

## **Declaration of Governance**

### *Declaration of Compliance and Reporting on Corporate Governance*

Epigenomics AG has consistently implemented its corporate governance in consideration of the recommendations and suggestions of the German Corporate Governance Code in its respective version, currently dated February 7, 2017. During the 2017 fiscal year the Executive Board and the Supervisory Board discussed corporate governance matters several times, each time jointly submitting, in April 2017, an interim update of the Declaration of Compliance and, in October 2017, the annual Declaration of Compliance for 2017 pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz*, "AktG"). The Declarations were made permanently accessible to the general public on Epigenomics AG's website.

The last Declaration of Compliance of October 2017 reads as follows:

The Executive Board and the Supervisory Board of Epigenomics AG hereby declare that, since the last declaration of compliance in October 2016 and the update in April 2017, Epigenomics AG has complied and complies with the recommendations of the German Government Commission on the German Corporate Governance Code (hereinafter also "Code") in the version of May 5, 2015 (published by the Ministry of Justice in the official part of the Federal Gazette on June 12, 2015), respectively the version of February 7, 2017 (published by the Ministry of Justice in the official part of the Federal Gazette on April 24, 2017), with the exceptions set forth below. References to Sections, paragraphs and sentences of the Code relate to the version of the Code of February 7, 2017 (published by the Ministry of Justice in the official part of the Federal Gazette on April 24, 2017).

#### **Section 3.8 paragraph 3**

Epigenomics AG has taken out a D&O policy. The policy includes as insured persons also the members of the Supervisory Board. Deviating from Section 3.8 Paragraph 3 the D&O policy does not provide for a deductible for members of the Supervisory Board. We consider such a deductible as inadequate taking into account the nature of the office as member of the Supervisory Board and the function of the Supervisory Board.

#### **Section 4.1.3 sentence 3**

At Epigenomics AG there exists no separate call system which the employees can use to report, in a protected manner, suspected breaches of the law within the Company. Owing to its size and organization, the Company does not believe that it is necessary to implement such a system. Accordingly, the Company deviates from the recommendation pursuant to Section 4.1.3 sentence 3 which has been introduced by the version of the Code published by the Ministry of Justice in the official part of the Federal Gazette on April 24, 2017.

#### **Section 5.1.2 paragraph 1 sentence 2 and paragraph 2 sentence 3 and Section 5.4.1 paragraph 2 sentences 1 and 2 and paragraph 4**

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. Furthermore, the Supervisory Board determined a maximum term of membership as well as a profile of skills and expertise for the entire Board. In deviation from the recommendations in Section 5.1.2 paragraph 2 sentence 3 and in Section 5.4.1 paragraph 2 sentence 2, we however 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 sentence 2 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 sentences 1 and 2 and assumed in Section 5.4.1 paragraph 4. We strive to achieve an appropriate diversity in the Executive Board and the Supervisory Board 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. Furthermore, the Supervisory Board has defined gender diversity objectives for the proportion of women in both the Executive Board and the Supervisory Board in accordance with Section 111 paragraph 5 of the Stock Corporation Act (*Aktiengesetz – AktG*). We therefore believe that (additional) 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 sentence 1, and 5.3.3**

Due to the size of the Company, the Supervisory Board did not and does not believe that it is necessary to form a Nomination Committee composed exclusively of shareholder representatives which recommends suitable Supervisory Board candidates for the proposals of the Supervisory Board to the general shareholders' meeting. Rather, this task is being performed by the full Supervisory Board. Owing to the size of the Company and the Supervisory Board, the Supervisory Board considers it adequate and appropriate to form only an Audit Committee. In contrast, the implementation of further committees was and is in the opinion of the Supervisory Board not necessary. Hence, the recommendations pursuant to Sections 5.3.1 sentence 1 and 5.3.3 continue not to be complied with.

#### *Corporate Bodies – Composition and Functioning*

As a German stock corporation, Epigenomics AG is subject to the German Stock Corporation Act. Its constituting bodies are the Annual General Shareholders' Meeting (AGM), 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 supervising the Company.

