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2017/18

QUARTERLY STATEMENT as of 30 June 2018

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B·R·A·I·N

ABOUT BRAIN

BRAIN AG ranks among the technologically leading companies in Europe in the bioeconomy area, and operates in industrial – so-called “white” – biotechnology with its key technologies. BRAIN identifies previously untapped high-performing enzymes, microbial producer organisms and natural materials derived from complex biological systems to transform them into industrially usable applications. Innovative solutions and products developed from this “Toolbox of Nature” are successfully deployed in the chemicals sector, as well as in the cosmetics and food manufacturing industries.

The business model of BRAIN stands on two pillars: “BioScience” and “BioIndustrial”. The “BioScience” pillar includes the company’s collaboration business with industrial partners, usually arranged on an exclusive basis. The second pillar, “BioIndustrial”, comprises the development and marketing of the company’s own products and product components through direct access to markets and licensing partnerships.

As part of its growth-oriented industrialisation strategy, B.R.A.I.N. Biotechnology Research and Information Network AG (BRAIN AG; ISIN DE0005203947 / WKN 520394) has been the first bioeconomy company to be listed in the Prime Standard of the Frankfurt Stock Exchange since February 2016.

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SIGNIFICANT EVENTS

1 April 2018 to 30 June 2018

BRAIN AG and CyPlus GmbH develop disruptive technologies for the biological processing of precious metal ores

On 20 June 2018, BRAIN AG announced with CyPlus GmbH that it had developed initial market-relevant product offerings for the global mining industry as part of a multi-year partnership in the area of biological ore processing in gold and silver extraction. The process is currently being advanced toward industrial application.

FINANCIAL POSITION AND PERFORMANCE

1 October 2017 to 30 June 2018

GROUP BASIS AND CONDITIONS

Since 17 March 2018, Biocatalysts Limited (referred to below as “Biocatalysts Ltd”), which is based in Cardiff, UK, along with its US subsidiary Biocatalysts Inc, based in Dover, Delaware, USA, (both companies referred to together as the “Biocatalysts Group”, or just “Biocatalysts”), was included in the Group. A detailed description of the company, the transaction and the ownership structure is presented in the Selected information about the Group in this quarterly statement. The Biocatalysts Group is consolidated within the Bio-Industrial segment.

With the acquisition of Biocatalysts, the Management Board of the BRAIN Group has decided to modify its key financial management indicators. In the company's view, total operating performance continues to best reflect the Group's overall profitability. Significant identifiable intangible assets, such as technologies and customer relationships, were disclosed as part of the preliminary purchase price allocation for the Biocatalysts acquisition. In the company's view, the resultant amortisation of acquired assets can lead to a distortion of the meaningfulness of the previous key financial indicator of “adjusted EBIT”. Given this, the Management Board of BRAIN AG has decided to replace the existing key financial indicator of “adjusted EBIT” by “adjusted EBITDA” (adjusted earnings before interest, tax, depreciation and amortisation) as of the end of the financial year. The applicable adjustments remain unchanged in this context. For this reason, the income statement and the segment disclosures in these interim financial statements include both figures.

The other remarks made in the 2016/17 consolidated financial statements about the Group's basis and overall conditions continue to be applicable.

1. Results of operations

During the first nine months of the 2017/18 financial year, the total operating performance (revenue, research and development grant revenue, changes in inventories, and other income) of the BRAIN Group grew by € 1.0 million, or 5.0 %, to € 20.5 million. Revenue reported a slight year-on-year increase of 1.3 % to € 18.1 million. In the third quarter, total operating performance rose by 30.9 % year-on-year to reach € 8.2 million.

The BioScience segment recorded € 8.1 million of total operating performance in the reporting period, representing a 17.6 % year-on-year increase. This reduction is mainly attributable to delays in arranging both new and follow-up projects. Adjusted EBITDA decreased from € –3.6 million to € –4.4 million. The weaker adjusted EBITDA is chiefly due to higher personnel and cost of materials ratios in the BioScience segment, reflecting the

slower revenue growth. The adjusted operating result (adjusted EBIT) of the BioScience segment decreased from EUR –4.3 million to EUR –5.2 million accordingly.

