

Declaration of Governance

Declaration of compliance and reporting on Corporate Governance

Epigenomics AG has consistently based its corporate governance on the recommendations and suggestions of the German Corporate Governance Code. The most recent version of the Code is dated May 26, 2010. It contains new elements, in particular concerning the diversity in the composition of the Executive Board and the Supervisory Board. Epigenomics AG has adopted and implemented all amendments to the Code. In the financial year 2010 the Executive Board and the Supervisory Board discussed corporate governance issues several times and jointly submitted an updated declaration of compliance for 2010 in December 2010, pursuant to section 161 of the German Stock Corporation Act. The declaration was made permanently accessible to the general public on Epigenomics AG's website.

Constituting elements of the company – their composition and how they work

Epigenomics AG as a German stock corporation is subject to the German Stock Corporation Act. Its constituting elements are therefore the Annual General Shareholders' Meeting, the Executive Board and the Supervisory Board. The Executive Board and the Supervisory Board each have their own competencies and closely collaborate in a trustworthy manner in steering and supervision of the company.

Annual General Shareholders' Meeting

The owners (shareholders) of Epigenomics AG exercise their rights via the Annual General Shareholders' Meeting. The Annual General Shareholders' Meeting of Epigenomics AG takes place within eight months after the end of a respective fiscal year. According to section 119 of the German Stock Corporation Act the Annual General Shareholders' Meeting decides upon the Articles of Association, the composition of the Supervisory Board, capital measures and the appointment of the company's auditors. Each share corresponds to one single vote. All shareholders need to register in a timely manner in order to participate in the shareholders meeting. Participation and voting by proxy is also possible by granting a power of attorney.

Epigenomics AG publishes the invitation in time before each respective shareholders' meeting, including the specific decision proposals and required reports and information according to the German Stock Corporation Act in German and English language on its webpage as well as through the required media.

Supervisory Board

According to section 111 of the German Stock Corporation Act the Supervisory Board is responsible for the supervision of the Executive Board. The Supervisory Board is involved in strategic planning as well as in all issues of material importance to the company and decisions by the Executive Board that require Supervisory Board approval. This also includes the annual budget for each subsequent year that is being proposed by the Executive Board. Upon discussion with the Supervisory Board changes may be required and incorporated. The Supervisory Board also retains the auditors that have been appointed by the shareholders meeting.

The Supervisory Board at Epigenomics AG consists of six members, none of whom were previously members of the company's Executive Board. A quorum of at least three members is required for decision making in Supervisory Board meetings. The Supervisory Board i.a. appoints the members of the Executive Board. The Supervisory Board has formed an Audit and Corporate Governance Committee as well as a Personnel and Compensation Committee. Prof. Günther Reiter (chairman of the Audit and Corporate Governance Committee since January 1, 2011), Mr. Günter Frankenne and Prof. Uwe Bicker are members of the Audit and Corporate Governance Committee. The Compensation Committee is formed by Prof. Rolf Krebs (chairman), Ms. Ann Clare Kessler, Ph.D. and Mr. Joseph Anderson, Ph.D. All current members of the Supervisory Board with the exception of Mr. Joseph Anderson, Ph.D., were re-elected at the Annual General Shareholders' Meeting in May 2009. Mr. Joseph Anderson, Ph.D., was elected as a member of the Supervisory Board at the Annual General Shareholders' Meeting on June 8, 2010. The current term of office of all members of the Supervisory Board ends with the Annual General Shareholders' Meeting in 2012.

The working procedures of the Supervisory Board have formally been defined by itself in a charter. According to that charter the Supervisory Board has to meet at least once per calendar quarter. These four quarterly meetings are typically meetings in person. In addition, extraordinary meetings can be called that may also be conducted by telephone conference. The Executive Board regularly attends the Supervisory Board Meetings and as needed additional members of the senior management team get invited to attend the meetings. The first annual meeting following completion and audit of the annual financial report – the so-called "balance sheet meeting" - is also attended by the company's auditors who report directly to the Supervisory Board on their audit. During this meeting the Supervisory Board also conducts confidential discussions with the auditors without the Executive Board being present.

Agenda and decision proposals get communicated sufficiently in advance in writing to all participants. If needed at short notice, decisions are being taken in writing by circulated correspondence. All meetings have written minutes and the minutes have to be approved by all members.

