

## **Report of the Executive Board on agenda items 4 and 5 pursuant to Section 203 Paragraph 2 Sentence 2 in connection Section 186 Paragraph 4 Sentence 2 AktG**

Pursuant to Section 203 Paragraph 2 Sentence 2 in connection with Section 186 Paragraph 4 Sentence 2 AktG, the Executive Board issues a written report on each of the authorizations to exclude subscription rights in relation to the new Authorized Capitals 2014/I and 2014/II as per items 4 and 5 of the agenda which is released in full below:

The Annual General Shareholders' Meeting of May 6, 2013 passed a resolution to the effect that the Executive Board is authorized until May 5, 2018, to increase the share capital of the Company, with the consent of the Supervisory Board, once or several times by up to EUR 1,196,784.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares (Authorized Capital 2013/I). In the same Annual General Shareholders' Meeting, the Executive Board was further authorized until June 27, 2016, to increase the share capital of the Company, with the consent of the Supervisory Board, once or several times by up to EUR 4,787,138.00 against contribution in cash and/or in kind by issuing new non-par value bearer shares (Authorized Capital 2013/II). In October 2013, the Authorized Capital 2013/I has been largely utilized, and currently amounts only to EUR 318,589.00. Together, the Authorized Capitals 2013/I and 2013/II therefore currently amount to EUR 5,105,727.00.00. This corresponds to approximately 38% of the share capital.

Against the background of the financial, asset and profit situation of the Company as well as the fact that Epi proColon® needs to be introduced to the U.S. market if the admission proceedings are successfully completed, the Executive Board believes that the Authorized Capitals 2013/I and 2013/II are not sufficient to put the Company in a position to cover a potential financing need at short notice and to be capable of acting in a flexible manner with regard to the strategic and operational challenges. With the proposals under agenda items 4 and 5, the Executive Board shall be authorized, subject to the approval by the Supervisory Board, to increase the share capital of the Company once or several times by up to EUR 1,351,089.00 (Authorized Capital 2014/I), and EUR 5,404,356.00 (Authorized Capital 2014/II), respectively, in each case until June 2, 2019 and against contribution in cash or in kind by issuing new non-par value bearer shares. Therewith, the amount of the Authorized Capital 2014/I corresponds to slightly under 10%, and the amount of the Authorized Capital 2014/II corresponds to slightly under 40% of the current share capital.

In case of a utilization of the Authorized Capital 2014/I and the Authorized Capital 2014/II, the shareholders will, in principle, have a subscription right. The subscription right may also be granted by way of an indirect subscription right (Section 186 Paragraph 5 AktG).

In specific cases the Executive Board shall, however, be authorized, subject to approval by the Supervisory Board, to exclude the subscription right of the shareholders. An exclusion of the subscription rights shall thereby be permissible both for the Authorized Capital 2014/I as well as for the Authorized Capital 2014/II in the following to instances:

- Shareholders' subscription rights can first be excluded for fractional amounts. This shall simplify the implementation of an issuance in which the subscription right, in principle, is granted to the shareholders. Fractional amounts might result from the respective 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 the issuance would be considerably higher without such exclusion of the subscription right. In addition, the possible dilution effect is normally marginal 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, and is therefore in the interests of the Company and its shareholders. In determining the subscription ratio, the Executive Board will take into account the interest of the shareholders to keep fractional amounts small.
- Furthermore, the Executive Board shall be entitled to exclude the shareholders' subscription right in the event of capital increases 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 for the acquisition of other assets, including receivables. 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 preserving the Company's cash resources. The other assets which can be acquired as contributions in kind also comprise claims against the Company. The ability to satisfy such claims not only by means of a cash payment, but by issuing new shares allows the Company to preserve its liquidity and to improve its financing structure. In addition, it may put the Company into a position where it can agree with the third party on terms and conditions for the fulfillment of the claims which are more favorable to the Company. The proposed authorization to exclude subscription rights is therefore, in the view of the Executive Board, in the interest of the Company and its shareholders. The Company does not have a disadvantage, 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 consideration will be obtained by the Company for its new shares. To this effect, the Executive Board will adequately take into account the stock price of the share of the Company and retain, to the extent possible and useful in the individual case, third party experts.

