals	-7	-15	0	-22
Dec 31, 2012	**Acquisition costs**	**827**	**2,284**	**3,559**	**6,670**
	Additions	4	0	0	4
	Disposals	-2	-112	0	-114
Dec 31, 2013	**Acquisition costs**	**829**	**2,172**	**3,559**	**6,560**
Jan 1, 2012	**Accumulated amortization**	**643**	**2,003**	**706**	**3,352**
	Additions	63	55	633	751
	Disposals	-7	-15	0	-22
Dec 31, 2012	**Accumulated amortization**	**699**	**2,043**	**1,339**	**4,081**
	Additions	63	53	556	672
	Disposals	-2	-111	0	-113
Dec 31, 2013	**Accumulated amortization**	**760**	**1,985**	**1,895**	**4,640**
Dec 31, 2012	**Carrying values**	**128**	**241**	**2,220**	**2,589**
Dec 31, 2013	**Carrying values**	**69**	**187**	**1,664**	**1,920**

12 TANGIBLE ASSETS

EUR thousand		Fixtures/ leasehold improvements	Technical equipment	Other fixed assets	**Total tangible assets**
Jan 1, 2012	**Acquisition costs**	**529**	**3,012**	**98**	**3,639**
	Additions	0	58	0	58
	Disposals	-24	-1,026	-27	-1,077
Dec 31, 2012	**Acquisition costs**	**505**	**2,044**	**71**	**2,620**
	Additions	0	16	0	16
	Disposals	0	-35	0	-35
Dec 31, 2013	**Acquisition costs**	**505**	**2,025**	**71**	**2,601**
Jan 1, 2012	**Accumulated depreciation**	**522**	**2,550**	**61**	**3,133**
	Additions	1	162	9	172
	Disposals	-18	-1,000	-25	-1,043
Dec 31, 2012	**Accumulated depreciation**	**505**	**1,712**	**45**	**2,262**
	Additions	0	119	8	127
	Disposals	0	-35	0	-35
Dec 31, 2013	**Accumulated depreciation**	**505**	**1,796**	**53**	**2,354**
Dec 31, 2012	**Carrying values**	**0**	**332**	**26**	**358**
Dec 31, 2013	**Carrying values**	**0**	**229**	**18**	**247**

13 ASSETS SCHEDULE

EUR thousand		Intangible assets	Tangible assets	**Total intangible and tangible assets**
Jan 1, 2012	**Acquisition costs**	**6,674**	**3,639**	**10,313**
	Additions	18	58	76
	Disposals	-22	-1,077	-1,099
Dec 31, 2012	**Acquisition costs**	**6,670**	**2,620**	**9,290**
	Additions	4	16	20
	Disposals	-114	-35	-149
Dec 31, 2013	**Acquisition costs**	**6,560**	**2,601**	**9,161**
Jan 1, 2012	**Accumulated amortization/depreciation**	**3,352**	**3,133**	**6,485**
	Additions	751	172	923
	Disposals	-22	-1,043	-1,065
Dec 31, 2012	**Accumulated amortization/depreciation**	**4,081**	**2,262**	**6,343**
	Additions	672	127	799
	Disposals	-113	-35	-148
Dec 31, 2013	**Accumulated amortization/depreciation**	**4,640**	**2,354**	**6,994**
Dec 31, 2012	**Carrying values**	**2,589**	**358**	**2,947**
Dec 31, 2013	**Carrying values**	**1,920**	**247**	**2,167**

14 DEFERRED TAXES

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

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	**Dec 31, 2012**	**Dec 31, 2013**	**Dec 31, 2012**	**Dec 31, 2013**
Intangible and tangible assets	99	93	662	495
Current assets	33	46	20	0
Current liabilities	16	5	64	168
Total	**148**	**144**	**746**	**663**

Since all the aforementioned matters must be settled with the same fiscal authority, in accordance with IAS 12.71 et seqq. *Income Taxes,* a balancing of the respective tax income and expenses has been performed. According to the table above, a deferred tax liability of EUR 519 thousand (net) was determined (December 31, 2012: EUR 598 thousand).

Since its inception through December 31, 2012, the Company's tax loss carryforwards in Germany amounted to approximately EUR 151 million for corporate taxation and to approximately EUR 149 million for trade taxation. In addition, the Company expects to increase its cumulated tax losses for both types of taxes by approximately EUR 7.3 million with the filing of its tax returns for 2013. According to 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 deferred tax asset resulting from the undisputable part of the tax loss carryforwards is sufficient to offset the aforementioned deferred tax liability of EUR 519 thousand. 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.

In previous years, deferred tax assets had been capitalized due to tax loss carryforwards of Epigenomics Inc. and temporary differences between IFRSs and U.S. tax law. These deferred tax assets have been fully utilized in the reporting year. Epigenomics Inc. still has tax loss carryforwards in the amount of USD 0.5 million. The Company has decided to not further capitalize deferred tax assets as it expects a necessary amendment in the transfer-profit agreement between the parent company and the U.S. subsidiary in 2014. Such amendment could have a significant impact on the ability of Epigenomics Inc. to utilize these loss carryforwards and/or on the future period in which such utilization could be expected.

