epigenomics

INTERIM STATEMENT

JANUARY 1 – SEPTEMBER 30

9M 2017

QUARTERLY DEVELOPMENT OF KEY FIGURES (UNAUDITED)

in EUR thousand (except where indicated)	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Statement of Profit or Loss					
Revenue	864	1,782	281	246	346
Gross profit	265	1,613	251	160	273
EBIT	-2,615	-1,587	-2,693	-4,563	-1,199
EBITDA	-2,544	-1,511	-2,618	-4,487	-1,120
EBITDA before share-based payment expenses	-2,494	-1,498	-2,353	-3,424	-2,047
Net loss for the period	-2,338	-1,205	-2,370	-4,103	-1,139
Balance Sheet (at the respective reporting dates)					
Non-current assets	2,624	3,019	3,238	3,602	3,835
Current assets	9,780	15,203	12,105	9,245	18,549
Non-current liabilities	700	89	103	155	99
Current liabilities	4,855	3,709	2,973	4,222	9,280
Equity	6,849	14,424	12,267	8,470	13,005
Equity ratio (in %)	55.2	79.2	80.0	65.9	58.1
Total assets	12,404	18,222	15,343	12,847	22,384
Statement of Cash Flows					
Cash flow from operating activities	-4,099	-5,232	-1,335	-2,945	-2,376
Cash flow from investing activities	-439	349	-283	-87	-296
Cash flow from financing activities	-1,365	9,785	-45	0	11,898
Net cash flow	-5,903	-4,957	-1,663	-3,032	9,226
Cash consumption	-4,538	-4,828	-1,618	-3,032	-2,672
Cash and cash equivalents at the end of the period	6,589	11,531	9,867	6,802	15,993
Stock					
Weighted-average number of shares issued	20,544,009	21,777,758	22,735,260	22,735,260	23,161,627
Earnings per share (basic and diluted, in EUR)	-0.11	-0.05	-0.10	-0.18	-0.05
Share price at the end of the period (in EUR)	4.99	4.55	4.98	7.23	4.72
Number of employees at the end of the period	45	45	43	44	45

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INTERIM STATEMENT ON FINANCIAL RESULTS FOR 9M 2017

EPIGENOMICS AG – INTERIM STATEMENT ON FINANCIAL RESULTS FOR 9M 2017

DEAR SHAREHOLDERS,

In the third quarter of 2017, we made substantial progress in our efforts not only to secure reimbursement for our blood-based colorectal cancer test Epi proColon in the U.S., but also to fund our Company.

Reimbursement is comprised of two important factors, rate (i.e. price) and coverage. In July, we presented our reconsideration request to the Centers of Medicare & Medicaid Services (CMS) and its expert panel regarding the reimbursement rate for Epi proColon. In spite of an overwhelming vote by the expert panel to approve our request, CMS issued a preliminary decision in September upholding its ruling from 2016.

At the same time, CMS implemented a new method for calculating reimbursements for clinical laboratory services in accordance with the Protecting Access to Medicare Act of 2014 (PAMA). Reimbursements by CMS for these services are now determined on the basis of the average reimbursement by private payors for identical services. If the preliminary reimbursement price published in September is definitively confirmed in November 2017, the reimbursement price for Epi proColon will increase as of January 1, 2018 from USD 83 to approximately USD 125.

We view the increase in the CMS rate for Epi proColon to approximately USD 125 as a positive development, however, we still have to gain coverage specifically from CMS to achieve our reimbursement goals. The two methods for CMS coverage are either a National Coverage Decision (NCD) or legislative action by the U.S. Congress. We are continuing efforts on both methods, including working with various medical societies for the inclusion of Epi proColon into colorectal cancer screening guidelines as this will aid in a successful coverage determination.

Additionally during Q3, we took key steps to secure funding for our Company. In September, we issued convertible notes with a nominal amount of EUR 7.1 million to Cathay Fortune International Company Limited (CFIC) under the exclusion of shareholders' pre-emptive rights. By issuing the convertible notes – as agreed in the Business Combination Agreement dated April 26, 2017 between Epigenomics and CFIC and published in the offer document for the voluntary public takeover offer of June 8, 2017 – Epigenomics will initially receive a liquidity inflow of approximately EUR 6.5 million.

