

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

The Executive Board and the Supervisory Board propose to the Annual General Shareholders' Meeting to be held on May 30, 2017 under items 4 and 5 of the agenda to cancel the Authorized Capitals 2016/I and 2016/II and to create the new Authorized Capitals 2017/I and 2017/II.

Pursuant to Section 203 Paragraph 2 Sentence 2 in conjunction with Section 186 Paragraph 4 Sentence 2 AktG, the Executive Board issues the following written report on each of the authorizations to exclude subscription rights in relation to new Authorized Capital 2017/I and Authorized Capital 2017/II proposed for resolution in items 4 and 5 of the agenda:

The General Shareholders' Meeting of May 25, 2016 passed a resolution on item 6 of the agenda to the effect that the Executive Board is authorized until May 24, 2021 to increase the share capital of the Company, with the consent of the Supervisory Board, once or several times by up to a total of € 1,890,408.00 against contribution in cash and/or in kind by issuing new non-par value shares (Authorized Capital 2016/I). At the same General Shareholders' Meeting, under item 7 of the agenda, the Executive Board was further authorized until May 24, 2021 to increase the share capital of the Company, with the consent of the Supervisory Board, once or several times by up to a total of €7,561,634.00 against contribution in cash and/or in kind by issuing new non-par value shares (Authorized Capital 2016/II). Authorized Capital 2016/I has been utilized in part as of the date hereof and currently amounts to € 380,412.00, which corresponds to about 1.67 % of the current share capital of the Company. Authorized Capital 2016/II has not yet been utilized as of the date hereof and, therefore, currently amounts to € 7,561,634.00, which corresponds to about 33.26 % of the current share capital of the Company.

Against the background of the net assets, financial position and results of operations of the Company as well as the fact that Epi proColon<sup>®</sup> is to be introduced to the U.S. market as the admission procedure has successfully been completed, the Executive Board believes that the current amounts of the existing Authorized Capital 2016/I and the existing Authorized Capital 2016/II are not sufficient to put the Company in a position to cover potential financing needs at short notice and to be capable of acting in a flexible manner in response to the strategic and operational challenges. Therefore, with the proposals under items 4 and 5 of the agenda, the Executive Board shall be authorized, with the consent of the Supervisory Board, to increase the share capital of the Company once or several times by up to a total of € 2,273,526.00 (Authorized Capital 2017/I) and up to a total of € 9,094,104.00 (Authorized Capital 2017/II), in each case until May 29, 2022 and against contribution in cash and/or in kind by issuing new non-par value registered shares. Thus, the amount of Authorized Capital 2017/I corresponds to 10%, and the amount of Authorized Capital 2017/II corresponds to 40%, of the share capital existing as of the preparation of this report.

In case of utilization of Authorized Capital 2017/I and Authorized Capital 2017/II, the shareholders will, in principle, have a subscription right. Subscription rights may also be granted by way of an indirect subscription right (Section 203 Paragraph 1 Sentence 1 in conjunction with Section 186 Paragraph 5 AktG).

In specific cases, the Executive Board shall, however, be authorized, with the consent of the Supervisory Board, to exclude subscription rights of the shareholders.

1. An exclusion of the subscription rights shall thereby be permissible both for Authorized Capital 2017/I and for Authorized Capital 2017/II in the following two instances:
  - Firstly, it is to be permissible in each case to exclude shareholders' subscription rights for fractional amounts. This serves to simplify the process of a share issue in which the subscription right, in principle, is granted to the shareholders. Fractional amounts might result from the respective issuing volume and the necessity of a practical subscription ratio. Such fractional amounts, in general, hold little value for the individual shareholder, whereas the issuing costs 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 fractional amounts. The new shares for which subscription rights have been excluded due to fractional amounts will be realized on the best possible terms for the Company. The exclusion of subscription rights therefore serves practical purposes and simplifies the process of a share issue 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 minimize fractional amounts.
  - Secondly, the Executive Board shall be entitled to exclude shareholders' subscription rights in the event of capital increases against contribution in kind. The Executive Board is thus enabled to use