Changes in capitalized deferred tax assets in the reporting year:

EUR thousand	2012	2013
January 1	**214**	**106**
Deferred tax expenses	-104	-105
Foreign currency adjustments	-4	-1
December 31	**106**	**0**

CURRENT ASSETS

15 INVENTORIES

EUR thousand	Dec 31, 2012	Dec 31, 2013
Consumables, raw materials, supplies	8	0
Finished goods	23	275
Total inventories	**31**	**275**

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 value as of the balance sheet date.

EUR thousand	Dec 31, 2012	Dec 31, 2013
Trade receivables, gross	314	258
Allowance for bad debt	0	0
Trade receivables, net	**314**	**258**

At the balance sheet date, trade receivables in the amount of EUR 106 thousand were not due (December 31, 2012: EUR 160 thousand). Further trade receivables in the amount of EUR 122 thousand were not yet invoiced at the balance sheet date (December 31, 2012: EUR 129 thousand).

Receivables past due at the balance sheet date:

EUR thousand	Dec 31, 2012	Dec 31, 2013
Trade receivables past due up to 90 days	0	6
Trade receivables past due more than 90 days	2	30
Trade receivables past due, net	**2**	**36**

17 MARKETABLE SECURITIES

The recognized marketable securities 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" according to IAS 39.9 *Financial Instruments: Recognition and Measurement* and are redeemable at the option of the issuer in whole from June 2015 on.

The reported securities are denominated in euro and are subject to the usual market and interest rate 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.

	Dec 31, 2012		Dec 31, 2013	
Time to maturity of marketable securities	Fair value in EUR thousand	in %	Fair value in EUR thousand	in %
13–24 months	0	0.0	750	100.0
25–60 months	509	100.0	0	0.0
Total marketable securities	**509**	**100.0**	**750**	**100.0**

18 CASH AND CASH EQUIVALENTS

Cash comprises bank deposit and cash in hand. Cash equivalents are defined as instruments being 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 85 thousand of bank deposits was restricted cash.

Cash and cash equivalents increased to EUR 7,207 thousand at the balance sheet date (December 31, 2012: EUR 2,205 thousand). Of those funds, 97.7% were denominated in euro at the balance sheet date. The remainder is predominantly denominated in U.S. dollar. The total amount is allocated to three different banks.

EUR thousand	Dec 31, 2012	Dec 31, 2013
Time deposits	434	0
Bank accounts, petty cash, checks	1,771	7,207
Total cash and cash equivalents	**2,205**	**7,207**

19 OTHER CURRENT ASSETS

EUR thousand	Dec 31, 2012	Dec 31, 2013
Receivables from tax authorities	260	188
Prepaid expenses	362	162
Deposits	33	11
Interest receivables	10	11
Deferred payment plan	0	10
Advance/excess payments	8	2
Claims against public authorities based on granted projects	54	0
Other	39	40
– thereof: with a prospective maturity > 1 year	*38*	*38*
Sonstige kurzfristige Vermögenswerte gesamt	**766**	**424**

EQUITY

20 SHARE CATEGORIES AND CAPITAL STRUCTURE

As of December 31, 2013, the share capital of Epigenomics AG comprised exclusively common shares with equal rights and a par value of EUR 1.00 each.

In the reporting year, the share capital of the Company was increased by EUR 4,028 thousand from the issuance of new shares from Authorized Capital and by EUR 237 thousand from the conversion of convertible notes previously issued from Conditional Capital. Thus, the total increase of the share capital amounted to EUR 4,265 thousand.

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

EUR	Dec 31, 2012	Dec 31, 2013
Share capital	**8,818,417**	**13,082,892**
Authorized Capital	**4,409,207**	**5,105,727**
Authorized Capital 2011/I	*881,841*	*0*
Authorized Capital 2011/II	*3,527,366*	*0*
Authorized Capital 2013/I	*0*	*318,589*
Authorized Capital 2013/II	*0*	*4,787,138*
Conditional Capital	**4,381,280**	**5,597,239**
Conditional Capital IV	*123,485*	*1,000*
Conditional Capital V	*129,535*	*102,195*
Conditional Capital VII	*304,246*	*304,246*
Conditional Capital VIII	*296,648*	*296,648*
Conditional Capital IX	*3,527,366*	*4,893,150*

Based on the Authorized Capital 2013/I, the Executive Board is authorized until May 5, 2018, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to a remaining amount of EUR 318,589.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares. Subscription rights shall be granted to the shareholders.

Based on the Authorized Capital 2013/II, the Executive Board is authorized until May 5, 2018, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 4,787,138.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares. Subscription rights shall be granted to the shareholders.

Conditional Capital IV, V and VII cannot be used anymore to grant stock options as the corresponding authorizations for a granting time frame has expired. 34,397 new shares can still be created from Conditional Capital VII upon exercise of granted stock options from one of the underlying stock option programs (09–13).

Conditional Capital VIII allows the creation of new shares upon the exercise of stock options granted under the stock option program 11–15. No stock options from this program were outstanding at the balance sheet date.