Moreover, in September we conducted a capital increase in the context of a private placement of new shares, thereby generating approximately EUR 5.5 million in gross proceeds from the issuance. The capital increase was fully subscribed by institutional investors in Germany and the U.S.A.

Thanks to these successful corporate actions, we held EUR 16.9 million in cash including marketable securities as of the end of the third quarter and are therefore on a sound financial footing, which will enable us to take on the challenges that lie ahead.

Subsequent to Q3, we announced the addition of Dr. Jorge Garces as President and Chief Scientific Officer and Dr. Nick Potter as Director of Reimbursement and Medical Affairs. The addition of these two highly respected executives is an integral part of adding to the breadth and depth of expertise in the Company as we prepare for our commercial efforts post a positive reimbursement decision in the U.S.A.

We will keep you posted on the Company's continued development over the coming weeks and months.

Yours sincerely,

Gregory Hamilton
(CEO)

Dr. Uwe Staub
(COO)

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

EUR thousand	Q3 2016	Q3 2017	9M 2016	9M 2017
Revenue	**864**	**346**	**2,420**	**874**
Cost of sales	-599	-73	-1,466	-190
Gross profit	**265**	**273**	**954**	**684**
Gross margin in %	*30.7*	*78.9*	*39.4*	*78.3*
Other income	109	160	679	704
Research and development costs	-926	-635	-4,275	-3,148
Selling, general and administrative costs	-2,043	-842	-8,014	-6,209
Other expenses	-20	-155	-67	-487
Operating result/earnings before interest and taxes (EBIT)	**-2,615**	**-1,199**	**-10,723**	**-8,456**
Interest income	4	4	13	13
Interest expense	0	-35	0	-35
Other financial result	0	0	-1	-2
Net loss for the period before taxes on income	**-2,611**	**-1,230**	**-10,711**	**-8,480**
Taxes on income	273	91	755	867
Net loss for the period	**-2,338**	**-1,139**	**-9,956**	**-7,613**
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of available-for-sale securities	-38	2	-104	130
Foreign currency effect from consolidation	3	84	-2	262
Other comprehensive income for the period	**-35**	**86**	**-106**	**392**
Total comprehensive income for the period	**-2,373**	**-1,053**	**-10,062**	**-7,221**
Earnings per share (basic and diluted, in EUR)	**-0.11**	**-0.05**	**-0.50**	**-0.33**

The earnings per share (basic and diluted) are calculated by dividing the Group's net loss for the period by the weighted-average number of shares issued and admitted to trading in the respective period. The outstanding stock options and convertible notes issued by the Company are anti-dilutive according to IAS 33.41 and 33.43. Therefore, the earnings per share (diluted) equal the earnings per share (basic). In Q3 2017, the weighted-average number of shares issued was 23,161,627 (Q3 2016: 20,544,009). In 9M 2017, the weighted-average number of shares issued was 22,877,382 (9M 2016: 19,769,837).

CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30 (UNAUDITED)

ASSETS EUR thousand	**Dec 31, 2016**	**Sep 30, 2017**
Non-current assets		
Intangible assets	755	850
Tangible assets	713	774
Deferred tax assets	1,551	2,211
Total non-current assets	**3,019**	**3,835**
Current assets		
Inventories	257	243
Trade receivables	2,248	174
Marketable securities	753	882
Cash and cash equivalents	11,531	15,993
Other current assets	414	1,257
Total current assets	**15,203**	**18,549**
Total assets	**18,222**	**22,384**

EQUITY AND LIABILITIES EUR thousand	**Dec 31, 2016**	**Sep 30, 2017**
Equity		
Subscribed capital	22,735	24,014
Capital reserve	54,873	59,397
Retained earnings	-51,719	-62,880
Net loss for the period	-11,161	-7,613
Other comprehensive income	-305	87
Total equity	**14,424**	**13,005**
Non-current liabilities		
Provisions	89	99
Total non-current liabilities	**89**	**99**
Current liabilities		
Trade payables	1,089	1,156
Deferred income	302	0
Convertible notes issued	0	6,412
Other liabilities	466	507
Provisions	1,852	1,205
Total current liabilities	**3,709**	**9,280**
Total equity and liabilities	**18,222**	**22,384**