shares of the Company as appropriate in individual cases for the purchase (including an indirect purchase) of enterprises, parts of enterprises, shares in enterprises or for the purchase (including an indirect purchase) of other assets, including receivables. It may become necessary during negotiations to offer shares as consideration rather than cash. The possibility to offer shares in the Company as consideration offers not only an advantage when competing for attractive acquisition targets but also the required flexibility to seize opportunities where they present themselves to acquire enterprises, parts of enterprises, shares in enterprises or other assets while preserving the Company's cash resources. Assets which can be acquired as contributions in kind also include receivables owed, in particular, by the Company or subordinated affiliated companies. The option to pay such receivables owed by the Company or subordinated affiliated companies by issuing new shares rather than by payment in cash allows the Company to preserve its liquidity and to improve its financing structure. In addition, this option may permit the Company to agree on more favorable terms and conditions with its creditor for the fulfillment of existing receivables. Therefore, from the point of view of the Executive Board, the proposed authorization to exclude subscription rights is in the interest of the Company and its shareholders. The Company does not suffer any 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 adequate consideration will be obtained by the Company for its new shares. To this end, the Executive Board will adequately take into account the stock exchange price of the shares of the Company and retain third party experts to the extent possible and reasonable in the individual case.

2. The proposed Authorized Capital 2017/I provides, in addition to the instances set forth under 1., for two further cases where an exclusion of subscription rights shall be possible:

- It is to be permissible to exclude subscription rights 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 exchange 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, if necessary even on very short notice. The exclusion of subscription rights enables the Company not only to take short-term action in a flexible manner, but also enables the placement of shares at a near-market price, i.e. without the discount which, in general, is required in connection with the issue of shares with subscription rights. This results in higher issue 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 set the discount as low as possible – with the consent of the Supervisory Board – in compliance with legal regulations and taking into account 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 requested authorization becomes effective nor at the time such authorization 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 the term of the authorization count towards this limit if and to the extent subscription rights are 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, bonds with warrants, convertible bonds or participation rights or a combination of these instruments are issued under exclusion of subscription rights of the shareholders pursuant to Section 221 Paragraph 4 Sentence 2 in conjunction with Section 186 Paragraph 3 Sentence 4 AktG, shares for which an option or conversion right or obligation or a right in favor of the Company to grant to the holders or creditors, upon final maturity of the bonds or participation rights or at another specific point in time, non-par value shares of the Company instead of payment of the cash amount due (or parts thereof) (share delivery right) exists based on these instruments must also be counted towards this limit.

This caters to the need of the shareholders for dilution protection regarding their investment in accordance with statutory regulations. Due to the limited amount of the capital increase with exclusion of subscription rights, each shareholder may, in principle, purchase the number of shares necessary to preserve its share quota on substantially the same terms and conditions on the stock exchange. Thus, in the event of utilization of Authorized Capital 2017/I under exclusion of subscription rights, it is

ensured that the shareholders' interests regarding their investment as well as their voting rights are adequately preserved in accordance with the legal rationale of Section 186 Paragraph 3 Sentence 4 AktG while the Company is given further flexibility for the benefit of all shareholders.

- Finally, the Executive Board shall be entitled to exclude subscription rights in respect of Authorized Capital 2017/I to the extent that the holders or creditors of option rights or convertible bonds or participation rights issued by the Company or its subordinated affiliated companies in the past or in the future are granted a conversion right or subscription right to new shares in accordance with the relevant terms and conditions of issue or to the extent that a conversion or subscription obligation or a share delivery right exists under such instruments. For easier placement in the capital market, the terms and conditions of bonds with warrants and convertible bonds normally provide for protection against dilution which ensures that holders or creditors of bonds with warrants or convertible bonds or participation rights are granted subscription rights for subsequent share issues. In order to be able to include protection against dilution in the terms and conditions of the relevant bonds with warrants, convertible bonds or participation rights, the subscription rights of the shareholders for these shares need to be excluded. This serves the purpose of easier placement of the issues of bonds with warrants, convertible bonds or participation rights and, thus, the interest of the Company and its shareholders in optimizing the financing structure of the Company.

3. The proposed Authorized Capital 2017/II provides, in addition to the instances set forth in 1., for one further case where an exclusion of subscription rights shall be possible:

- Accordingly, it is to be permissible to exclude subscription rights if the shares are issued against cash contributions in the context of capital increases implemented for the purpose of placement of the shares or of securities representing the shares, such as American Depositary Receipts (ADRs), in the context of a listing or the subsequent placement on a foreign stock exchange. The Company's shares have so far been admitted to trading in the regulated market of one stock exchange in Germany. In addition, ADRs of the Company are traded in the OTCQX market in the U.S. The Company's shares have not been admitted to trading on any other stock exchange or in any other stock exchange segments. The shares and ADRs of the Company are, in particular, not registered in the U.S. under the US Securities Act of 1933.

