

Report of the Management Board on agenda item 4 pursuant to Sec. 221 Para. 4 Sent. 2 in connection with Sec. 186 Para. 4 Sent. 2 AktG

The Management Board and the Supervisory Board propose to the Annual General Shareholders' Meeting under agenda item 4 to authorize the Management Board to issue with the consent of the Supervisory Board until June 2, 2013, once or several times convertible bonds in an aggregate nominal amount of up to € 25,000,000.00 and to grant conversion rights to the holders of convertible bonds for new shares in the Company. A conditioned capital is proposed to be established to serve such convertible bonds.

The proposed authorization shall expand the Company's opportunities for financing its business activities, as more specifically defined below, and should allow the Management Board, in particular, to flexibly and promptly utilize with the consent of the Supervisory Board financing opportunities for the best interest of the Company.

The shareholders, in principle, have a subscription right to convertible bonds. Through this, the shareholders obtain the opportunity to invest their capital in the Company and, at the same time, to sustain their share quota therein. The Management Board shall, however, be authorized to exclude with consent of the Supervisory Board and in accordance with the law such subscription right in the following events:

- It should be possible to exclude the subscription right for fractional amounts. This shall simplify the implementation of a capital increase in which subscription rights, in principle, are granted to the shareholders. Fractional amounts might result from the volume of the capital increase and the necessity of a practical subscription ratio. The value of such fractional amounts is, in general, of minor value for the individual shareholder, whereas the costs of such capital increase would without the exclusion of the subscription right be considerably higher. In addition, the possible dilution effect is negligible due to the restriction to only fractional amounts. The new shares for which the subscription right has been excluded due to fractional amounts will be used to the best possible purpose for the Company. The exclusion of the subscription right, therefore, serves practical purposes and simplifies the implementation of an issuance.
- The Management Board shall be authorized to exclude with the consent of the Supervisory Board the subscription right in analogous application of Sec. 186 Para. 3 Sent. 4 AktG if the issue price of the convertible bonds is not substantially lower than their theoretical market value as determined in accordance with accepted methods of financial mathematics. Such exclusion of the subscription right is necessary if a bond is to be placed at short notice in order to make use of a favorable market environment. The interests of the shareholders are preserved in that the convertible bonds are issued at a price

which is not substantially lower than their market value. This avoids a significant economic dilution of the share value. Furthermore, such exclusion of subscription right is limited to convertible bonds with rights on shares representing a notional portion of the share capital of not more than 10%, neither at the time the issue takes effect nor at the time of the exercise of the authorization. Such 10% limit includes shares from the Authorized Capital 2008/I proposed under agenda item 5 issued with the exclusion of the subscription rights pursuant to Sec. 186 Para. 3 Sent. 4 AktG during the term of the authorization pursuant to agenda item 4. Such deduction serves the interests of the shareholders in a dilution to be as low as possible.

Finally, the shareholders will at any time have the opportunity to maintain their share quota even after the exercise of conversion rights or the occurrence of the conversion obligation by virtue of share purchases on the stock exchange. In contrast, the Company's authorization to exclude subscription rights provides for conditions close to the market, for a maximum degree of security to place the convertible bonds with third parties and for a short-term utilization of favorable market conditions.

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The Management Board
Epigenomics AG



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