The total operating performance of the BioIndustrial segment grew by 27.7% in the period under review and by 73.5% during the third quarter. Revenue was up by 22.7% to reach € 12.3 million. Growth in the BioIndustrial segment is mainly attributable to the acquisition of Biocatalysts in March 2018. Adjusted EBITDA decreased from € 0.4 million to € 0.2 million. This trend reflects the change in total operating performance as described below. The cosmetics area reported a weak performance especially in the first six months of the financial year under review, but resumed year-on-year growth in the third quarter. Along with the overall growth in the enzymes area, a weaker trend was recorded in some submarkets (mainly bioethanol), in line with demand.

Due to the higher amortisation of hidden reserves from the Biocatalysts acquisition of € 0.2 million (as explained above), the adjusted operating result (adjusted EBIT) in the BioIndustrial segment was € 0.5 million lower than in the previous year at € 0.0 million.

Consequently, the Group's adjusted EBITDA decreased year-on-year from EUR –3.3 million to EUR –4.1 million.

The following tables present the reconciliation of the adjusted operating result (EBIT) and adjusted EBITDA to the respective unadjusted figures.

€ thousand	9M 2017/18	9M 2016/17
EBITDA	-5,193	-6,205
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-155	-566
Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)	0	-2,352
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-893	0
Adjusted EBITDA	-4,144	-3,287

€ thousand	9M 2017/18	9M 2016/17
Operating result (EBIT)	-6,778	-7,345
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-155	-566
Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)	0	-2,352
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-893	0
Adjusted operating result (adjusted EBIT)	-5,729	-4,428

2. Net assets

Non-current assets increased from € 14.9 million as of 30 September 2017 to € 32.1 million as of 30 June 2018, with the rise being mainly attributable to the Biocatalysts acquisition, as this especially led to higher levels of intangible assets and of property, plant and equipment. The increase in intangible assets is mainly due to the goodwill that has arisen and the hidden reserves disclosed as part of the purchase price allocation. The rise in property, plant and equipment chiefly reflects the newly consolidated property, plant and equipment of Biocatalysts. Current assets reduced from EUR 53.6 million to EUR 46.8 million. This decrease mainly relates to liquid funds, which include other current financial assets. This reduction is attributable not only to the acquisition of Biocatalysts and the related payment of the purchase price but also the negative result for the period.

Equity decreased from € 47.4 million as of 30 September 2017 to € 32.7 million as of 30 June 2018. This reduction of € 14.7 million principally reflects the decrease in the capital reserves in connection with the recognition of a potential obligation (liability) from put options relating to non-controlling interests in the Biocatalysts Group. Moreover, a lesser proportion of the reduction is attributable to the result for the period.

Non-current liabilities rose from € 12.7 million to € 34.4 million, which arises predominantly from the aforementioned potential obligations for the put options for the acquisition of non-controlling interests in the Biocatalysts Group (liability) as well as the actual financial liabilities of the Biocatalysts Group. Furthermore, the silent partnership of € 3.0 million, upon which the AGM voted on 8 March 2018, was disbursed in the third quarter.

Due to the acquisition and first-time consolidation of the Biocatalysts Group, current financial liabilities increased, which partly accounted for the rise in current liabilities from € 8.4 million to € 11.8 million.

3. Financial position

The Group's gross cash flow reduced to € -6.7 million, compared with the previous year's € -4.9 million. Besides the general business trend in the period under review, this decrease also reflects the incidental cash costs for the acquisition of Biocatalysts. Cash flow from operating activities reduced from € -4.2 million to € -6.2 million due to the lower level of gross cash flow.

Cash flow from investing activities during the first nine months of the current financial year is mainly determined by the acquisition of the Biocatalysts Group and the related purchase

price (less cash acquired), leading to cash flow from investing activities of € -11.6 million (compared with € 4.1 million). In the previous year, investments and disposals of financial assets relate to current fixed term deposits arranged on a revolving basis to avoid negative interest, and held at banks connected to the deposit insurance scheme. Apart from these changes as well as the acquisition of Biocatalysts, cash flow from actual investment activities reported a slight increase from € 0.9 million to € 1.2 million.

Cash flow from financing activities mainly reflects the debt financing facilities of BRAIN AG (see also the "Net assets" section above). Accordingly, cash flow from financing activities amounted to € 4.9 million, compared with € 0.0 million in the previous year.