The Company's business activity has an international focus. This is expected to be reinforced in the future due to the commercialization of Epi proColon® in the U.S., which is currently being pursued after its admission was granted by the FDA in 2016. Against this background, the listing of the Company's shares on one or several foreign stock exchanges, e.g. in the U.S., or the increase in the number of shares of the Company that are admitted to trading or traded on a foreign stock exchange may prove useful in order to attract additional investors to invest in the Company's shares and thus 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 the share price and of mitigating volatility. Against this background, a foreign listing of the shares or an increase in the number of shares admitted to trading or traded abroad may also be advantageous for the Company's range of options to take up third party loans by simplifying the raising of debt capital or by enabling the Company to secure more favorable terms for raising debt capital. In the context of the listing or the subsequent placement of shares on a foreign stock exchange, the exclusion of subscription rights not only enables the Company to obtain more flexibility to act but also to list the shares at a near-market issue price without the discount which, in general, is required in connection with the issue of shares with subscription rights, which is also in the interest of the Company and thus of its shareholders. 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 or an increase in the number of shares listed abroad and an exclusion of subscription rights for this purpose are in the interest of the Company taking into account the interests of the shareholders. The same applies to determining the terms and conditions for a listing on the stock exchange or a subsequent placement, if any. In this respect, the Executive Board will ensure that the interests of the Company and its shareholders are adequately considered and that adequate consideration will be obtained by the Company for its new shares. To this end, the Executive Board will take into account in particular the stock exchange price of the shares of the Company and retain third party experts to the extent possible and reasonable in the individual case.

In each individual case, the Executive Board will thoroughly review whether it will make use of the respective authorization to increase the capital under exclusion of shareholders' subscription rights. The Executive Board 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, thus, its shareholders. The Executive Board will report to the General Shareholders' Meeting on each utilization of Authorized Capital 2017/I or of Authorized Capital 2017/II.

**Report of the Executive Board on item 6 of the agenda pursuant to Section 221 Paragraph 4 Sentence 2 in connection with Section 186 Paragraph 4 Sentence 2 AktG**

The Executive Board and the Supervisory Board propose to the Annual General Shareholders' Meeting to be held on May 30, 2017 under item 6 of the agenda to cancel the authorization to issue bonds with warrants, convertible bonds, participation rights or a combination of these instruments and to exclude the subscription right, which has been resolved by the General Shareholders' Meeting of May 6, 2013 under item 7 of the agenda and has been adjusted by the General Shareholders' Meeting of June 3, 2014 under item 6 of the agenda, as well as the authorization to issue bonds with warrants, convertible bonds, participation rights or a combination of these instruments and to exclude the subscription right, which has been resolved by the General Shareholders' Meeting of May 25, 2016 under item 8 of the agenda, and to grant a new authorization to the Executive Board to issue, until May 29, 2022 and with the consent of the Supervisory Board, bearer or registered bonds with warrants, convertible bonds, participation rights or a combination of these instruments once or several times in an aggregate nominal amount of up to € 75,000,000.00 and to exclude the shareholders' subscription right. It is intended to use the current Conditional Capitals IX and X for the purpose of delivery and fulfillment under the bonds with warrants, convertible bonds and participation rights. For this purpose, it is intended to amend the current Conditional Capitals IX and X as well as Section 5 Paragraphs 5 and 6 of the Articles of Association.

The Executive Board issues, pursuant to Section 221 Paragraph 4 Sentence 2 in connection with Section 186 Paragraph 4 Sentence 2 AktG, the following written report on the authorization to exclude the subscription right in connection with the new authorization proposed to be resolved:

The proposed authorization to issue bonds, participation rights or a combination of these instruments in an aggregate nominal amount of up to € 75,000,000.00 as well as the amendment of Conditional Capitals IX and X and the increase of Conditional Capital X to an amount of up to € 8,825,470.00 are intended to broaden the Company's options to finance its activities (as further described below) and to enable the Executive Board, with the consent of the Supervisory Board, to seize flexible and near-term financing opportunities in the interest of the Company, in particular if favorable capital market conditions arise.