Conditional Capital IX serves the purpose of granting shares to holders or creditors of convertible bearer or registered bonds with warrants, convertible bonds, participation rights or a combination of these instruments, issued by the Company or a subsidiary on the basis of the amended authorization resolution by the Annual General Shareholders' Meeting dated May 6, 2013, until May 5, 2018, if option or conversion rights are exercised, option or conversion obligations are performed or the Company exercises an election right to entirely or partially grant non-par value shares of the Company instead of payment of the due cash amount. The issuance of the new shares occurs at the respective option or conversion price or the lower issue price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution. The conditional capital increase is only to be implemented if bonds or participation rights are issued in accordance with the amended authorization resolution of the Annual General Shareholders' Meeting dated May 6, 2013, and only to the extent that

- option or conversion rights are exercised or
- holders or creditors of bonds or participation rights who are under an obligation to exercise an option or to convert perform their obligation to exercise the option or to convert or
- the Company exercises an election right to grant non-par value shares of the Company instead of paying a due cash amount

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. 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. In 2013, a total number of 236,850 new shares have been created from the conversion of convertible bonds previously issued under the aforementioned authorization. At the end of 2013, the Company has further issued 25 convertible bonds which can be converted by their holders until December 2015 in up to 2,675,000 shares from this Conditional Capital IX.

The amendments of the Conditional Capital IX and the corresponding amendment of the Articles of Association were registered with the commercial register on June 11, 2013.

21 CAPITAL RESERVE

The capital reserve increased from EUR 22,299 thousand at December 31, 2012, to EUR 27,506 thousand at December 31, 2013. Thereby, an increase of EUR 4,575 thousand was attributable to the capital increases from the issuance of new shares and an increase of EUR 764 thousand was attributable to the recognized equity element from the issuance of convertible notes in December 2013. The capital reserve was further reduced by an amount of EUR 132 thousand in connection with the revaluation of stock option rights granted in previous years and their partial exchange against phantom stock rights (see also notes items 41–43).

22 RETAINED EARNINGS

Retained earnings decreased from EUR -14,272 thousand at the end of the previous year to EUR -26,469 thousand at December 31, 2013, attributable to the transfer of the Company's net loss for 2012.

23 OTHER COMPREHENSIVE INCOME

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

EUR thousand	2012	2013
January 1	**-572**	**-491**
Adjustments from the sale of marketable securities	5	0
Revaluation of marketable securities	76	241
December 31	**-491**	**-250**

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 non-current and 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 decreased from 60.5% as of December 31, 2012, to 58.3% as of December 31, 2013.

The Company is not subject to any statutory capital requirements. However, the Company is obliged to issue new shares in case of holders of granted option rights from the Company's stock option programs or holders of convertible notes issued by the Company exercise their rights.

NON-CURRENT LIABILITIES

25 PROVISIONS

Non-current provisions amounted to EUR 542 thousand at the balance sheet date (December 31, 2012: EUR 0) and arose completely from the issue of phantom stock rights to employees and Executive Board members of the Company in the reporting year (see also "Information on Share-based Payment Plans"). The provision equals the fair value of these rights at the balance sheet date. Payment obligations from the Company therefrom cannot incur before July 1, 2016.

CURRENT LIABILITIES

26 TRADE PAYABLES

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

27 DEFERRED INCOME

Payments received in advance for services to be rendered by Epigenomics AG in the future are recorded as deferred income. Payments received for commercial collaborations are recognized as revenue over the respective contractual terms. Payments received for granted projects are recognized as other income according to the percentage of completion method. As of the balance sheet date, there are no repayment obligations for the Company resulting from deferred income.

EUR thousand	Dec 31, 2012	Dec 31, 2013
Payments for granted projects	306	50
Payments for commercial collaborations	0	17
Total deferred income	**306**	**67**

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. Under the terms of the agreement, YA Global, over a period of up to two years, is obliged to purchase convertible notes from the Company with a total nominal amount of EUR 5 million at a purchase price of 95% of the nominal amount. The Company may issue the convertible notes in tranches of EUR 500 thousand each at its sole discretion. A tranche comprises of 500 convertible notes in the form of bearer bonds each with a nominal value of EUR 1,000 and transferrable only upon the Company's approval. The convertible notes will only be issued and may only be traded in lots with a total nominal value of EUR 125 thousand.

The bonds carry no interest, have a term of nine months and are convertible into Epigenomics shares immediately upon issuance at the discretion of the bearer of the bonds. The conversion price equals the average trading price of Epigenomics shares during a five-day period prior to the time of conversion less a 5% discount, but cannot be lower than 80% of the prevailing share price at the time of the issuance of the convertible bonds. To the extent permitted by the existing authorization of the Company's Annual General Shareholders' Meeting, the bonds can be issued without pre-emptive rights to existing shareholders.

