

2. **Written report of the Executive Board on agenda item 6 explaining the rationale for the exclusion of shareholder subscription rights in accordance with sec. 221 para. 4 sentence 2 and sec. 186 para. 4 sentence 2 of the Stock Corporation Act**

Among the resolutions passed by the Annual General Meeting on June 27, 2019 was a resolution authorizing the Executive Board, subject to the approval of the Supervisory Board, to issue bonds with attached warrants and/or convertible bonds. Relating thereto, the same general meeting also passed a resolution establishing conditional capital of up to EUR 4,284,740.00 for the granting of no-par-value bearer shares upon the exercise of conversion and/or option rights (or the fulfillment of corresponding conversion or option obligations) arising thereunder (Conditional Capital 2019). To date, no use has been made of this authorization.

In order to ensure the financial flexibility necessary for further financing of the Company's continued growth, this existing authorization to issue bonds with attached warrants and/or convertible bonds (or combinations thereof) is to be replaced by a new authorization to issue such instruments and to establish a new conditional capital (the "Conditional Capital 2022") in support of such instruments in an amount reflecting the Company's current outstanding and approved share capital.

Since the passage of these earlier resolutions, the Company's outstanding and additionally approved registered capital has been increased and now amounts to € 15,064,750.00, divided into 15,064,750 no-par-value common bearer shares. Under German law, a maximum of 50% of this amount may be made available as conditional capital. Taking into account the amounts of conditional capital already resolved and in effect for (i) the Company's existing Stock Option Plan 2015 in the amount of € 311,250.00 (under Conditional Capital 2015), and (ii) the Company's existing Stock Option Plan 2020 in the amount of € 724,000.00 (under Conditional Capital 2020), the maximum legally permissible remaining amount for new conditional share capital in support of such convertible bonds and/or bonds with attached warrants is € 6,497,125.00. Under the proposed resolution, the aggregate nominal amount of such convertible bonds and/or bonds with attached warrants is limited to € 550,000,000.00, and the maximum entitlement thereunder to subscribe to Company shares, and thus to

acquire a proportionate share of the Company's registered capital, is limited to € 6,497,125.00.

The ability to issue convertible bonds and/or bonds with warrants makes it possible to raise debt capital at attractive conditions, which under certain circumstances may be converted into equity upon maturity, thereby further strengthening the Company's equity base. The proposed possibility to include conversion and/or option rights but also conversion and/or option exercise obligations expands the scope for making optimal use of this financing instrument. The proposed authorization will provide the Company with the necessary flexibility to place its own bonds as well as those of its subsidiaries and affiliates ("Group Companies"). The possibility to issue convertible bonds and/or bonds with warrants may, in addition to the classic debt and equity capital raisings, open attractive financing opportunities on the capital markets depending on the prevailing market situation. Adequacy of current and future equity capitalization is essential to the business development of Formycon AG and to its continued growth and thus has a significant influence on the Company's future prospects and on its ability to execute its business strategy, in particular the continuing development of its product candidates. In order to be able to take best advantage of market opportunities as they arise, such capital raising transactions may have to be executed upon short notice.

The purpose of the shareholder resolution establishing the Conditional Capital 2022 is to provide sufficient capacity under the Company's Articles of Incorporation to fulfill the Company's share issuance obligations upon exercise of the conversion and/or option rights (or fulfillment of conversion and/or exercise obligations) in connection with these bonds.

Newly issued convertible bonds and/or bonds with attached warrants should, as a matter of principle and law, be offered to the Company's existing shareholders, which may be indirect subscription rights as provided by sec. 221 para. 4 sentence 2 and sec. 186 para. 5 of the Stock Corporation Act. Where such bonds are issued hereunder by a Group Company, the Company must likewise generally ensure that Company shareholders are granted any such statutory subscription rights. Notwithstanding this, the Executive Board should be authorized, subject to the approval of the Supervisory Board, to exclude the statutory subscription rights of shareholders when issuing new

bonds with warrants and/or convertible bonds in the following cases:

- The Executive Board should be authorized to exclude subscription rights to the extent that the number of shares arising upon exercise of the share conversion or option rights associated with the bonds, or upon fulfillment of share conversion or subscription obligations, would not exceed 10% of the Company's total share capital. The calculation of this 10% limit must also include any other shares issued during the term of this authorization against cash contributions, or relating to conversion or option rights or to conversion or subscription obligations in conjunction with bonds issued, under exclusion of subscription rights pursuant to sec. 186 para. 3 sentence 4 of the Stock Corporation Act. The calculation must likewise include any share capital attributable to the re-sale of treasury shares acquired during the term of this authorization in a manner other than via stock exchange transactions or through offer to all shareholders and through similar application of sec. 186 para. 3 sentence 4 of the Stock Corporation Act. These additional inclusions in the calculation of the 10% limit serve to ensure that the Executive Board cannot issue convertible bonds and/or bonds with attached warrants under exclusion of shareholder subscription rights through direct or indirect application of sec. 186 para. 3 sentence 4 of the Stock Corporation Act in an amount which would, in combination, exceed 10% of the Company's total share capital. This protective restriction thus serves the interests of shareholders who do not wish any significant reduction in their percentage shareholding in the event of such capital measures.