The proposed Authorized Capital 2014/I provides for two additional cases where an exclusion of subscription rights shall be possible:

- It shall be possible to exclude the subscription right if the new shares are issued in a capital increase against contribution in cash at an issuing price which is not materially below the stock 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 or from other operational reasons, 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 subscription rights. This results in higher issuance proceeds to the benefit of the Company. In addition, with such placement, new groups of shareholders can 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 – in compliance with legal regulations, the discount as low as possible according to the market conditions prevailing at the time of the placement. The shares issued under exclusion of subscription rights according to Section 186 Paragraph 3 Sentence 4 AktG must not, in aggregate, exceed 10% of the share capital, neither at the time the authorization by the general annual shareholders' meeting of June 3, 2014 becomes effective nor at the time it will be utilized. Shares newly issued by the Company during the term of the authorization in a capital increase against contribution in cash or shares acquired and subsequently re-sold by the Company during this period count towards this limitation, if and to the extent the subscription right is excluded in accordance with Section 186 Paragraph 3 Sentence 4 AktG or the re-sale occurs in accordance with this provision. If, during the term of the authorization, convertible bonds, bonds with warrants or participation rights or a combination of these instruments are issued under an exclusion of the subscription right of the shareholders pursuant to Section 221 Paragraph 4 Sentence 2 in connection with Section 186 Paragraph 3 Sentence 4 AktG, those shares, for which a conversion or option right or obligation, or a share delivery right in favour of the Company exist based on these instruments, are also to be counted towards the limitation.

This responds, in accordance with statutory regulations, to the need of the shareholders for a dilution protection regarding their investment. Due to the limitation of capital increases with exclusion of subscription rights, each shareholder has, in principle, the possibility to purchase

the number of shares necessary to preserve its participation quota at substantially the same terms and conditions on the stock exchange. Thus, in the event of the usage of this authorized capital under exclusion of subscription rights, it is ensured that the interests regarding the investment and the voting rights are adequately preserved in correspondence with the legal rationale of Section 186 Paragraph 3 Sentence 4 AktG, whereas the Company obtains further flexibility for the benefit of all shareholders.

- Finally, the Executive Board shall be entitled to exclude the subscription right as far as holders or creditors of option rights or creditors of convertible bonds or participation rights issued by the Company or its subsidiaries are granted a conversion right or subscription right for new shares in accordance with the terms and conditions of the issuance, or as far as, based upon those instruments, there is a conversion or subscription obligation or a share delivery right. For an easier placement in the capital market, the terms and conditions of bonds with warrants and convertible bonds normally provide for a protection against dilution which ensures that holders or creditors of bonds with warrants or convertible bonds or participation rights are granted subscription rights equivalent to those of shareholders for a subsequent issuance of shares. Holders or creditors of bonds with warrants, convertible bonds or participation rights are thereby treated as if they had exercised their conversion or subscription rights or option or conversion obligations had been triggered, or share delivery rights had been exercised, and as if the holders or creditors of bonds with warrants, convertible bonds or participation rights were shareholders. In order to be able to provide the relevant issuance (of bonds with warrants, convertible bonds or participation rights) with such a protection against dilution, the subscription right of the shareholders for these shares needs to be excluded. This serves the purpose of an easier placement of the issuance and, therefore, the interests of the Company and its shareholders in an optimized financing structure of the Company.

Finally, the proposed Authorized Capital 2014/II provides for a further case where exclusion of subscription rights is possible:

- Accordingly, the subscription right may be excluded if the shares are issued against cash contributions in the context of capital increases effected in the course of an initial listing on a foreign stock exchange. The Company's shares so far are only admitted to trading on a stock exchange in Germany. In contrast, the Company's business activity has an international focus. This will even be reinforced if Epi proColon® - following a successful admission procedure in the U.S. - were to be commercialized there. Against this background, the listing of the Company's shares on one or several foreign stock exchanges, e.g. in the U.S., may be reasonable in order to win additional investors for an investment in the Company's shares and thereby to expand the group of investors. Attracting additional investors may in particular improve the possibilities of raising equity capital in the future, of serving a positive development of share prices and of mitigating volatility. Against this background, a foreign listing of the shares may also be advantageous for the Company's abilities to take up third party loans by simplifying third party debt or enabling the Company to procure more favorable terms for the taking up of loan capital. In the context of the listing on a foreign stock exchange, the exclusion of the subscription right enables the Company via its more flexible ability to act - also in the interest of the enterprise and thus of its shareholders - a listing of the shares at a near-market issue price, thus without the discount which is, as a rule, necessary in case of subscription rights issues. When deciding whether or not to exercise the authorization, the Executive Board will consider the given circumstances in order to determine whether a listing of the Company's shares on a foreign stock exchange and an exclusion of the subscription right for this purpose are in the interest of the enterprise taking into account the interests of the shareholders. The same applies to determining the conditions for the listing on the stock exchange, if any. In this respect, the Executive Board will ensure that the best interests of the Company and its shareholders are appropriately safeguarded and that reasonable issue proceeds are achieved by the Company for the new shares. For this purpose, in particular the stock exchange price of

the Company's shares is to be taken into account and support by external advisors is to be obtained where this makes sense in the individual case.

In every specific case, the Executive Board will thoroughly review whether it will make use of the authorization to increase the capital under exclusion of the shareholders' subscription rights. It will make use of this authorization only if the Executive Board and the Supervisory Board, taking into account the terms and conditions of the capital increase, 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 utilization of the Authorized Capital 2014/I or of the Authorized Capital 2014/II.

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Epigenomics AG

The Executive Report