In August and November 2013, the first two tranches of such convertible bonds with a nominal amount of EUR 500 thousand each were issued. Excluding the pre-emptive rights to existing shareholders, the convertible bonds were issued to YA Global exclusively at a subscription price of 95% of the nominal amount. Gross proceeds from the issuance to the Company amounted to EUR 950 thousand. Both tranches have been converted completely before the end of the reporting year into 236,850 new non-par bearer shares of the Company. Therefore, no convertible bonds under this agreement were outstanding at December 31, 2013.

The Company may still issue up to eight further tranches to YA Global before the end of the term of the agreement (August 17, 2015). At the balance sheet date, the Company still had the authorization to issue convertible bonds that may be converted into up to 81,738 shares without offering pre-emptive rights to existing shareholders. Further convertible bonds resulting in the issuance of up to an additional 3,118,262 shares may be issued with pre-emptive rights to existing shareholders.

Convertible notes issuance by a pre-emptive rights offering on December 19, 2013

On December 19, 2013, the Company issued 25 convertible notes each denominated at EUR 107 thousand with an issue price of EUR 100 thousand each and an aggregate principal amount of EUR 2.675 million. Each note entitles the holder to convert to 107,000 new ordinary non-par value bearer shares at a conversion price of EUR 5.87 per share. The notes bear no interest (zero coupon).

The notes may be converted at any time until December 31, 2015. 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 5.87 eventually adjusted for dilutive measures during the term) ,or
  - – into 107,000 shares alternatively, in the event that the holder pays the then applicable conversion price to the Company, or
- redeemed by the Company at the notes' principal amount in cash.

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 (i.e. EUR 8.80). 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 107,000 shares alternatively, in the event that the holder pays the then applicable conversion price to the Company.

The holder of the notes may claim an early redemption of their notes at the principal amount after August 1, 2014, so that the notes are classified as current financial liabilities by the Company.

The settlement of two of the 25 notes issued was not completed before the balance sheet date, so that the Company has only received EUR 2.3 million of the total issue amount in the reporting year and only 23 of the 25 notes issued were outstanding at the balance sheet date.

The convertible notes are compound financial instruments which must be split in a repayment obligation (liability element) and a conversion right (equity element). A risk adjusted interest rate of 4.7% has been applied for fair value measurement of the compound financial instrument by discounting the future redemption and interest payments The effective interest rate of the liability element cannot be explicitly determined due to the uncertainty regarding amount and timing of the repayment. The book value of the equity element to be recognized in the capital reserves has been 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". Transaction costs for the issuance of the convertible notes in the amount of EUR 351 thousand were deducted from equity proportional to the equity element and will be recognized as interest expenses over the term of the notes proportional to the liability element. Due to the early termination right for the holders of the notes, beginning on August 1, 2014, the timeframe until the final maturity date on December 31, 2015, has not been used as expected term of the notes. In the reporting year, interest expenses of EUR 30 thousand have been recognized through profit or loss for 23 convertible notes. The difference between the book value of the recorded non-current financial liability and the amount that the Company must repay to the holders of the notes if they don't exercise their conversion rights, amounts to EUR 529 thousand.

EUR thousand	**2013**
Gross proceeds of the issue of convertible notes	2,300
– thereof:	
liability element of convertible notes at issue date	*2,245*
equity element of convertible notes	*55*
Expenses related to the issue of the convertible notes for the liability element	-343
Expenses related to the issue of the convertible notes for the equity element	-8
Interest expense	30
Liability element of convertible notes at December 31	**1,932**

29 OTHER LIABILITIES

EUR thousand	**Dec 31, 2012**	**Dec 31, 2013**
Payables due to staff	149	249
Payables due to tax authorities	98	84
Accrued audit fees	55	65
Down payments received	9	10
Accrued Supervisory Board remuneration	1	0
Liabilities from derivative instruments	25	0
Payables due to social security institutions	17	0
Other	3	8
Total other liabilities	**357**	**416**

30 PROVISIONS

Substantially, the recognized contract-related provision was recognized for possible obligations from licensing contracts, depending on an outstanding decision from a patent court. Payroll provisions were recognized for the fair value of outstanding phantom stock rights which could be exercised in 2014 (EUR 215 thousand) and for obligations due to bonus commitments (EUR 173 thousand). Contract-related and payroll provisions may be utilized beyond a twelve-month timeframe.

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.

Statement of changes in current provisions:

EUR thousand	Contract-related provisions	Payroll provisions	Statutory provisions	Other provisions	**Total**
January 1, 2012	**892**	**97**	**40**	**7**	**1.036**
Utilization	-587	-37	-40	-1	-665
Reversal	-117	-37	0	-5	-159
Additions	0	54	70	40	164
December 31, 2012	**188**	**77**	**70**	**41**	**376**
Utilization	0	-19	-70	-40	-129
Reversal	0	-18	0	-1	-19
Additions	0	348	40	19	407
December 31, 2013	**188**	**388**	**40**	**19**	**635**