The shareholders are, in principle, entitled to a statutory subscription right for bonds with warrants or conversion rights or option or conversion obligations or with a right of the Company to grant to the holders or creditors of the bonds non-par value shares of the Company instead of payment of the cash amount due (or parts thereof) ("share delivery right"), Section 221 Paragraph 4, Section 186 Paragraph 1 AktG. In the case of participation rights, shareholders generally have a statutory subscription right, regardless of whether the participation rights carry option or conversion rights or obligations or a share delivery right. To the extent that shareholders are not granted the possibility to directly subscribe for the bonds or participation rights, the Executive Board may make use of the possibility to issue bonds or participation rights to a credit institution, to a company which is deemed equivalent to a credit institution by statute and by the proposed resolution, or to several, including to a syndicate of, credit institutions and/or equivalent companies, with the obligation to offer the bonds or participation rights to the shareholders in accordance with their subscription rights (indirect subscription right within the meaning of Section 221 Paragraph 4 Sentence 2 in connection with Section 186 Paragraph 5 AktG).

However, according to the proposed resolution, the Executive Board is to be authorized, with the consent of the Supervisory Board, to exclude the shareholders' subscription rights in the following circumstances:

1. The authorization provides for the possibility to exclude the subscription right for fractional amounts. This allows for a use of the requested authorization for whole amounts, thereby facilitating the technical implementation of the issue and the handling of the shareholders' subscription rights. Moreover, such fractional amounts are normally of small value to the individual shareholder and the possible dilution effect is generally marginal, too, because of its limitation to fractional amounts. Any bonds or participation rights (or a combination of these instruments) that are excluded from the subscription right on account of fractional amounts are utilized in the Company's best interests. In the opinion of the Executive Board, the exclusion of the subscription right is thus in the best interest of the Company and its shareholders.

2. Furthermore, the proposed resolution includes the authorization to exclude the subscription right in favor of the holders or creditors of previously issued option or conversion rights or obligations and/or bonds or participation rights in respect of which the Company has a share delivery right. The advantage of this is that the option and/or conversion price for previously issued option or conversion rights or obligations or share delivery rights need not be reduced, thereby enabling an altogether higher cash inflow. This exclusion of the subscription right is thus in the best interest of the Company and its shareholders, too.
3. The Executive Board is further authorized, with the consent of the Supervisory Board, to entirely exclude the shareholders' subscription rights if the bonds with warrants/convertible bonds or the participation rights with warrants/convertible participation rights or the bonds or participation rights with option/conversion obligations or with a share delivery right are issued against cash payment at a price that is not significantly below the market value of these bonds and/or participation rights. This enables the Company to benefit from favorable market conditions very quickly and to obtain better conditions with respect to the interest rate, option and/or conversion price and the issue price of the bonds and/or participation rights by determining the terms and conditions in accordance with prevailing market conditions. If subscription rights were granted, determination of the terms and conditions in accordance with prevailing market conditions and a smooth placement would not be possible. While Section 186 Paragraph 2 AktG allows for a publication of the subscription price (and, thus, publication of the terms and conditions of the bonds and/or participation rights) until the third to last day of the subscription period, taking into account the often volatile stock markets, a market risk exists over several days even in that case, which leads to precautionary discounts when the terms and conditions of the bond and/or participation rights are fixed, and therefore to terms and conditions which do not correspond to market conditions. Also, if a subscription right is granted, there is uncertainty with respect to its exercise (subscription behavior), which constitutes a risk for a successful placement with third parties or causes additional expenses. Moreover, authorizing the Company to exclude subscription rights may facilitate the winning of new investor groups or the placement of the bonds and/or participation rights with a single investor or a small group of investors. This is true in particular even if the investor or investor group is willing to make the investment only subject to the condition of the bonds and/or participation rights acquired by them reaching a certain amount or if the investor or investor group is permitted exclusively to purchase the bonds and/or participation rights. In such a situation, the authorization to exclude the subscription rights allows the Company to fund itself at short notice, quickly, safely and near market terms; in light of the Company's situation and its financing needs, the Executive Board believes it to be in the best interests of the Company if the Company is able to use such possibilities to fund itself. Finally, the Company cannot react quickly to favorable or adverse market conditions if a subscription right is granted due to the length of the subscription period, but is exposed to the possible risk of falling share prices during the subscription period, which might result in situations where equity is raised at unfavorable conditions.

