

6

M

2017/18

HALF-YEAR REPORT as of 31 March 2018

Significant events · Interim Group management report · Consolidated income statement · Consolidated statement of comprehensive income · Consolidated balance sheet · Consolidated statement of changes in equity · Consolidated cash flow statement · Selected notes to the consolidated financial statements · Contact · Financial calendar

B·R·A·I·N

ABOUT BRAIN

BRAIN AG ranks among the technologically leading companies in Europe in the bioeconomy area, and operates in the area of 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 deployed successfully in the chemicals sector, as well as in the cosmetics and food manufacturing industries.

BRAIN's business model 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.

CONTENTS

04 **Significant events**
in the period 1 January 2018 to 31 March 2018

05-09 **Interim Group management report**
for the period from 1 October 2017 to 31 March 2018

10 **Consolidated income statement**
for the period from 1 October 2017 to 31 March 2018
and for the period from 1 January 2018 to 31 March 2018

11 **Consolidated statement of comprehensive income**
for the period from 1 October 2017 to 31 March 2018
and for the period from 1 January 2018 to 31 March 2018

12 **Consolidated balance sheet**
as of 31 March 2018

13 **Consolidated statement of changes in equity**
for the period from 1 October 2017 to 31 March 2018

14 **Consolidated cash flow statement**
for the period from 1 October 2017 to 31 March 2018

15-18 **Selected explanatory notes to the consolidated financial statements**
for the period from 1 October 2017 to 31 March 2018

19 **Contact, Financial calendar, Disclaimer**

SIGNIFICANT EVENTS

01.01.2018 – 31.03.2018

BRAIN AG acquires majority interest in leading special enzyme producer Biocatalysts Ltd

On 17 March 2018, BRAIN AG announced that a share purchase agreement had been signed between BRAIN and special enzymes company Biocatalysts Ltd, based in Cardiff, UK. The transaction serves to strengthen the BioIndustrial operating segment of BRAIN through improved access to attractive markets for special enzymes as well as state-of-the-art enzyme production facilities (see also the explanatory notes below).

BRAIN AG founds US subsidiary to strengthen business development in North America

In order to more effectively address the North American markets – which are important markets for the BRAIN Group – BRAIN has formed the US subsidiary B.R.A.I.N. Biotechnology Research and Information Network US LLC (referred to in brief as: BRAIN LLC). With this strategic step, announced on 6 March 2018, the internationalisation of the business of BRAIN is being advanced, proximity to customers is being improved, and the business development of the BRAIN Group is being intensified with a US presence (see also the expansion notes below).

BRAIN AG expands patent protection for unique taste bud technology to Europe

BRAIN AG has received patent protection for innovative taste bud technologies from the European Patent Agency (EPA), thereby holding rights-of-use for the highly innovative screening technologies for new natural taste modulators (as described in the patent) for the important markets of Europe and the USA. The European patent was issued and published on 21 February 2018.

INTERIM GROUP MANAGEMENT REPORT

01.10.2017 – 31.03.2018

I. 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 notes to the consolidated financial statements in this interim report. The Biocatalysts Group is consolidated within the BioIndustrial 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 business performance. Thanks to the latest acquisitions and based on the purchase price allocation that has yet to be finalised, it is already foreseeable that significant identifiable intangible assets, such as technologies, can be disclosed.¹ 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” in certain circumstances. 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.

II. ECONOMIC AND BUSINESS REPORT

1. Results of operations

During the first three months of the 2017/18 financial year, the BRAIN Group generated € 12.3 million of total operating performance (revenue, research and development grant revenue, changes in inventories, and other income), compared with € 13.3 million in the previous year's reporting period, representing a reduction of 7.2%. Consolidated revenue decreased by € 1.4 million year-on-year to € 10.7 million. After a weak start to the financial year, the BRAIN Group achieved 4.7% growth in total operating performance in the second quarter compared with the first quarter. This growth dynamic nevertheless failed to match the performance in the second quarter of the previous year, leading in a quarterly

¹ For more information on this topic, please refer to the notes to the consolidated financial statements in this interim report

comparison to a 10.2% reduction in revenue and a 5.9% decrease in total operating performance in the second quarter compared with the previous year's quarter. The aforementioned developments are explained in more detail below.