#### *Annual General Shareholders' Meeting*

The shareholders of Epigenomics AG exercise their rights in the AGM. The AGM of Epigenomics AG takes place within eight months after the end of the respective fiscal year. According to Section 119 AktG the AGM decides and passes resolutions upon, inter alia, the formal approval of the actions of the Executive Board and the Supervisory Board, the composition of the Supervisory Board, the Company's Articles of Association, capital measures and the appointment of the Company's auditors. Each share of the Company corresponds to one single vote that its holder may exercise at the AGM. All shareholders who are entered in the share register and who registered in a timely manner are eligible to participate in the AGM. Participation and voting by proxy is also possible by granting a power of attorney to an attorney-in-fact of the shareholder's choice.

In due time before each AGM, Epigenomics AG publishes the invitation, the exact wording of the proposed resolutions as well as any reports and/or information required according to the applicable regulations concerning stock corporations in German and English on its website as well as in the Federal Gazette ("*Bundesanzeiger*").

#### *Supervisory Board*

According to Section 111 AktG, the Supervisory Board is responsible for consulting and supervision of the Executive Board. Furthermore, the Supervisory Board is responsible for appointing and dismissing members of the Executive Board as well as for the conclusion and termination of their Executive Board service contracts. The Supervisory Board is involved in strategy and planning as well as in all issues of material importance to the Company. All material decisions by the Executive Board require Supervisory Board approval. This includes the approval of the annual budget for each subsequent year, which is being

proposed by the Executive Board. Upon discussion with the Supervisory Board, changes may be required and incorporated. The Supervisory Board also issues the mandate for the audit of the annual financial statements to the auditor which has been appointed by the AGM.

The Supervisory Board of Epigenomics AG consists of four members, none of whom has previously been a member of the Company's Executive Board. The Supervisory Board shall have a quorum if at least three of its members participate in the adoption of the resolution. The current members of the Supervisory Board, Mr. Heino von Prondzynski, Mrs. Ann Clare Kessler, Ph.D., and Prof. Dr. Günther Reiter were re-elected at the AGM on May 13, 2015. Dr. Helge Lubenow was elected as a Supervisory Board member by the AGM on May 25, 2016. Mr. Heino von Prondzynski is the Chairman of the Supervisory Board. The current term of office of all members of the Supervisory Board ends at the end of the AGM that resolves on the formal approval of the actions of the Supervisory Board for the fiscal year ending December 31, 2017. The *curricula vitae* of the members of the Supervisory Board are published on the Company's website ([www.epigenomics.com](http://www.epigenomics.com)) under "News & Investors" — "Corporate Governance" — "Supervisory Board".

In its meeting on February 6, 2017, the Supervisory Board again resolved that the target ratio of female members on the Supervisory Board shall be one third and that the target ratio shall be met by December 31, 2021. Currently, the Supervisory Board has two female members. This corresponds to a proportion of women of 50 %. The target ratio of one third has thus been met within the imposed deadline.

Furthermore, in its meeting on September 26, 2017, the Supervisory Board determined a profile of skills and expertise for the entire Supervisory Board. The profile of skills and expertise aims at facilitating a qualified supervision of and advice to the Executive Board by the Supervisory Board and at ensuring that the Supervisory Board's members collectively have the knowledge, skills and professional expertise required to properly perform all duties of the Supervisory Board of a capital market-oriented, internationally operating Company in the molecular diagnostics industry. To this end, the members of the Supervisory Board collectively shall have expertise in and /or knowledge of managing an internationally operating Company as well as expertise and/ or knowledge in the fields of accountancy and financial reporting, auditing, corporate finance, controlling and risk management, governance and compliance. Moreover, they shall collectively be familiar with the Company's field of business activity and thus have expertise and /or knowledge in the fields of research and development – if possible within the area of technologies that are relevant for the Company and adjacent or related areas – as well as in the fields of production, marketing and sales. The Supervisory Board assumes that its current composition fulfills this profile of skills and expertise.