Liquid funds, including current financial assets, reduced from € 39.0 million as of 30 September 2017 to € 26.0 million, which is attributable to the aforementioned effects, especially the acquisition of Biocatalysts.

CONSOLIDATED INCOME STATEMENT

[UNAUDITED]

1 October 2017 to 30 June 2018 and 1 April 2018 to 30 June 2018

€ thousand	9M 2017/18	9M 2016/17	Q3 2017/18	Q3 2016/17
Revenue	18,143	17,910	7,437	5,790
Research and development grant revenue	1,479	1,618	523	505
Change in inventories of finished goods and work in progress	83	-653	45	-204
Other income	844	699	216	191
	20,548	19,573	8,221	6,282
Cost of materials				
Costs of raw materials and supplies, and purchased merchandise	-7,668	-6,072	-3,397	-2,215
Cost of purchased services	-1,754	-1,757	-476	-616
	-9,422	-7,829	-3,873	-2,831
Personnel expenses				
Wages and salaries	-8,738	-8,511	-3,294	-2,582
Share-based compensation	-10	-2,352	-10	-90
Social security and post-employment benefit costs	-1,767	-1,624	-678	-517
	-10,516	-12,487	-3,982	-3,189
Other expenses	-5,803	-5,462	-1,840	-1,589
EBITDA	-5,193	-6,205	-1,474	-1,327
Depreciation and amortisation	-1,585	-1,140	-769	-384
Operating result (EBIT)	-6,778	-7,345	-2,243	-1,711
Finance income	28	151	-2	-11
Finance costs	-328	-269	-114	-87
	-300	-118	-116	-98
Pretax loss for the reporting period	-7,078	-7,463	-2,358	-1,809
Income tax expense / income				
a) Current tax expense	-40	-220	3	52
b) Deferred tax income	238	91	150	56
	198	-130	153	107
Net loss for the reporting period	-6,880	-7,593	-2,206	-1,701
of which attributable to:				
Non-controlling interests	-77	-65	-70	-44
Shareholders of BRAIN AG	-6,803	-7,528	-2,136	-1,657
Earnings per share, basic (undiluted)	-0.38	-0.46	-0.12	-0.10
Number of shares taken as basis	18,055,782	16,414,348	18,055,782	16,414,348
Earnings per share, diluted	-0.38	-0.46	-0.12	-0.10
Number of shares taken as basis	18,055,782	16,414,348	18,055,782	16,414,348

CONDENSED PRESENTATION OF THE GROUP FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET) [UNAUDITED] 30 June 2018

€ thousand	30.06.2018	30.09.2017
Non-current assets	32,065	14,947
Current assets	46,772	53,557
ASSETS	78,837	68,504
Equity	32,685	47,362
Non-current liabilities	34,353	12,717
Current liabilities	11,798	8,425
EQUITY AND LIABILITIES	78,837	68,504

CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED] 1 October 2017 to 30 June 2018

€ thousand	9M 2017/18	9M 2016/17
Gross cash flow	-6,688	-4,916
Cash flow from operating activities	-6,207	-4,199
Cash flow from investing activities	-11,636	4,125
Cash flow from financing activities	4,901	-45
Net change in cash and cash equivalents	-12,943	-119
Cash and cash equivalents at start of reporting period	38,954	8,261
Cash and cash equivalents at end of reporting period ¹	25,992	8,140

¹ A € 19 thousand change in the cash position arose as of 30 June 2018, reflecting changes in currency exchange rates.

SELECTED INFORMATION ABOUT THE GROUP

[UNAUDITED] 1 October 2017 to 30 June 2018

Expansions of the BRAIN Group

The accounting policies on which the consolidated financial statements as of 30 September 2017 were based were also applied for the first nine months of 2017/18.

On 17 March 2018, the BRAIN Group concluded a purchase agreement concerning the acquisition of a majority interest in the company Biocatalysts Ltd, based in Cardiff, UK. This acquisition also included the acquisition of Biocatalysts Inc, Dover, USA, as a wholly-owned subsidiary of Biocatalysts Ltd (hereinafter referred to together as "Biocatalysts"). Biocatalysts is one of the leading European companies in special enzymes. Thanks to its strategic orientation, Biocatalysts meets wide-ranging customer requirements in the enzymatic area – either through standardised, customised or novel enzyme products. The company focuses on the application-specific development and production of novel enzymes with the objective of significantly proving application processes in established industries as well as tapping new deployment spectrums for enzymes in many different types of sectors. The development of enzyme products, which is driven by the company's application expertise, is partly supported by its proprietary MetXtra metagenome library, which enables access to more than 300 million unique sequences. Biocatalysts works in strategic partnerships with many globally positioned companies.