The **"BioScience"** segment recorded a year-on-year reduction in total operating performance of € 1.3 million, or of 18.4%, in the six-month reporting period, to a level of € 5.6 million. This development reflects not only delays in the planned completion of projects in the cooperation business with globally operating industrial partners, especially in specialty chemicals and the food manufacturing industry, but also a relatively strong cooperation business in the previous year's period. This trend remained quite evident during the second quarter. Revenue reduced from € 5.5 million in the previous year to € 4.1 million in the reporting period under review. Corresponding packages of measures, including strengthening business development activities to accelerate the implementation of follow-on projects, are in the realisation stage. The improvement in the unadjusted operating result from € -5.7 million in the previous year's reporting period to € -4.2 million mainly reflects € 2.3 million of expenses in the prior-year period from a non-cash share-based compensation program for key personnel at BRAIN AG, and non-cash personnel expenses from share-based employee compensation programs for the subsidiary AnalytiCon Discovery GmbH (€ 0.5 million). Adjusted for these effects, the adjusted segment operating result (EBIT) amounts to € -3.4 million (prior-year period: € -3.0 million), reflecting not only expenses for the research and development of new products and substances but also higher cost of materials, including due to a higher level of third-party work in the reporting period.

The **"BioIndustrial"** segment, which includes the development and commercialisation of the company's own products and active product components, grew its total operating performance by 4.4% to € 6.8 million in the first six months of the financial year under review compared with € 6.5 million in the prior-year period. Especially in the second quarter, the BioIndustrial segment registered solid year-on-year growth in terms of both total operating performance (+ 20.0%) and revenue (+ 10.6%). This reflected corresponding growth drivers in the cosmetics business, and the inclusion of the acquisition from 17 March 2018 until the end of the reporting period.

The segment operating result (EBIT) worsened from € 0.2 million in the previous year's period to € -0.3 million in the first half of the 2017/18 financial year. Adjusted for incidental costs for the acquisition of Biocatalysts, which are allocable to the BioIndustrial segment, the adjusted operating result (EBIT) amounted to € -0.2 million in the reporting period compared with the previous year's € 0.2 million (adjusted and unadjusted). Among other factors, this is due to market effects that led to a lower gross profit margin, as well as hiring and an increase in personnel costs.

The adjusted consolidated operating result (EBIT) amounted to € -4.5 million in the reporting period (prior-year period: € -5.6 million). Adjusted for expenses from the non-cash share-based compensation program (see the notes to the financial statements) as well as what the company sees as standard market costs connected with the preparation, implementation, arrangement and integration of M&A transactions, the adjusted consolidated operating result thereby stood at € -3.6 million, compared with € -2.9 million in the

previous year. Here, the reduction at Group level reflects the respective weaker adjusted segment operating result (EBIT).

The net financial result amounted to € -184 thousand, compared with € -20 thousand in the prior-year period. The increase in finance costs from € -182 thousand to € -214 thousand derives mainly from interest expenses and the subsequent measurement of financial liabilities.

The consolidated net result stood at € -4.7 million during the first nine months, compared with € -5.9 million in the previous year's period. Non-controlling interests accounted for a € -7 thousand share of results, compared with € -21 thousand in the previous year.

Undiluted (basic) and diluted earnings per share during the first six months of the financial year amounted to € -0.26, compared with € -0.36 in the previous year's period.

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

€ thousand	6M 2017/18	6M 2016/17
Operating result (EBIT)	-4,535	-5,634
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-119	-478
Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)	0	-2,261
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-799	0
Adjusted operating result (adjusted EBIT)	-3,616	-2,895

€ thousand	6M 2017/18	6M 2016/17
EBITDA	-3,719	-4,878
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-119	-478
Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)	0	-2,261
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-799	0
Adjusted EBITDA	-2,800	-2,139

2. Net assets

Non-current assets increased from € 14.9 million as of 30 September 2017 to € 27.8 million as of 31 March 2018, with the rise being mainly attributable to the acquisition of Biocatalysts, as this especially led to higher levels of intangible assets and of property, plant and equipment. By contrast, current assets reduced from € 53.6 million to € 44.4 million. This decrease chiefly 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 result for the period.