Generally, only such people shall be proposed for election to the Supervisory Board who, at the time of election, have not yet been a member of the Supervisory Board for more than twenty years. All current members of the Supervisory Board comply with this internally established general time limit. Apart from this, the Supervisory Board has not determined any concrete objectives regarding its composition. The Supervisory Board regards the adequate number of independent Supervisory Board members and thus – as there are no employees' representatives in the Supervisory Board – of shareholder representatives to be at least three. The Supervisory Board assumes that all its current members, Mr. Heino von Prondzynski, Mrs. Ann Clare Kessler, Ph.D., Prof. Dr. Günther Reiter and Dr. Helge Lubenow, are independent members within the meaning of the German Corporate Governance Code.

The working practices of the Supervisory Board have essentially been formally regulated by the rules of procedure that the Supervisory Board has adopted. According to those rules, the Supervisory Board has to meet at least once per calendar quarter. These four quarterly meetings are typically physical meetings, but may possibly also be conducted by telephone. Furthermore, additional meetings can be called. The Executive Board regularly attends the Supervisory Board Meetings and as needed, additional senior managers are invited to attend the meetings. The first annual meeting following the completion and audit of the annual financial statements and the consolidated financial statements – the so-called "Balance Sheet Meeting" – is also attended by the Company's auditor, who reports directly to the Supervisory Board on the audit performed. During this meeting, the Supervisory Board also conducts confidential discussions with the auditors without the Executive Board being present.

The agenda and resolution proposals are communicated well in advance of a Supervisory Board meeting in writing to all participants. If needed at short notice, resolutions are also taken in writing by circular resolution or in conference calls. All meetings have written minutes and the minutes have to be approved by all members.

The Supervisory Board has established from among its members an Audit Committee, which consists of two members and which has an advisory, preparatory and supervisory function, but is not authorized to adopt resolutions. Prof. Dr. Günther Reiter and Dr. Helge Lubenow have been appointed as members of the Audit Committee; Prof. Dr. Günther Reiter has additionally been appointed as its chairman. The appointments have been made for a term corresponding to the relevant committee member's term of office on the Supervisory Board. The Supervisory Board has not established any other committees besides the Audit Committee.

Once per year, the supervisory board reports on its activities to the shareholders; the report is published in the Company's annual report. Moreover, the Chairman of the Supervisory Board reports on the activities of the Supervisory Board to the AGM each year.

Details of each individual member of the Supervisory Board as well as his/her compensation can be found in the remuneration report, which is part of the group management report in the Company's consolidated financial statements.

#### *Executive Board*

The Executive Board is appointed by the Supervisory Board. The Executive Board leads and represents the Company. The Supervisory Board appoints the Executive Board members for a maximum of five years. Multiple successive appointments are permitted.

The Supervisory Board has issued rules of procedure for the Executive Board, which govern in particular the internal working practices and the allocation of responsibilities within the Executive Board and its cooperation with the Supervisory Board.

The Company's Articles of Association do not define a minimum number of Executive Board members. On December 31, 2017, the Executive Board consisted of three members. Mr. Gregory K. Hamilton was appointed CEO for the period until December 31, 2018. On December 1, 2017 Mr. Jorge Garces, Ph.D., was appointed Executive Board member acting as Chief Operating Officer of the Company until December 31, 2020. So far, the responsibility for the operative areas lay with Dr. Uwe Staub, who will leave the Company as an Executive Board Member by the end of his current appointment period on March 31, 2018. Additionally, in November 2017 Mr. Albert Weber was appointed Executive Board member from January 1, 2018 on with responsibility for the areas of finance, human resources and administration. The appointment of Mr. Albert Weber ends on December 31, 2020. Each member of the Executive Board represents the Company jointly with another member of the Executive Board or jointly with an authorized signatory (*Prokurist*). The Supervisory Board has not made use of the possibility to grant sole power of representation to members of the Executive Board.

In its meeting on February 6, 2017, the Supervisory Board resolved that the target ratio of female members on the Executive Board shall be 0 % and that the target ratio shall be met by December 31, 2021. Currently, the ratio of female members on the Executive Board is 0 %.

Additionally, the Executive Board resolved in its meeting on February 6, 2017 on target ratios of female employees on the first two management levels below the Executive Board which shall be met by December 31, 2021. In this regard, the Executive Board has determined that the target ratio of female employees on the first management level shall be 0 % and that the target ratio of female employees on the second level of management shall be at least one third. Currently, the ratio of female employees is equal to 100 % on

the first management level and to around 45 % on the second management level. The target ratios of 0 % and of one third, respectively, have thus been met within the applicable deadline.