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

EUR thousand	9M 2016	9M 2017
Cash and cash equivalents at the beginning of the period	**7,779**	**11,531**
Operating activities		
Net loss for the period	**-9,956**	**-7,613**
Adjustments for:		
Depreciation of tangible assets	91	87
Amortization of intangible assets	190	143
Stock option expenses	0	321
Financial income	-13	-13
Financial expenses	0	38
Taxes	-755	-867
Operating result before changes in operating assets and liabilities	**-10,443**	**-7,904**
Inventories	805	13
Trade receivables	-423	2,026
Other current assets	-679	-847
Non-current and current provisions	1,813	-548
Trade payables and other liabilities	1,461	614
Deferred income	-629	-6
Tax paid	-7	-5
Cash flow from operating activities	**-8,102**	**-6,657**
Investing activities		
Payments to acquire intangible fixed assets	-147	-37
Payments to acquire tangible fixed assets	-160	-172
Payments related to capitalized development costs	-442	-491
Proceeds from investment grants received	3	17
Interest received	18	18
Cash flow from investing activities	**-728**	**-665**

EUR thousand	9M 2016	9M 2017
Financing activities		
Proceeds from the issue of new shares	6,835	5,475
Payments for the issue of new shares	-1,804	-80
Proceeds from the issue of convertible notes	2,605	6,461
Payments for the issue of convertible notes	0	-3
Cash flow from financing activities	**7,636**	**11,853**
Net cash flow	**-1,194**	**4,531**
Currency translation effects	4	-69
Cash and cash equivalents at the end of the period	**6,589**	**15,993**

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

FINANCIALS 9M 2017

The Group's financial transactions are predominantly settled in euro (EUR) or U.S. dollar (USD). The rate of exchange for this currency pair as of September 30, 2017 was EUR/USD 1.1806 (September 30, 2016: EUR/USD 1.1161), and the average foreign currency exchange rate applied during the reporting period was EUR/USD 1.1218 (9M 2016: EUR/USD 1.1140).

RESULTS OF OPERATIONS

In Q3 2017 we recognized revenue in the amount of EUR 346 thousand – an amount exceeding the revenue reported in Q1 and Q2 2017. Compared to Q3 2016 (EUR 864 thousand), revenue declined by 60%, while compared to 9M 2016 (EUR 2,420 thousand), revenue fell by 64% to EUR 874 thousand. In the middle of the previous year, our joint U.S. commercialization partner Polymedco had initially stocked up on large inventories of Epi proColon following the product's FDA approval. This resulted in a relatively high revenue figure for the quarter. However, outstanding reimbursement decisions in the United States meant that Polymedco's order volume in 9M 2017 remained below the previous year's figure. Based on a comparison of the figures for the first nine months of the year, our product revenue fell by approximately 83% in total, from EUR 2,253 thousand in the previous year to EUR 393 thousand in 2017. By contrast, licensing income rose significantly in the same period from EUR 117 thousand to EUR 436 thousand. This increase was due primarily to contractual minimum license fees we received from our Chinese licensing partner. Income from R&D services in 9M 2017 was EUR 45 thousand, a slight decrease from the previous year (9M 2016: EUR 50 thousand).

Lower revenue in Q3 2017 drove the cost of sales down to EUR 73 thousand (Q3 2016: EUR 599 thousand) and to EUR 190 thousand in 9M 2017 (9M 2016: EUR 1,466 thousand). Our gross margin improved in Q3 2017 to 79% (Q3 2016: 31%) and in 9M 2017 to 78% (9M 2016: 39%), primarily because the high-margin licensing business accounted for a significantly greater share of overall revenue compared to revenue from product sales in the current year.

Other income of EUR 160 thousand in Q3 2017 (Q3 2016: EUR 109 thousand) was derived primarily from income from the disposal of other assets. In the first nine months of the year they therefore increased year on year from EUR 679 thousand (2016) to EUR 704 thousand (2017).

A considerable reduction in personnel expenses compared to the same period last year was the predominant factor affecting operating expenses in the reporting quarter. They decreased from EUR 1,218 (Q3 2016) thousand to EUR 153 thousand (Q3 2017). Traditional salary costs decreased only marginally year on year. However, share-based payment expenses in Q2 2017 were disproportionately high because of the performance of our share price. The effect was the opposite in the reporting quarter, lightening total personnel expenses considerably and thereby having a major influence on both R&D costs and selling, general and administrative costs. Based on a comparison of 9M 2017 and 9M 2016, personnel expenses in the reporting year (disregarding any similarly sharp one-off effect from share-based payment expenses in the previous year) were only marginally higher than the previous year's figure.