Equity decreased from € 47.4 million as of 30 September 2017 to € 32.2 million as of 31 March 2018. This reduction chiefly reflects (in an amount of € 12.9 million) 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 (see also the notes to the financial statements in this interim report). Moreover, a lesser proportion of the reduction is attributable to the result for the period.

Non-current liabilities rose from € 12.7 million to € 27.0 million, which predominantly reflects the aforementioned potential obligation for the acquisition of non-controlling interests in the Biocatalysts Group (put options) as well as the actual financial liabilities of the Biocatalysts Group.

Due to the acquisition and first-time consolidation of the Biocatalysts Group, current financial liabilities also increased, which mainly led to a rise in current liabilities from € 8.4 million to € 13.0 million.

3. Financial position

The Group's gross cash flow reduced to € -5.3 million, compared with the previous year's € -3.6 million. This decrease primarily reflects a better post-tax result for the period, a higher level of receipt of deferred income, and a lower level of other non-cash expenses and income.

Cash flow from operating activities fell from € -2.3 million to € -2.8 million due to the lower level of gross cash flow.

Cash flow from investing activities during the first six 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 € -10.9 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 investing activities remained almost stable in connection with investments of € -0.5 million.

As in the previous year, cash flow from financing activities comprises only the scheduled redemption of financial liabilities in an amount of € 0.5 million.

Liquid funds, including current financial assets, reduced from € 39.0 million as of 30 September 2017 to € 24.7 million, which is attributable to the aforementioned effects, especially the acquisition of Biocatalysts.

II. SIGNIFICANT OPPORTUNITIES AND RISKS

The acquisition of Biocatalysts generates opportunities for the BRAIN Group arising from the realisation of synergies in the form of joint developments and the BRAIN Group's expanded market to the attractive market for special enzymes. This acquisition also generates the risk, however, that these planned and expected synergies might not be realised. From the point of view of the Management Board, the opportunities outweigh the risks from this acquisition.

Above and beyond this, no significant changes occurred in relation to opportunities and risks compared with the 2016/17 annual report.

Risks pursuant to Section 91 (2) of the German Stock Corporation Act (AktG), which might comprise going concern risks for the BRAIN Group, are not identifiable at present.

II. OUTLOOK

No significant changes are identifiable concerning the business outlook compared with the outlook report contained in the 2016/17 annual report.

CONSOLIDATED INCOME STATEMENT [UNAUDITED]

€ thousand	6M 2017/18	6M 2016/17	Q2 2017/18	Q2 2016/17
Revenue	10,705	12,120	5,422	6,041
Research and development grant revenue	957	1,112	462	597
Change in inventories of finished goods and work in progress	38	-448	141	-269
Other income	627	507	279	328
	12,328	13,291	6,305	6,697
Cost of materials				
Costs of raw materials and supplies, and purchased merchandise	-4,271	-3,858	-2,263	-1,634
Cost of purchased services	-1,278	-1,140	-619	-629
	-5,549	-4,998	-2,882	-2,263
Personnel expenses				
Wages and salaries	-5,444	-5,930	-2,773	-2,579
Share-based compensation	0	-2,261	0	-324
Social security and post-employment benefit costs	-1,090	-1,107	-537	-538
	-6,534	-9,298	-3,310	-3,440
Other expenses	-3,964	-3,873	-2,097	-1,818
EBITDA	-3,719	-4,878	-1,984	-823
Depreciation and amortisation	-816	-756	-423	-381
Operating result (EBIT)	-4,535	-5,634	-2,407	-1,204
Finance income	30	162	27	30
Finance costs	-214	-182	-69	-92
	-184	-20	-42	-61
Pretax loss for the reporting period	-4,719	-5,654	-2,449	-1,266
Income tax expense / income				
a) Current tax expense	-43	-272	74	-110
b) Deferred tax expense (-)/ income (+)	89	35	43	73
	45	-237	117	-37
Net loss for the reporting period	-4,674	-5,892	-2,331	-1,303
of which attributable to:				
Non-controlling interests	-7	-21	27	6
Shareholders of BRAIN AG	-4,667	-5,871	-2,358	-1,309
Earnings per share, basic (undiluted)	-0.26	-0.36	-0.13	-0.08
Number of shares taken as basis	18,055,782	16,414,348	18,055,782	16,414,348
Earnings per share, diluted	-0.26	-0.36	-0.13	-0.08
Number of shares taken as basis	18,055,782	16,414,348	18,055,782	16,414,348