Moreover, on 6 February 2018, BRAIN AG formed a wholly owned US subsidiary BRAIN US LLC, based in Rockville, MD, to expand business development activities in the USA.

Both expansions to the Group are expected to exert positive effects on the course of business in both this and coming financial years.

Segment reporting

In the segment reporting, the companies of the Biocatalysts Group have been included in the BioIndustrial segment. The company BRAIN US LLC was included in the BioScience segment. Apart from this, no changes have occurred compared with the consolidated financial statements as of 30 September 2017. The following overview presents the segment results.²

€ thousand	BioScience		BioIndustrial		Consolidation 9M 2017/18	
	9M 2017/18	9M 2016/17	9M 2017/18	9M 2016/17	Überleitung	Konzern
Total operating performance	8,139	9,880	12,450	9,751	-40	20,548
Adjusted EBITDA	-4,356	-3,599	211	424	1	-4,144
Adjusted EBIT	-5,192	-4,340	-539	24	1	-5,729

² After partial elimination within the segment

Number of employees in the Group

Average for the reporting period ³	9M 2017/18	FY 2016/17
Total employees, of which	236	212
Salaried employees	221	199
Industrial employees	15	13

Furthermore, BRAIN employs scholarship/grant holders (6, FY 16/17: 8), temporary employees (10, FY 16/17: 13) and trainees (5, FY 16/17: 6).

³ Excluding the members of the parent company's Management Board (2) and the subsidiaries' managing directors

EVENTS AFTER THE END OF THE QUARTER

BRAIN AG announces founding of SolasCure Ltd for the further development of Aurase®

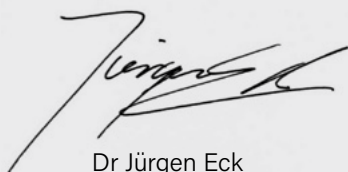
On 22 August 2018, BRAIN AG announced its investment in the founding of SolasCure Ltd. SolasCure Ltd, which is based in Cardiff, Wales (UK), will be responsible for the development, CE certification and marketing of medical products based on Aurase®, a new enzymatic active ingredient developed by BRAIN for the biological cleaning of chronic wounds. Investors including BRAIN AG have invested in SolasCure in a successful Series A financing round.

DOLCE core team announces membership changes in programme for natural-based sweeteners

BRAIN AG, AnalytiCon Discovery GmbH and Roquette – together the DOLCE core team – announce on August 30, 2018, that a CPGC member (Consumer Product Goods Company) of the DOLCE partnership for natural-based sweetening solutions has left the programme for company-internal strategic reasons. Additionally, the business model was reshaped to enable new non-exclusive members an easier access to the programme.

Zwingenberg, 31 August 2018

The Management Board



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Frank Goebel

CONTACT

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FINANCIAL CALENDAR

31.08.2018 **Publication of the quarterly statement
for the period ending 30.06.2018 (9M)**

10.01.2019 **Publication of the annual report
as of 30.09.2018 (12M)**

28.02.2019 **Publication of the quarterly statement
as of 31.12.2018 (3M)**

07.03.2019 **AGM, Zwingenberg**

Disclaimer

This interim report might contain certain forward-looking statements that are based on current assumptions and forecasts made by the management of the BRAIN Group and other currently available information. Various known and unknown risks and uncertainties as well as other factors can cause the company's actual results, financial position, development or performance to diverge significantly from the estimates provided here. BRAIN AG does not intend and assumes no obligation of any kind to update such forward-looking statements and adapt them to future events or developments. The interim report can include information that does not form part of accounting regulations. Such information is to be regarded as a supplement to, but not a substitute for, information prepared according to IFRS. Due to rounding, it is possible that some figures in this and other documents do not add up precisely to the stated sum, and that stated percentages do not reflect the absolute figures to which they relate. This document is a translation of a document originally prepared in German. Where differences occur, precedence is given to the original German version.

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