The decrease in R&D costs in the reporting quarter from EUR 926 thousand in Q3 2016 to EUR 635 thousand is largely attributable to the previously mentioned development of personnel expenses. The costs in connection with our intellectual property rights also fell noticeably compared to Q3 2016. By contrast, the costs of clinical studies increased considerably in the reporting quarter compared to the previous year. This was due to the "post approval study" commenced for Epi proColon in the U.S.A. The decline in R&D costs in the nine-month period from EUR 4,275 thousand (9M 2016) to EUR 3,148 thousand (9M 2017) is primarily attributable to the development of personnel expenses and the lower costs associated with intellectual property rights management.

Our selling, general and administrative (SG&A) costs decreased in Q3 2017 to EUR 842 thousand from EUR 2,043 thousand in Q3 2016. This was not only caused by the decrease in personnel expenses, but also due in part to a significant drop in legal expenses in Q3 2017 compared to the previous year. In the first nine months, selling, general and administrative costs decreased from EUR 8,014 thousand to EUR 6,209 thousand. The change within the Executive Board had also had an effect on costs in the previous year.

Other expenses amounting to EUR 155 thousand in the reporting quarter (Q3 2016: EUR 20 thousand) related solely to foreign exchange rate losses attributable to the depreciation of the U.S. dollar against the euro in the current year.

Altogether, our operating costs amounted to EUR 1,705 thousand in Q3 2017 (prior-year period: EUR 3,588 thousand). While the share price performance was responsible for the EUR 1,080 thousand decline in personnel expenses, the operating costs also reflected a sharp decrease in cost of materials. In the first nine months of the year, operating costs totaled EUR 10,034 thousand (9M 2016: EUR 13,822 thousand).

In the third quarter of 2017, EBIT amounted to EUR -1,199 thousand, a significant increase against the 2016 figure of EUR -2,615 thousand, and EBITDA before share-based payment expenses improved to EUR -2,047 thousand (Q3 2016: EUR -2,494 thousand). In the first nine months of 2017, EBIT amounted to EUR -8,456 thousand (9M 2016: EUR -10,723 thousand) and EBITDA before share-based payment expenses amounted to EUR -7,824 thousand (9M 2016: EUR -8,170 thousand).

The financial result declined to EUR -31 thousand in the reporting quarter (Q3 2016: EUR 4 thousand) due to the recognition of interest expense for the issued convertible notes. Deferred tax income amounted to EUR 91 thousand in Q3 2017 (Q3 2016: EUR 273 thousand).

The net loss decreased significantly in the third quarter to EUR 1,139 thousand (Q3 2016: EUR 2,338 thousand) and in the first nine months of 2017 to EUR 7,613 thousand (9M 2016: EUR 9,956 thousand). The loss per share narrowed from EUR 0.11 in Q3 2016 to EUR 0.05 in Q3 2017 and from EUR 0.05 in 9M 2016 to EUR 0.33 in the first nine months of the current year.

FINANCIAL POSITION AND CASH FLOW

In the first nine months of 2017, cash outflow from operating activities decreased by EUR 1,445 thousand from EUR 8,102 thousand in 9M 2016 to EUR 6,657 thousand. This decline was attributable primarily to the noticeable year-on-year decrease in operating costs.

In 9M 2017, cash outflow from investing activities decreased by EUR 63 thousand from EUR 728 thousand in 9M 2016 to EUR 665 thousand, mainly due to the decline in payments to acquire intangible assets in the reporting year.

Cash outflow from financing activities amounted to EUR 11,853 thousand in the first nine months of 2017 (9M 2016: EUR 7,636 thousand). This was attributable to the cash inflow in the third quarter stemming from the issue of convertible notes (EUR 6,461 thousand) and a capital increase with gross inflows amounting to EUR 5,475 thousand.

Our net cash inflow in the first nine months of 2017 was EUR 4,531 thousand, compared to a net cash outflow of EUR 1,194 thousand in 9M 2016. Due to lower operating cash outflows, cash consumption decreased to EUR 7,322 thousand in 9M 2017, compared to EUR 8,830 thousand in the comparable period of the previous year. Cash and cash equivalents amounted to EUR 15,993 thousand at the reporting date (December 31, 2016: EUR 11,531 thousand).