In such case, in which the subscription right is excluded entirely, the provision of Section 186 Paragraph 3 Sentence 4 AktG applies *mutatis mutandis* pursuant to Section 221 Paragraph 4 Sentence 2 AktG. The limit of 10% of the share capital applicable to exclusions of subscription rights provided for in this provision is to be complied with according to the terms of the resolution. The maximum amount of the conditional capital that may be made available to secure option or conversion rights or obligations or a share delivery right may not exceed 10% of the share capital existing when the authorization to exclude the subscription right pursuant to Section 186 Paragraph 3 Sentence 4 AktG takes effect. The authorization resolution contains a corresponding requirement which also ensures that the 10% limit will not be exceeded even in the case of a capital decrease, as the authorization to exclude the subscription right explicitly must not exceed 10% of the share capital, neither when the authorization takes effect nor – if such value is lower – when the authorization granted is exercised. Treasury shares which are disposed of according to Section 71 Paragraph 1 No. 8 in conjunction with Section 186 Paragraph 3 Sentence 4 AktG as well as the new shares that are issued in case of a capital increase against cash contributions under an exclusion of the subscription right pursuant to Section 186 Paragraph 3 Sentence 4 AktG or pursuant to Section 203 in conjunction with Section 186 Paragraph 3 Sentence 4 AktG will count towards this limit if the disposal and/or issuance occurs during the term of this authorization and prior to an issuance of bonds or participation rights without subscription right pursuant to Section 221 Paragraph 4 Sentence 2, Section 186 Paragraph 3 Sentence 4 AktG; they consequently reduce the number of shares that may be issued based on the authorization under exclusion of subscription rights pursuant to Section 221 Paragraph 4 Sentence 2, Section 186 Paragraph 3 Sentence 4 AktG. The same applies to shares for which option or conversion rights or obligations or share delivery rights in favor of the Company exist under bonds with warrants or convertible bonds or

participation rights that have been issued by the Company or its subordinated affiliated companies during the term of this authorization on the basis of other authorizations with exclusion of the subscription right pursuant to Section 221 Paragraph 4 Sentence 2 in conjunction with Section 186 Paragraph 3 Sentence 4 AktG. Such shares, too, will count towards the 10% limit.

It further results from Section 186 Paragraph 3 Sentence 4 AktG that the issue price must not be significantly below the stock market price. This is to prevent a significant economic dilution of the value of the shares. Whether such a dilution effect occurs in case of the issuance of bonds or participation rights without subscription right can be determined by calculating the hypothetical market value of the bond and/or participation right based on recognized, particularly financial mathematical, methods and by comparing this value with the issue price of the bond and/or participation right. If this issue price – after due examination – is not more than insignificantly lower than the hypothetical stock market price at the time when the bonds and/or participation rights are issued, the exclusion of the subscription right is permissible based on the rationale of Section 186 Paragraph 3 Sentence 4 AktG because of the merely insignificant discount. The proposed resolution therefore provides that the Executive Board – prior to the issuance of the bonds and/or participation rights and after due examination in accordance with its legal duties – must have come to the conclusion that the proposed issue price of the bonds and/or participation rights does not lead to any significant dilution of the value of the shares, as the issue price of the bonds and/or participation rights is not significantly below the hypothetical market value calculated pursuant to recognized, in particular financial mathematical methods. As a result, the arithmetical market value of a subscription right would be reduced to nearly zero such that no significant economic disadvantage can arise for the shareholders due to the exclusion of the subscription right. All this ensures that no significant dilution of the value of the shares will result from the exclusion of the subscription right.

In addition, the shareholders have the opportunity to maintain their pro rata share in the share capital of the Company even after the exercise of option or conversion rights or after the point in time when option or conversion obligations are to be fulfilled or a share delivery right is exercised, by purchasing shares on the stock market at any time. In contrast, the authorization to exclude the subscription right enables the Company to determine terms and conditions in accordance with prevailing market conditions, to achieve maximum security with respect to the possibility to place the bonds and/or participation rights with third parties and to benefit from a quick utilization of favorable market situations.

As the Company has disclosed in particular in its notice issued pursuant to Article 17 of the European Market Abuse Regulation (Regulation (EU) No 596/2014 of 16 April 2014) on April 26, 2017, Blitz F16-83 GmbH (which in the future shall operate as Summit Hero Holding GmbH; the “Bidder”) has undertaken towards the Company under the Business Combination Agreement entered into on April 25, 2017 to invest cash into the Company in the amount of up to approximately € 6.46 million subject to certain conditions; particularly the investment can be made by issuance of convertible bonds if the Company decides to issue convertible debt to the Bidder until August 31, 2017 (the “Investment Obligation”). The Investment Obligation entered into by the Bidder is generally independent of a successful closing of the takeover offer for all of the Company's shares announced by the Bidder on April 26, 2017 in accordance with Section 10 WpÜG. The Executive Board believes this agreement to be in the best interests of the Company because the Company's ability to fund itself is at the least strongly limited during the pending takeover offer. The Investment Obligation entered into by the Bidder thus allows the implementation of the takeover offer by the Bidder, which the Executive Board believes to be in the best interests of the Company and its shareholders because it secures the Company's ability, if necessary, to cover its financing needs at short notice, which the Executive Board also believes to be in the best interests of the Company and its shareholders.