The Executive Board regularly reports to the Supervisory Board in a timely and comprehensive manner on all significant aspects of the Company's development, its strategy and planning, on risks faced by the Group as well as on compliance related issues, and consults the Supervisory Board prior to any important strategic decisions.

Details of the compensation of members of the Executive Board can be found in the remuneration report, which is part of the management report and the group management report in the Company's consolidated financial statements.

#### *Stock-based Compensation Programs*

In the 2017 fiscal year stock options were issued to the members of the Executive Board and to employees of the Company as well as to members of the management and to employees of the Company's subsidiary, Epigenomics, Inc. on the basis of the stock option programs 16-18 and 17-19 which were approved by the AGM. Further details about these programs, and about the phantom stock programs implemented by the Company until 2015, can be found in the Company's annual financial statements and consolidated financial statements 2017.

#### *Transparency*

Consistent, comprehensive and timely information of employees, investors, customers, suppliers, authorities and other stakeholders is very important to Epigenomics AG. Reporting on any business activities and the financial situation of Epigenomics AG is done by means of the annual report, press conferences and conference calls, the quarterly statements and half-yearly financial reports and the annual and consolidated financial statements. Information is also disseminated in a timely manner by means of press releases and where required by law, via ad hoc announcements. All press releases, presentations and notifications as well as the up-to-date corporate calendar are available at the Company's website ([www.epigenomics.com](http://www.epigenomics.com)) under "News & Investors".

Generally, trading in primary and derivative securities of the Company by Executive Board members or employees of the Company is permitted only outside of the statutory "closed periods" and additional internally defined "black-out" periods. When required, Epigenomics also maintains the insider registers required under Article 18 of the European Market Abuse Regulation (Regulation (EU) No 596/2014, "MAR"). Each internal and external person, who has been identified as an insider, will be informed individually and immediately in writing about the legal requirements and sanctions in connection with insider trading.

#### *Accounting and Auditing*

The annual financial statements of Epigenomics AG (single-entity financial statements) are prepared in compliance with the applicable provisions of commercial law and stock corporation law and published in accordance with statutory requirements. The consolidated financial statements of Epigenomics AG are prepared according to commercial law and applying the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, as they are to be applied in the European Union (EU) from time to time, and published in accordance with statutory requirements and the stock exchange rules and regulations of the Frankfurt Stock Exchange. After the single-entity financial statements and the consolidated financial statements have been prepared, they are audited by the Company's auditor and adopted and approved by the Supervisory Board. Generally, both financial statements are published within three months after the end of the fiscal year under review.

The auditor reports to the Audit Committee and, at the Balance Sheet Meeting, to the Supervisory Board on all material findings and events derived from the audit that are relevant for the fulfillment of the duties of the Supervisory Board. This also includes any emerging grounds for exclusion or bias.

The quarterly statements and half-yearly reports of the Company are regularly critically reviewed by the auditor. Prior to approval of each quarterly statement or half-yearly report, the Audit Committee of the Supervisory Board meets in order to analyze, critically discuss and if necessary amend these reports. Participants of these meetings include the auditor, the members of the Audit Committee, the Senior Vice President of Finance and Accounting and, as the case may be, further internal experts.

#### *Risk Management*

Epigenomics is a globally operating listed cancer molecular diagnostics Company and as such is 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 AG has established a comprehensive and effective system to identify early, document, 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 systems is to systematically identify risks at the earliest possible stage, to estimate their likelihood of occurrence as well as their potential qualitative and quantitative impact, and to be able to design and implement effective countermeasures. The risk management system is regularly evaluated and further developed and discussed with the auditors of the Company at the Executive Board and Supervisory Board levels.

Additional information on the Company's risk management system, any specific risks faced by the Company and on the accounting related internal control system can be found in the risk report, which is part of the management report and the group management report in the Company's annual/consolidated financial statements.

#### *Compliance Management System*

The main features of the Compliance Management System established at the Company are presented in the Company's annual report.