NET ASSET POSITION

At the reporting date, non-current assets increased from EUR 3.0 million as of December 31, 2016 to EUR 3.8 million, mainly due to an increase in deferred tax assets. Current assets increased from EUR 15.2 million at the beginning of the reporting period to EUR 18.5 million as of September 30, 2017, attributable primarily to liquidity injections stemming from the capital increase and the issue of convertible notes in the third quarter.

At the reporting date, subscribed capital amounted to EUR 24.0 million (December 31, 2016: EUR 22.7 million) and capital reserve to EUR 59.4 million (December 31, 2016: EUR 54.9 million). The increase in both line items by EUR 5.6 million in the reporting year was due mainly to the capital increase in the third quarter. Furthermore, the issue of convertible notes and share options contributed to the increase in the capital reserve. Offset against the net loss of EUR 7.6 million in the first nine months of 2017, this led to total equity of EUR 13.0 million at the reporting date (December 31, 2016: EUR 14.4 million). At the same time, the equity ratio decreased to 58.1% due to the increase in debt capital in the balance sheet attributable to the issue of convertible notes (December 31, 2016: 79.2%).

While the increase in non-current liabilities at September 30, 2017 as compared to the beginning of the year was immaterial, current liabilities increased from EUR 3.7 million at the beginning of the reporting year to EUR 9.3 million at the reporting date. The increase – which was attributable primarily to the aforementioned issue of convertible notes – was partially offset in the first nine months of 2017 by the decrease in provisions from EUR 1.9 million as of December 31, 2016 to EUR 1.2 million as of September 30, 2017 and the full utilization of deferred income amounting to EUR 0.3 million as of December 31, 2016.

REPORT ON POST-REPORTING DATE EVENTS

On November 5, 2017. after the end of the reporting period, the Company announced that the Supervisory Board appointed Dr. Jorge Garces as President and Chief Scientific Officer with effect from December 1, 2017. Dr. Garces, who has held senior management positions in the U.S. molecular diagnostics industry, will become a member of the Executive Board of Epigenomics and oversee Operations, Research and Development, Clinical Affairs, Regulatory and Quality.

Dr. Garces, (46), has over 20 years of management experience in the molecular diagnostics and life sciences industries. Prior to joining Epigenomics, Dr. Garces served as CEO and President of AltheaDx Inc. and previously at Enigma Diagnostics, Limited, in the same capacity. Dr. Garces was also Vice President and Site Operations Manager at Hologic, Inc., where he led the development and submission to FDA for approval of their Cystic Fibrosis and HPV products. Additionally, he was a senior executive at GenMark Diagnostics and Third Wave Technologies. Earlier in his career, he held positions in major clinical diagnostic laboratories including Genzyme Genetics and Athena Diagnostics.

Dr. Uwe Staub, who has served as Chief Operating Officer and member of the Executive Board since 2013, will leave the Company with effect March 31, 2018. The duration between the appointment of Dr. Garces and the departure of Dr. Staub will allow for an ample time for transition. “The Supervisory Board would like to express its great appreciation for Dr. Staub’s outstanding contributions to the development of the Company”, added Heino von Prondzynski. “Dr. Staub played a critical leadership role during the development and product approval phase for the Company. The Supervisory Board wishes Dr. Staub all the best for the future.”

OPPORTUNITIES AND RISKS

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

OUTLOOK

We confirm the revenue forecast for 2017, which we adjusted on July 6, 2017. We expect to generate revenue of between EUR 1.0 million and EUR 1.5 million for the year as a whole.

As far as costs are concerned, given the expected lack of Medicare reimbursement in 2017 we took appropriate measures in the third quarter to ensure that we could adapt to the revenue situation. The additional costs we initially expected in July could largely be avoided or at least deferred, meaning that the anticipated result for fiscal year 2017 now appears better than our forecast in the half-yearly report. We now expect adjusted EBITDA (not including share-based payment expenses) at the end of the year to range between EUR -10.5 million and EUR -11.5 million (previously: EUR -12.5 to -14.0 million).

DISCLAIMER

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

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

CORPORATE CALENDAR 2018

Annual Report 2017 – January 1–December 31, 2017	Friday, March 23, 2018

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