The Executive Board has not yet decided to issue convertible bonds to the Bidder based on the Investment Obligation. Should the Executive Board take such decision with the consent of the Supervisory Board, the requirements set out above will apply to any issuance of convertible bonds to the Bidder. In particular, the bonds would have to be issued at a price not significantly below the bonds' market value. Furthermore, the Bidder would under the Investment Obligation receive not more than 994,387 new shares if the Bidder demands conversion of the convertible bonds issued to it. This corresponds to 4.4 % of the current share capital which is significantly below the 10%-limit pursuant to Section 186 Paragraph 3 Sentence 4 AktG. Even if bonds were issued to the Bidder, the shareholders would not suffer a material economic disadvantage because of the exclusion of the subscription right. When and if it takes the decision to issue convertible bonds to the Bidder, the Executive Board will assess, based on the specific circumstances,

whether the issuance of convertible bonds to the Bidder and the exclusion of the subscription right are in the Company's best interests taking into account the shareholders' interests.

4. To the extent that participation rights are to be issued without option or conversion rights or obligations and without a share delivery right, the Executive Board is authorized, with the consent of the Supervisory Board, to entirely exclude the shareholders' subscription right if these participation rights have bond-like characteristics, i.e. do not confer membership rights in the Company, do not provide for a participation in the liquidation proceeds or the amount of interest is not calculated based on the annual surplus, the distributable profit or the dividend. In this context, a cap on interest based on the annual surplus, the distributable profit, the dividend or any other ratio determined by reference to these benchmarks shall not be deemed a dependent calculation within the meaning of the preceding sentence. In addition, interest and issue price of the participation rights must correspond to current market terms prevailing at the time of issuance. If these conditions are fulfilled, the exclusion of the subscription right does not result in any disadvantages to the shareholders, as the participation rights do not confer membership rights and no share in the liquidation proceeds or in the profit of the Company.

The issue amount of the new shares must - except for those cases set out below - in any case be equivalent to at least 80 % of the stock exchange price determined timely upon issuance of the bonds and/or participation rights. If the subscription right is not only excluded for fractional amounts, the option and/or conversion price may, in case of option/conversion rights or, as the case may be, option/conversion obligations or a share delivery right of the Company, amount to 85% or more of the average stock exchange price of the Company's share before exercise of the option or conversion right or, as the case may be, issuance of the shares, even if such price is lower than the minimum price referred to in the preceding sentence. The terms and conditions of the bond and/or participation certificates may further provide that the option or conversion price must not exceed a certain amount, which shall at least be equal to € 7.00, even if the preceding principles lead to a higher option or, as the case may be, conversion price. This option allows the Company to successfully place the bonds or participation rights on the conditions most favorable to the Company based on the market conditions existing at the time of their issuance.

#### **Report of the Executive Board on item 7 of the agenda (Stock Option Program 17-19 and Conditional Capital XII)**

In item 7 of the agenda, the Executive Board and the Supervisory Board propose to the Annual General Shareholders' Meeting to be held on May 30, 2017 to create a stock option program under which up to 1,000,000 subscription rights relating to up to 1,000,000 shares of the Company may be issued to members of the management bodies and to employees of the Epigenomics Group (Stock Option Program 17-19). Furthermore, in item 7 of the agenda, the Executive Board and the Supervisory Board propose to create conditional capital XII in the amount of up to € 1,000,000.00 in order to fulfill subscription rights relating to shares of the Company granted under the Stock Option Program 17-19 (Conditional Capital XII). The shareholders' subscription right relating to shares issued out of Conditional Capital XII is excluded.