31 FINANCIAL INSTRUMENTS

Primary financial instruments		as of Dec 31, 2012		as of Dec 31, 2013	
EUR thousand	Valuation principle	Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Loans and receivables	AC	458	458	320	320
trade receivables		*314*	*314*	*258*	*258*
other current assets		*144*	*144*	*62*	*62*
Financial assets available for sale	FV Rec. Eq.	509	509	750	750
marketable securities		*509*	*509*	*750*	*750*
Cash and cash equivalents	(n/a)	2,205	2,205	7,207	7,207
Liabilities					
Financial liabilities measured at amortized cost	AC	1,815	1,815	3,725	3,196
trade payables		*1,681*	*1,681*	*1,030*	*1,030*
convertible bonds		*0*	*0*	*2,461*	*1,932*
other current liabilities		*134*	*134*	*234*	*234*

Derivative financial instruments		as of Dec 31, 2012		as of Dec 31, 2013	
EUR thousand	Valuation principle	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities					
Financial liabilities held for trading	FV Rec. PL	25	25	0	0
currency forward contracts		*25*	*25*	*0*	*0*

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 CASH FLOW STATEMENT

32 OPERATING ACTIVITIES

Cash flow from operating activities is derived indirectly on the basis of the net loss for the year before taxes on income.

33 INVESTING ACTIVITIES

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

34 FINANCING ACTIVITIES

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

Payments for the creation of new shares in the reporting year of EUR 555 thousand (2012: EUR 422 thousand) were related to the Company's capital increases in January and November 2013. Payments for the creation of convertible notes in the reporting year of EUR 383 thousand (2012: EUR 0) were related to the agreement with YA Global in August (EUR 104 thousand) and to the issuance of convertible notes in December (EUR 279 thousand).

35 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	2012	2013
Cash flow from operating activities	-10,884	-6,505
Cash flow from investing activities	954	-20
Net proceeds from transactions in securities	-1,000	0
Cash consumption	**-10,930**	**-6,525**

RISKS AND RISK MANAGEMENT

36 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 2013 as well as in particular to the prospectus prepared for the capital increase executed in March 2010. This document is available on the Company's website *(www.epigenomics.com)*.

37 LIQUIDITY RISK

The liquidity risk of Epigenomics results from the Group's potential inability to meet its financial liabilities, i.e. not paying its employees, 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.

38 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. dollar. Also, certain services of the Group are sold in U.S. dollar. 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. These instruments are recognized at fair value on the Group balance sheet as current assets or current liabilities.

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

Due to the limited volume of positions denominated in foreign currencies at the balance sheet date, an increase or a decrease of the euro to the U.S. dollar by 10% each, 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.

39 CREDIT RISK

The Company's overall credit risk is low. Securities have only been acquired under careful observation of the Company's investment policy, i.e. a strict selection by the credit ratings of the issuers has been conducted. 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.

Trade receivables basically concern renowned commercial partners with acceptable ratings. Whenever possible, payments are collected upfront. In all cases, the maximum amount at risk can be derived from the carrying values.

40 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 360 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. Being free of long-term financial debt, the Group faces no interest rate risk on the borrowing side at all.

However, the securities held by the Group with maturities of more than one year are subject to an interest rate risk as the terms and conditions for interest payments depend on the development of the long-term interest rates on the capital markets. In a worst-case scenario, the Group would receive no interest payments at all from the issuers of these securities but in no case will it have a negative interest income (i.e. it will not pay interest).

INFORMATION ON SHARE-BASED PAYMENT PLANS

41 STOCK OPTION PROGRAMS

As of the balance sheet date, the Epigenomics Group (via Epigenomics AG) had four fixed stock option programs (SOPs) in place:

SOP 03–07: Program is expired. No stock options can be granted from this program and no new shares can be created anymore upon exercise of granted options from this program.

SOP 06–10: Program is expired. No stock options can be granted from this program 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. 34,397 new shares can still be created upon exercise of granted and outstanding options from this program.

SOP 11–15: 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' Meetings, respectively. Both documents are available on the Company's website *(www.epigenomics.com)*.

The Executive Board and the Supervisory Board of the Company have come to the conclusion that for several reasons, stock option programs as these programs mentioned above are no longer suitable as incentive schemes for its employees and executives. One of the main reasons was the massively increased administrational burden which is connected with the execution and the maintenance of such stock option programs. Hence, the Executive Board and the Supervisory Board have decided in the reporting year to stop utilizing these stock option programs and to abstain from further grants therefrom. As a replacing instrument, it has further been decided to establish so-called "phantom stock programs" instead. Reference is made to section 42 for details on these new programs.

One of the newly established phantom stock programs (the program 03–15) served as a transforming tool for previously outstanding stock options. In agreement with their holders, a total number of 215,661 stock options granted in the past from the abovementioned stock option programs has been exchanged in 2013 against an identical number of phantom stock rights with nearly identical terms and conditions and therefore nearly identical economic value for their holders. By this measure, the number of outstanding stock options has been significantly reduced from 397,721 at year-end 2012 to 106,926 at year-end 2013. Another major decrease is expected for the first quarter of 2014, when 72,529 options will finally expire. Due to the market price of our share at year-end (EUR 6.12) and the underlying strike price of these options (EUR 22.50), an exercise before the expiry date in February 2014 therefore seems highly unlikely.

