

## **Report of the Executive Board on agenda item 5 pursuant to Section 186 Paragraph 4 Sentence 2, Section 203 Paragraph 2 Sentence 2 of the German Stock Corporation Act (AktG)**

The Annual General Shareholders' Meeting of May 11, 2009, passed a resolution to the effect that the Executive Board is authorized until May 10, 2014, to increase the share capital of the Company, with the consent of the Supervisory Board, once or several times by up to EUR 2,939,472.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares (Authorized Capital 2009/I). In its report pursuant to Section 186 Paragraph 4 Sentence 2 AktG, Section 203 Paragraph 2 Sentence 2 AktG regarding the creation of the Authorized Capital 2009/I, the Executive Board had commented that for the coming years, the Executive Board should be enabled to react at short notice to upcoming financing opportunities and requirements in connection with the development and commercialization of the Company's diagnostic products.

The proposal by the Executive Board and the Supervisory Board to the Annual General Shareholders' Meeting to create the new Authorized Capital 2011/I serves the same purpose. The proposed new Authorized Capital 2011/I together with the new Authorized Capital 2011/II as proposed under agenda item 6 would exhaust the scope permitted by the German Stock Corporation Act. The proposal under agenda item 5 shall authorize the Executive Board to increase the share capital of the Company, with the consent of the Supervisory Board, once or several times by up to EUR 4,409,205.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares until June 27, 2016. The Authorized Capital 2011/I amounts to approx. 10% of the existing share capital of the company. Since agenda item 8 proposes a resolution to reduce the share capital of the company it further provides for an adequate reduction of the Authorized Capital 2011/I. This serves to maintain an appropriate balance between share capital and Authorized Capital 2011/I of approx. 10% also after the capital decrease and thus to protect shareholders' rights against dilution.

Upon the exercise of the Authorized Capital 2011/I, the shareholders, in principle, have a subscription right. However, it is proposed that such subscription right can be excluded, with the consent of the Supervisory Board, in four events:

- The Executive Board shall be entitled to exclude the subscription right for fractional amounts. This shall simplify the implementation of a capital increase in which the subscription right, in principle, is 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 be considerably higher without the exclusion of the subscription right. 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.

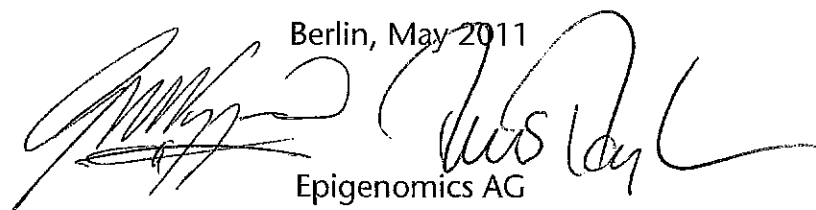
- Furthermore, the Executive Board shall be entitled to exclude the subscription right in the case that the new shares are issued in a capital increase against contribution in cash at an issuing price which is not materially below the market price pursuant to Section 186 Paragraph 3 Sentence 4 AktG. This authorization enables the Company to promptly and flexibly realize opportunities on the market in its different business areas and to satisfy capital needs which may arise therefrom, even on very short notice. The exclusion of the subscription right enables the Company not only to take prompter action, but also enables the placement of shares at a price close to the market price, i.e. without the discount which, in general, is required in connection with an issuance with the subscription right being granted. This results in higher issuance proceeds to the benefit of the Company. In addition, with such placement, new shareholders could be addressed. The German Stock Corporation Act does not provide for a fixed limit on the discount. When utilizing the authorization, the Executive Board will determine, with the consent of the Supervisory Board, the discount as low as possible according to the market conditions prevailing at the time of the placement. A discount of 3% up to a maximum of 5% of the current market price will generally not be regarded as a substantial shortfall. The shares issued with an exclusion of the subscription right according to Section 186 Paragraph 3 Sentence 4 AktG must not, in total, exceed 10% of the share capital, neither at the time the authorization becomes effective nor at the time of the usage thereof. In calculating this limit, the Company's own shares will be considered if sold under exclusion of the subscription right pursuant to Section 186 Paragraph 3 Sentence 4 AktG during the term of this authorization. Shares issued upon the exercise of bonds with conversion and/or option rights respectively to fulfill a conversion obligation will be credited against this 10% limit as well if the bonds were issued during the term of the authorization with the exclusion of the subscription right in accordance with Section 186 Paragraph 3 Sentence 4 AktG.

This requirement responds, in accordance with the law, to the need of the shareholders for a dilution protection regarding their investment. Due to the limitation of capital increases with the exclusion of subscription rights, each shareholder has, in principle, the possibility to purchase the number of shares necessary to preserve his share quota at substantially the same terms and conditions on the stock exchange. Thus, in the event of the usage of this authorized capital with the exclusion of the subscription right, interests regarding the investment and the voting rights are adequately considered in correspondence with the legal purpose of Section 186 Paragraph 3 Sentence 4 AktG, whereas the Company obtains further flexibility for the benefit of all shareholders.

- Furthermore, the Executive Board shall be entitled to exclude the shareholders' subscription right in the event of a capital increase against contribution in kind. The Executive Board is thereby enabled to use, in singular eligible cases, shares of the Company for the acquisition of enterprises, parts of enterprises, participations in enterprises or other assets. It may become necessary during negotiations to offer as consideration not cash but shares. The possibility to offer shares in the Company as consideration creates an advantage in the competition regarding attractive acquisition objects as well as the required flexibility to make use of upcoming opportunities to acquire enterprises, parts of enterprises, participations in enterprises or other assets while tapping the Company's cash resources. In addition, a consideration in shares may be useful with respect to an optimal financing structure. This would not be disadvantageous for the Company, since the issuance of shares against contribution in kind requires the contribution in kind to be of fair value in relation to the value of the shares. When determining the value relation, the Executive Board will ensure that the interests of the Company and its shareholders are adequately considered and that an adequate issuing price will be achieved for the new shares.
- Finally, the Executive Board shall be entitled to exclude the subscription right as far as holders of option rights or creditors of convertible bonds issued by the Company or its subordinated Group companies are granted a subscription right on new shares in accordance with the terms and conditions of the issuance. For a simplified placement in the capital market, the terms and conditions of warrants and convertible bonds normally provide for a protection against dilution securing that holders of option rights and creditors of convertible bonds upon the subsequent issuance of shares are granted a subscription right on these shares such as shareholders would be entitled to. Thus, the beneficiaries of the subscription rights are treated as if they had exercised their subscription rights and were shareholders. In order to provide the accordant issuance (warrants or convertible bonds) with such a protection against dilution, the subscription right of the shareholders on such shares is to be excluded. This serves a simplified placement of the issuance and, therefore, the interest of the shareholders in an optimized finance structure of the Company.

In every single case, the Executive Board will thoroughly scrutinize whether it will make use of the authorization to increase the capital and exclude the shareholders' subscription rights. It will make use of this authorization only if the Executive Board and the Supervisory Board are of the opinion that this is in the interest of the Company and, therefore, its shareholders. It will report to the Annual General Shareholders' Meeting on every use it has made of the authorized capital.

Berlin, May 2011



Epigenomics AG  
The Executive Board