Against this background, the Executive Board issues this written report to inform the shareholders of the creation of the Stock Option Program 17-19 and Conditional Capital XII as proposed in item 7 of the agenda:

Under the Stock Option Program 17-19, the Executive Board or the Supervisory Board, as applicable, are authorized until the end of May 31, 2019 to issue up to 1,000,000 stock options with subscription rights relating to up to 1,000,000 non-par value shares of the Company to members of the Executive Board of the Company and to members of the management of domestic and foreign companies that are dependent of the Company as defined in Sections 15 and 17 AktG (subordinated affiliated companies) (collectively, group 1) and to employees of the Company and to employees of subordinated affiliated companies (collectively, group 2). Of the maximum of 1,000,000 stock options, a maximum of 680,000 shall be allocated to group 1 (which equals 68 %) and a maximum of 320,000 to group 2 (32 %). The stock options will be issued in no more than four tranches. The issue dates of the tranches are October 1, 2017, April 1, 2018, October 1, 2018 and April 1, 2019, unless these dates need to be changed for legal reasons. The Supervisory Board is exclusively authorized to issue stock options to group 1 beneficiaries, which are members of the Executive Board of the Company. In all other respects (groups 1 for those beneficiaries which are members of the management of subordinated affiliated companies and group 2), the Executive Board is authorized to issue stock options, with the Executive Board being required to obtain the Supervisory Board's consent if and to the extent that stock options are to be issued to members of the management of subordinated affiliated companies (who are group 1 beneficiaries) and to holders of a general power of attorney (*Prokura*) of the Company (who are group 2 beneficiaries).

In accordance with Section 193 Paragraph 2 Number 4 AktG, subscription rights may be exercised for the first time four years after the issue date of the respective tranche. After expiration of this waiting period, the beneficiaries may exercise their subscription rights only outside so-called blackout periods. Each blackout period starts at the close of a fiscal year or quarter and ends upon publication of the financial reports (annual financial statements/consolidated financial statements, quarterly financial report or quarterly statement (of the group)) for the respective fiscal year or quarter. This is to ensure that subscription rights are not exercised in periods in which the reporting period has already ended but the financial reports for such period have not yet been published. In addition, when subscription rights are exercised, internal policies, if any, and the applicable statutory requirements shall be observed. For instance, exercising subscription rights is not permissible in particular where a beneficiary is in possession of inside information (as defined in the German Securities Trading Act or the European Market Abuse Regulation).

Upon exercising a subscription right, the beneficiary shall pay the exercise price, which equals the non-volume weighted average stock exchange closing price of the shares of the Company on the ten stock exchange trading days preceding the respective issue date in the electronic trading system of the Frankfurt Stock Exchange (original price) plus 10%, but shall in no case be less than the minimum issue price under Section 9 Paragraph 1 AktG. The exercise price is the issue price of the new share to be issued using Conditional Capital XII in return for a subscription right that has validly been exercised. In certain instances, which are set out in the authorization, the exercise price and the number of new shares received by a beneficiary in return for one subscription right may be adjusted. Any such adjustment shall be made if, after the respective issue date, the number of the shares issued by the Company changes without the occurrence of a corresponding inflow or outflow of funds. This is the case in particular in the event of a capital increase from the Company's reserves, a capital reduction or a new partitioning of the share capital; this shall not apply, however, in the event of, for instance, a capital increase against contributions in kind or in the context of the conversion of debt to equity by way of convertible bonds, warrant bonds or convertible participation rights.

Generally, the subscription rights granted to the beneficiaries will vest in four 25% tranches per year so that all subscription rights from any one tranche become vested four years after the issue date. The Executive Board or the Supervisory Board, as applicable, is authorized to resolve on the earlier vesting of the subscription rights. Vested subscription rights shall only expire in certain instances that are expressly set out in the authorization. Such instances include, in particular, termination of the service or employment contract between the beneficiary and the Epigenomics Group or expiration of the term of the subscription rights. Such term expires seven years after the respective issue date. Accordingly, the term of subscription rights issued, for instance, on October 1, 2017, ends on September 30, 2024, and shall expire at this point in time without compensation. Since the waiting period is four years, the beneficiaries may thus exercise their subscription rights in the three-year period after expiration of the waiting period provided that the other exercise requirements have been met and that the subscription rights have not expired.

Furthermore, subscription rights shall expire (even if vested) where the performance target (as defined in Section 193 Paragraph 2 Number 4 AktG) set out in the authorization has not been reached by expiration of the waiting period. The proposed performance target is based on the performance of the shares of the Company. The performance target shall be deemed reached if the closing stock exchange price of the shares of the Company in the electronic trading system of the Frankfurt Stock Exchange has exceeded the original price specified above by no less than 10% on at least one trading day in the waiting period.