The chairman of the Supervisory Board reports to the Annual General Shareholders' Meeting on the activities of the Supervisory Board and its committees. The respective report to the shareholders is published in the company's annual report.

Details of each individual member of the Supervisory Board as well as its compensation can be found in the compensation report that is part of the management report of the company's annual report.

Executive Board

The Executive Board gets appointed by the Supervisory Board. The Executive Board leads the company according to section 76 of the German Stock Corporation Act and according to its charter that is defined by the Supervisory Board. Any period of service may be a maximum of five years. Multiple successive appointments are, however, possible. The Supervisory Board can appoint one of the members of the Executive Board as Chief Executive Officer (CEO). None of the members of the Executive Board can represent the corporation by themselves. The company is always being represented by two members of the Executive Board or by one Executive Board member together with a manager with authorized signatory (Prokurist).

The company's articles of association do not define a minimum number of Executive Board members. There are currently two members of the Executive Board. The areas of responsibility are clearly defined without overlap in the charter of the Executive Board. Mr. Geert Walther Nygaard, Chief Executive Officer is responsible for corporate strategy, marketing and sales, clinical and product development, regulatory (since January 2011), medical affairs and quality. He is currently appointed on a service contract through January 31, 2015. Mr. Oliver Schacht, Ph.D., Chief Financial Officer is responsible for corporate finance, corporate development (business development, investor relations, public relations), corporate legal, research, intellectual property, regulatory (until the end of 2010), human resources as well as CEO of Epigenomics, Inc. His current service contract ends on March 31, 2011.

The Executive Board reports to the Supervisory Board in a timely and complete manner on all significant aspects of the company's development, its strategy and planning, the risks facing the group, as well as on compliance issues. The Executive Board consults the Supervisory Board on all important strategic decisions. There are typically bi-weekly Executive Board meetings to coordinate the Executive Board's workings. In addition, the Executive Board regularly consults the members of the senior management team consisting of the employees of the company's second management level. All meetings have written minutes.

Details of the compensation of members of the Executive Board can be found in the compensation report which is part of the company's management report in the annual report.

Transparency

Consistent, comprehensive and timely information vis a vis our employees, customers, suppliers, authorities, interest groups and other stakeholders is very important to Epigenomics AG. Reporting on the business activities and financials of Epigenomics AG is done by means of the annual report, press conferences and conference calls, quarterly financial reports and the annual financial report.

Topical information is also disseminated in a timely manner via press releases and where required via ad hoc releases. All press releases, presentations and notifications as well as the recent corporate calendar are accessible via the company's webpage (www.epigenomics.com) under „Investor Relations“ or „Newsroom“ in German and English language.

Trading in the company's stock or exercising stock options by members of the Executive Board or company employees is only permitted in five pre-defined 20 stock exchange trading days (so-called trading windows). Where required Epigenomics also maintains insider lists according to section 15 b of the German Securities Trading Act (WpHG). All those concerned have been informed about the legal requirements and sanctions.

Accounting and Auditing

Since fiscal 2001 the group's financial statements are being prepared according to IFRS principles and since the company's IPO in 2004 financials are published in accordance with statutory requirements and stock exchange rules and regulations. Upon completion by the Executive Board the consolidated group financial statements are being audited by the company's auditors and then approved by the Supervisory Board. The consolidated group financial statements get published within four months after the end of a particular fiscal year as part of the annual report.

The auditors immediately report to the Supervisory Board additionally within the scope of the balance sheet meeting on all material events and determinations derived from the audit that are relevant for the duties of the Supervisory Board. This also includes any emerging conflicts of interest situations and rotation requirements.

The quarterly reports of the company get reviewed critically by the auditors. Prior to approving each quarterly report there is a joint session between auditors, Audit and Corporate Governance Committee of the Supervisory Board, the Executive Board and managers responsible for accounting. At these sessions the financial reports are analyzed, critically reviewed and where necessary amended.

Risk Management

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 established a 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. The goal of this policy and all related systems is to identify 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 evaluated and is being developed further and discussed with the auditors of the company at the Executive Board and the Supervisory Board levels.

Additional information on the company's risk management system, the specific risks facing the group as well as accounting related internal controls and risk management can be found in the risk management section of the company's management report in the annual report.