	Option holdings as of	Issued	Forfeited	Cancelled	Exercised	Option holdings as of	Options exercisable as of
	Dec 31, 2012 (Dec 31, 2011)		**in 2013** (2012)			**Dec 31, 2013** (Dec 31, 2012)	
Option holder							
Dr. Thomas Taapken	**80,000**	**0**	**80,000**	**0**	**0**	**0**	**0**
	(20,000)	(60,000)	0	0	0	(80,000)	0
Dr. Uwe Staub	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(since April 1, 2013)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)
Other option holders	**317,721**	**0**	**194,061**	**16,734**	**0**	**106,926**	**6,666**
	(297,959)	(140,000)	(30,565)	(89,673)	0	(317,721)	(40,666)
All option holders	**397,721**	**0**	**274,061**	**16,734**	**0**	**106,926**	**6,666**
	(317,959)	(200,000)	(30,565)	(89,673)	0	(397,721)	(40,666)
Average exercise price	**11.79**	**n/a**	**9.45**	**4.53**	**n/a**	**18.93**	**6.90**
(in EUR)	(16.08)	(2.82)	(15.36)	(5.65)	(n/a)	(11.79)	(13.29)

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, 2012		as of Dec 31, 2013	
2013	34.65	9,800	0	0
2014	22.50	83,595	22.50	72,529
2015	12.70	1,000	0	0
2016	13.30	39,666	0	0
2017	17.73	54,728	16.13	19,065
2018	8.34	68,932	7.86	8,666
2019	2.73	140,000	2.51	6,666
Total	11.79	**397,721**	**18.93**	**106,926**

The weighted-average term of the outstanding stock options at December 31, 2013, was 1.4 years (December 31, 2012: 5.0 years).

42 PHANTOM STOCK PROGRAMS

As mentioned in the previous section on stock option programs, the Company has established two new phantom stock programs/virtual share plans in 2013 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 phantom stock right 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 2013 (PSP 2013)

PSP 2013 has been approved by the Executive Board and the Supervisory Board of the Company in May 2013. In the framework of PSP 2013, a total number of up to 900,000 phantom stock rights ("PSRs") could be issued between July 1, 2013, and December 31, 2013. 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 subsidiary 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, 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, the Executive Board and the Supervisory Board are allowed to stipulate adherence to timing restrictions in the exercise periods. This shall apply especially for holder of rights who are identified by the Executive Board as ”insider“ in the meaning of Section 15b of the German Securities Trading Act (“Wertpapierhandelsgesetz”). 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 has been 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 the issuance. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise day is higher than the base value. Thereby, 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 day. By exercising the PSR, the holder earns an entitlement to obtain the ”PSR premium“ from the Company. Thereby, 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 according to the German Securities Acquisition and Takeover Act (“Wertpapiererwerbs- und Übernahmegesetz”), 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 exclusively comprises 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 build a provision based on the fair values of the outstanding rights.

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

PSP 03–15 has been established as a second PSP in the reporting year to serve as a transformation tool for outstanding stock options at that time as the stock option plan administration had become more and more complex and therefore staff- and cost-intensive. The Executive Board and the Supervisory Board of the Company therefore have 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 PSRs 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 stock option programs 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 stock option programs 03–07 and 06–10 can be exercised immediately. Vested PSRs that had been obtained in exchange for stock options from the stock option programs 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 a stock option right, 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 day is higher than the base value. Thereby, the strike price equals the Xetra closing rate at the Frankfurt stock exchange on the exercise day. By exercising the PSR, the holder earns an entitlement to obtain the "PSR premium" from the Company. Thereby, the PSR premium equals the absolute difference between the strike price and the base value of the right without any limitation. In contrast to the exercise of stock option rights, the exercise of PSRs is not compulsorily subject to pre-defined exercise periods ("trading windows") and can be done all the year round. 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 especially apply for holders of PSRs who may be identified as "insiders" according to Section 15b of the German Stock Trading Act ("Wertpapierhandelsgesetz"). 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 always apply then simultaneously to the Executive Board members.

In case of a takeover or a mandatory offer for the shares of the Company according to the German Securities Acquisition and Takeover Act ("Wertpapiererwerbs- und Übernahmegesetz"), 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 shall only apply if the offered consideration exclusively comprises 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 build a provision based on the fair values of the outstanding rights.

43 DETAILS ON PHANTOM STOCK RIGHTS ISSUANCE IN THE REPORTING YEAR

Phantom stock program 2013 (PSP 2013)

The aggregated, adjusted fair value of the PSRs granted under PSP 2013 in the reporting year amounted to EUR 400 thousand at the balance sheet date. It was recognized as a non-current provision. The following data were applied:

	2013
Total number of PSRs issued in 2013	720,000
Base value of one PSR in EUR (weighted average)	1.77
Fair value of one PSR in EUR (weighted average)	2.57
Applied share price volatility in % (weighted average)	76.67
Risk-free interest rate in % (weighted average)	0.76
Assumed staff fluctuation in %	8.5
Expected dividend yield in %	0.0
Aggregate maximum payments if PSR will be exercised in EUR thousand	5,760

The weighted-average term of the outstanding stock options at December 31, 2013, was 4.7 years.