If a beneficiary validly exercises its subscription right, it is entitled – subject to potential adjustment in accordance with the authorization – to the issue of one new share of the Company from Authorized Capital XII for each subscription right exercised against payment of the exercise price. In this context, however, the authorization provides for the right of the Executive Board or the Supervisory Board to fulfill exercised subscription rights by transferring treasury shares acquired under authorizations by the General Shareholders' Meeting of the Company to acquire treasury shares, or under a statutory permission to do so, instead of by issuing new shares using Conditional Capital XII. There is currently no authorization by the General Shareholders' Meeting to acquire treasury shares. Moreover, the acquisition of treasury shares is possible only in compliance with the legal requirements governed for the most part by Section 71 AktG, which the Company does not currently fulfill. Moreover, the Executive Board or the Supervisory Board, as applicable, may choose to fulfill exercised subscription rights by cash compensation instead of by issuing new shares using Conditional Capital XII (or by using treasury shares). The cash compensation shall equal the difference between the exercise price and the closing price of the shares of the Company last determined in the electronic trading system of the Frankfurt Stock Exchange before the exercise of the subscription right.

The Executive Board and the Supervisory Board are convinced that the proposed granting of variable remuneration by way of the Stock Option Program 17-19 is a suitable and important instrument to retain and incentivize the



members of the management bodies and the employees of the Epigenomics Group on a sustained basis. The Program offers a sustained incentive for members of management and employees to identify themselves with the Epigenomics Group in particular by the waiting period of four years and also by providing that, for instance, unvested subscription rights expire without compensation in particular if a member of management or employee gives notice of termination and that the beneficiaries become shareholders of the Company upon the exercise of their subscription rights and, thus, participate in the Company's performance also as stakeholders. This serves to reduce the risk that members of management or employees leave the Company prematurely to the detriment of the Epigenomics Group in a competitive market environment. As the Stock Option Program 17-19 is share-based, it also makes it possible to grant variable remuneration while preserving liquidity. In view of the challenges faced by the group over the coming years – in particular the commercialization of Epi proColon<sup>®</sup> pursued in the U.S. now that the Federal Drug Administration has granted admission –, the Executive Board and the Supervisory Board believe that this is another significant advantage of the program.

The choice provided for in the Stock Option Program 17-19 of granting members of management and employees of foreign group companies subscription rights upon the exercise of which they do not receive shares in the Company, but securities that are admitted to trading on a stock exchange outside Germany where they are being traded in lieu of the Company's shares, also helps to secure the advantages set out above. The Company's business activity has an international focus, which will even be reinforced if the intended commercialization of Epi proColon<sup>®</sup> in the U.S. can be completed successfully. In certain foreign jurisdictions such as the U.S., the shares of the Company as such cannot be admitted to trading. Instead, other securities must be admitted there that are then traded on the stock exchange in lieu of the Company's shares. Receiving such securities representing shares may be a more attractive option for members of management and employees of foreign group companies than receiving shares in the Company, which can currently only be traded via a stock exchange in Germany. In case such securities being traded in lieu of the Company's shares are admitted to trading on a stock exchange outside Germany, the Stock Option Program 17-19 thus provides for the possibility to offer these securities to the beneficiaries at foreign group companies (instead of shares in the Company). Where use is made of this possibility, the subscription rights must be granted in compliance with the requirements of the Stock Option Program 17-19 and such that the subscription rights relating to securities representing shares are equivalent, in economic terms and to the extent permissible, to the corresponding subscription rights for shares in the Company.

The Stock Option Program 17-19 is limited to around 4.4% of the Company's current share capital. Its amount is thus clearly (i.e. around 55%) below the maximum amount of 10% of the share capital permitted by law. There is thus only a limited prorated dilution effect for the shareholders, which makes it easier for the shareholders to acquire via the stock exchange the shares needed to maintain their share quota. Even if the Stock Option Program 16-18 (under which subscription rights to up to 1,000,000 new shares may be issued as well) is added to the figures under the Stock Option Program 17-19, the two programs taken together correspond to approximately 8.8% of the Company's current share capital and are thus below the maximum amount of 10% of the share capital permitted by law.

The reports of the Executive Board on items 4, 5, 6, and 7 of the agenda set forth above can be inspected on the Internet at <http://www.epigenomics.com/en/news-investors/investors/annual-general-shareholder-meeting.html> as well as in the premises of Epigenomics AG, Geneststr. 5, 10829 Berlin, Germany, as of the date of the calling of the meeting. Upon request, shareholders will promptly receive a copy of these reports free of charge. In addition, the reports will be available during the Annual General Shareholders' Meeting on May 30, 2017.