This possibility to exclude subscription rights provides the Company with flexibility to take advantage of favorable capital market situations at short notice and to achieve better conditions when setting the interest rate and issuance price of the bond by setting the conditions in line with the prevailing market. The decisive advance here is that, in contrast to an issuance of bonds with subscription rights, the issuance price can be set immediately before placement, such that the risk of market price changes during the subscription period can be avoided. Where subscription rights are granted, in

contrast, the subscription price must be fixed and published no later than the third to last day of the subscription period. In view of the inherent volatility of equity markets, the subscription process thus entails market risk, namely the risk of a market price change over these several days, which generally necessitates a discount to market as a safety margin when determining the selling price and thus a subscription price which is below the market price. Furthermore, the granting of preemptive subscription rights to shareholders may, because of the uncertainty as to whether they will be exercised, hinder the successful placement of the bonds with third parties is endangered or lead to additional expenses.

The condition that the issuance price of the Bonds not be significantly lower than the theoretical market value of the Bonds determined using recognized financial-mathematical methodologies serves to provide existing shareholders with protection against dilution of their shareholdings. Setting the bond issuance price in this way ensures that the associated share subscription rights have negligible value. This condition thus serves to protect shareholders against economic dilution and to ensure that shareholders do not suffer any significant economic disadvantage as a result of the exclusion of their subscription rights. Shareholders who wish to maintain their percentage share in the Company's equity capital, or who wish to acquire bonds in proportion to their shareholdings, can do so by purchasing the bonds on the market at conditions close to the issuance price.

- The Executive Board should also be authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights for any fractional Bond amounts. Such fractional amounts may arise from the mathematical relationship between the subscription ratio and the issue size. The exclusion of subscription rights for fractional amounts in these cases reduces technical complexity and facilitates the execution of the transaction. Any residual fractional amounts excluded from shareholder subscription rights thereby are utilized to the best advantage of the Company, either through sale on the exchange or in some other way.

Shareholders do not suffer any significant dilution as a result of this restriction on fractional amounts.

- Furthermore, the Executive Board should be granted the authority, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights to such Bonds insofar as necessary to ensure that the holders of conversion or share subscription rights (options), or of bonds with conversion or share subscription obligations, are offered subscription rights to the new Bonds to the full extent to which they would be entitled upon exercise of such conversion or share subscription rights or fulfillment of such conversion or subscription obligations. This provision is to ensure that the economic position of such holders of conversion and/or option rights (or of bonds with conversion and/or subscription obligations) is not worsened and that such holders are offered protection against dilution in accordance with customary capital markets practice, thereby facilitating the placement of convertible bonds and/or bonds with attached warrants and enabling the Company to achieve more favorable proceeds from the issuance thereof because the conversion exercise or option exercise price does not have to be commensurately reduced or other dilution protection granted. The burden on existing Company shareholders is modest because holders of conversion and/or option rights (or of bonds with conversion and/or subscription obligations) are granted the subscription rights to which they would rightfully be entitled if they were to exercise their conversion and/or option rights or fulfill their conversion and/or subscription obligation. In weighing these advantages and disadvantages, the exclusion of subscription rights in this case would thus seem appropriate.
- Finally, it should be possible to exclude the subscription rights of Company shareholders insofar as such Bonds are issued against non-cash contributions. This authorization is specifically intended to enable the use of these financing instruments in conjunction with acquisition transactions, such as for the acquisition of receivables or companies, or of parts of companies and investment participations in companies. In such cases, sellers often insist on receiving consideration in a form

other than, or in addition to, cash. The possibility of offering such bonds with option or conversion rights (or conversion and/or subscription obligations) instead of, or in addition to, payment in the form of cash or shares may thus offer an attractive alternative, creating additional flexibility and opening additional opportunities for acquisitions.

The proposed authorization to issue bonds against contributions in kind and the related authorization to exclude subscription rights in such cases, however, should only be used if the acquisition in question is in the overriding interest of the company and an alternative acquisition arrangement, in particular against cash, would not be a legal or practical alternative, or only under less favorable conditions. In any such case, the Company will determine whether there might be an equally suitable way of effecting the acquisition which would have less impact on the position of the shareholders. The interests of the shareholders in such cases are, moreover, safeguarded by the fact that the Company is, in the case of such non-cash acquisitions against newly issued bonds and/or shares, obliged to ensure that the value of the acquired assets is at least equal to the issuance price.

The language of the authorization establishes the basis for determining the conversion price or option exercise price.

Having weighed all of the above considerations, the Executive Board and Supervisory Board consider the proposed authorization to exclude subscription rights, specifically in the cases described and for the reasons given, to be objectively justified and to be appropriate from the standpoint of Company shareholders, also taking into account any dilutive effect that could arise to the detriment of shareholders through exercise of such authorization.

This report of the Executive Board on the rationale for its proposed exclusion of certain subscription rights is in accordance with sec. 221 para. 4 sentence 2 and sec. 186 para. 4 sentence 2 of the Stock Corporation Act. The Executive Board shall report on the details of any and all issuances of convertible bonds and/or bonds with attached warrants under this authorization at the next Annual General Meeting.