180,000 rights can still be granted from PSP 2013.

The total number of PSRs issued under PSP 2013 includes 205,000 rights issued to the Executive Board members.

None of the PSR granted from PSP 2013 according to the table above has been vested, cancelled, forfeited or exercised before or at the balance sheet date. The expiry dates of these rights range from June 30, 2018, until December 31, 2018.

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 PSR 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 according to 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 (according to Bloomberg data) over the youngest past period equaling the remaining term of the rights. For adjustment purposes, a constant staff fluctuation was assumed based on the historical fluctuation of the Company's staff over the past three years. No dividend payments were assumed during the term of the rights.

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

According to the program details as outlined in Section 42, PSRs from PSP 03–15 were issued to employees and former employees in exchange against stock options granted in previous years. Back then they were recognized as equity-settled instruments and the expenses were not recognized through profit or loss but in equity. The exchange made them to cash-settled instruments. A provision has been recognized against the capital reserve in the amount of the fair values of the stock options at the date of exchange (EUR 131 thousand).

An additional amount charged to this provision was recognized through profit or loss.

The aggregated, adjusted fair value of the PSRs granted under PSP 03–15 in the reporting year amounted to EUR 366 thousand at the balance sheet date. It was recognized as a non-current provision of EUR 142 thousand and a current provision of EUR 224 thousand. The following data were applied:

	2013
Total number of PSRs issued in 2013	215,661
Base value of one PSR in EUR (weighted average)	9.38
Fair value of one PSR in EUR (weighted average)	1.88
Applied share price volatility in % (weighted average)	80.93
Risk-free interest rate in % (weighted average)	0.58
Assumed staff fluctuation in % (weighted average)	2.2
Expected dividend yield in %	0.0
Aggregate maximum payments if PSR will be exercised in EUR thousand	(n/a)

The weighted-average term of the outstanding stock options at December 31, 2013, was 4.0 years.

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 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 (according to Bloomberg data) over the youngest past period equaling the remaining term of the rights. For adjustment purposes, a constant staff fluctuation was assumed based on the historical fluctuation 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.

In 2013, 6,000 PSR, with an average-weighted exercise price of EUR 14.12, which had been granted from PSP 03–15, were cancelled.

OTHER INFORMATION

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

The Executive Board of the Company comprises of Dr. Thomas Taapken as Chief Executing Officer and Chief Financial Officer and since April 1, 2013, of Dr. Uwe Staub as the Company's Chief Operating Officer. In 2012 and up to March 31, 2013, Dr. Taapken was the sole member of the Executive Board.

In 2013, the total remuneration of the members of the Executive Board amounted to EUR 595 thousand (2012: EUR 280 thousand), comprising on the one hand of EUR 404 thousand in fixed compensation (2012: EUR 225 thousand) and EUR 62 thousand in variable compensation (2012: EUR 0 thousand). These two elements were settled in cash. On the other hand, the Executive Board members received long-term incentive remuneration in 2013 by grants of 205,000 phantom stock rights with a fair value of EUR 129 thousand at grant date. In the previous year, the long-term incentive remuneration was granted in the form of 60,000 stock option rights to Dr. Taapken with a fair value at grant date of EUR 55 thousand. All these stock option rights were cancelled in the reporting year.

In case of a change of control, Dr. Taapken and Dr. Staub 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 their service agreements would have expired but in no case such payment will exceed 150% of the severance payment cap according to Section 4.2.3 of the German Corporate Governance Code.

After the reduction of the number of Supervisory Board members from six to three in 2012, this number and the composition of the Supervisory Board of the Company remained unchanged in 2013. The members of the Supervisory Board are Heino von Prondzynski, Einsiedeln (CH), as its chairman, Ann Clare Kessler, Ph. D., Rancho Santa Fe, CA (U.S.A.) and Prof. Dr. Günther Reiter, Pfullingen (GER).

In 2013, total remuneration of the members of the Supervisory Board amounted to EUR 121 thousand (2012: EUR 159 thousand) plus out-of-pocket expenses amounting to EUR 43 thousand (2012: EUR 42 thousand).

Further details to the composition of the Executive Board and the Supervisory Board and the remuneration of their members in the reporting year can be found in the "Remuneration Report" section of the Group management report 2013.

45 OTHER FINANCIAL OBLIGATIONS

For the Epigenomics Group, other financial obligations arise from a lease at the Berlin location. For the office space at Kleine Präsidentenstrasse 1, there is a fixed-term lease with a term expiring on August 31, 2014. Until this date, a total rent of approximately EUR 181 thousand (undiscounted) has to be paid. At the balance sheet date, the Company was in negotiations for a new lease, either at the same location or elsewhere in Berlin.

The U.S. affiliate is located in 800 Fifth Avenue in Seattle, WA, and has a rental agreement in place with a term expiring on October 31, 2014. Until this date, a total rent of approximately EUR 58 thousand has to be paid. The U.S. company has another postal address in the state of Maryland, U.S.A., and intends to move its operations from Seattle to Maryland in 2014.

In the previous years, Epigenomics acquired numerous exclusive licenses to third-party intellectual property. This means that there are some obligations to pay minimum license fees in years to come. Additionally, Epigenomics has the obligation to reimburse most of those third parties for costs incurred in connection with the maintenance and the prosecution of the licensed rights. Those costs are mainly charges for patent attorneys or office actions and are difficult to forecast regarding their amounts and timing. The expected amount due to various licensors stands at approximately EUR 100 thousand in total for the years 2014 and 2015.

Due to contracts with third parties, at the balance sheet date, Epigenomics had payment obligations of more than EUR 343 thousand for goods and services to be received in 2014. However, as delivery dates and effective delivery quantities and qualities are to some extent uncertain, the future payments resulting from those contractual obligations could also be lower.

46 INFORMATION ON THE AUDITOR OF THE COMPANY

As in the previous years, UHY Deutschland AG has been chosen as the Company's auditing firm for the financial year 2013. During the reporting year, a total amount of EUR 118 thousand (2012: EUR 116 thousand) has been expensed for miscellaneous services of this auditing firm for Epigenomics AG. Details are shown in the following table:

EUR thousand	2012	2013
Costs for audit services	76	77
Costs for other confirmation services	40	38
Costs for other services	0	3
Total	**116**	**118**

The costs disclosed for the annual audits are related to the audits on the individual financial statements of Epigenomics AG according to German GAAP as well as on the consolidated financial statements for the Epigenomics Group according to IFRSs. Other confirmation services occurred for critical reviews of the quarterly reports.

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

In October 2013, 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 (Aktiengesetz). The declaration has been published on the Company's website *(www.epigenomics.com/en/news-investors/investors/corporate-governance/corporate-governance).*

48 INFORMATION ON OTHER TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2013, the Company's liabilities due to members of its Executive Board amounted to EUR 2 thousand (Dec 31, 2012: EUR 0 thousand) and the liabilities due to members of its Supervisory Board amounted to EUR 59 thousand (Dec 31, 2012: EUR 131 thousand).

49 CLEARED FOR PUBLICATION

These consolidated financial statements have been approved and cleared for publication by the Executive Board of the Company on February 25, 2014.

Berlin, February 25, 2014

The Executive Board

RESPONSIBILITY STATEMENT

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

Berlin, February 25, 2014

The Executive Board

AUDITOR'S REPORT

We have audited the Consolidated Financial Statements prepared by Epigenomics AG, Berlin, comprising the Group balance sheet, the Group statement of profit or loss and other comprehensive income, statement of changes in Group equity, Group cash flow statement and the notes to the Consolidated Financial statements, together with the Group management report for the business year from January 1 to December 31, 2013. The preparation of the Consolidated Financial Statements and the Group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB (Handelsgesetzbuch: German Commercial Code) and supplementary provisions of the articles of association are the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB and supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Furthermore, not intended to qualify our opinion, we point out that the Consolidated Financial Statements are prepared on a going concern basis of the Group. However, based on the current budget and projected income the available liquidity at balance sheet date is not sufficient to sustain the Group´s operations over the following 24 month. Even in consideration of the fresh liquid resources created by the conversion of convertible notes in February 2014 before preparation of the Consolidated Financial Statements, fresh funds must be raised no later than at the beginning of 2015 to avoid illiquidity according to the Company's plans.

Unless this required fund raising will be realised by that time, it might be necessary for the Epigenomics AG to file for insolvency at the latest in the beginning of 2015.

In this regard, we refer to the explanations regarding financial risks in the Consolidated Management Report, in particular to the sections "Financial opportunities and risks" and "Outlook on financial situation". In consideration of available liquidity of EUR 8.0 million (cash in hand, balance at banks and marketable securities) at balance sheet date and a planned cash consumption of up to EUR 8.0 million in 2014, the Company considers the financial resources as sufficient to finance Epigenomics' operations beyond the year 2014 by means of already contractually secured inflows of funds by issuing further convertible notes of up to EUR 3.8 million and by already issued convertible notes.

Berlin, February 25, 2014

UHY Deutschland AG
Wirtschaftsprüfungsgesellschaft

(ppa. Kulla) Wirtschaftsprüferin

(Dr. Peters) Wirtschaftsprüferin

DISCLAIMER

This publication expressly or implicitly contains certain forward-looking statements concerning Epigenomics AG and its business. Such statements involve certain known and unknown risks, uncertainties and other factors which could cause the actual results, financial condition, performance or achievements of Epigenomics AG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Epigenomics AG is providing this statement as of this date and does not undertake to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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This annual report is also available in German.

CORPORATE CALENDAR

Report on Business 2013 – Annual press conference and analyst meeting	Friday, March 28, 2014
Annual General Shareholders' Meeting 2014 in Berlin	Tuesday, June 3, 2014
3-Month Report 2014 – January 1–March 31, 2014	Tuesday, May 13, 2014
6-Month Report 2014 – January 1–June 30, 2014	Tuesday, August 12, 2014
9-Month Report 2014 – January 1–September 30, 2014	Tuesday, November 11, 2014

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