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [UNAUDITED]

€ thousand	6M 2017/18	6M 2016/17	Q2 2017/18	Q2 2016/17
Net loss for the reporting period	-4,674	-5,892	-2,331	-1,303
of which attributable to:				
Non-controlling interests	-7	-21	27	6
Shareholders of BRAIN AG	-4,667	-5,871	-2,358	-1,309
Other comprehensive income:				
Items that will be reclassified subsequently to profit or loss				
Translation differences from the translation of foreign operations	87	0	0	0
Other comprehensive income (loss), net	87	0	0	0
Consolidated total comprehensive income (loss)	-4,587	-5,892	-2,331	-1,303
of which attributable to:				
Non-controlling interests	-7	-21	27	6
Shareholders of BRAIN AG	-4,581	-5,871	-2,358	-1,309

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) [UNAUDITED]

€ thousand	31.03.2018	30.09.2017
Non-current assets		
Intangible assets	15,777	7,087
Property, plant, and equipment	11,656	7,590
Equity-accounted investments	166	166
Other non-current assets	225	103
	27,825	14,947
Current assets		
Inventories	8,273	7,244
Trade receivables	5,797	6,472
Other current assets	1,400	592
Current tax assets	32	1
Other financial assets	4,129	295
Cash and cash equivalents	24,726	38,954
	44,358	53,557
ASSETS	72,182	68,504
Equity		
Subscribed capital	18,056	18,056
Capital reserves	65,051	77,950
Retained earnings	-52,403	-47,736
Other reserves	-1,003	-1,090
	29,700	47,180
Non-controlling interests	2,512	182
Total equity	32,212	47,362
Non-current liabilities		
Deferred tax	1,125	1,144
Provisions for post-employment benefits for employees	1,280	1,280
Financial liabilities	22,432	8,181
Other liabilities	1,296	1,827
Deferred income	885	286
	27,019	12,717
Current liabilities		
Other provisions	387	417
Current tax liabilities	551	580
Financial liabilities	5,088	1,514
Prepayments received	141	269
Trade payables	3,311	2,433
Other liabilities	2,772	2,705
Deferred income	700	507
	12,951	8,425
EQUITY AND LIABILITIES	72,182	68,504

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [UNAUDITED]

1 October 2016 to 31 March 2017	Interests of shareholders of BRAIN AG					Non-controlling interests	
€ thousand	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Total		Total
Balance at 30 September 2016	16,414	49,369	-38,129	-974	26,680	246	26,926
Net loss for the reporting period			-5,871		-5,871	-21	-5,892
Total comprehensive income (loss) (1.10.2016 – 31.03.2017)			-5,871		5,871	-21	-5,892
Transfers due to employee share scheme		2,161			2,161		2,161
Balance at 31 March 2017	16,414	51,530	-44,000	-974	22,970	225	23,195

1 October 2017 to 31 March 2018	Interests of shareholders of BRAIN AG						Non-controlling interests	
€ thousand	Subscribed capital	Capital reserves	Retained earnings	Other reserves		Total		Total
				Pension plans	Currency translation			
Balance at 30 September 2017	18,056	77,950	-47,736	-1,090	0	47,180	182	47,361
Net loss for the reporting period			-4,667			-4,667	-7	-4,674
Total comprehensive income (loss) (1.10.2017 – 31.03.2018)			-4,667		87	-4,581	-7	-4,587
Addition of non-controlling interest as part of the acquisition of fully consolidated Group companies						0	2,336	2,336
Addition of liability from put/call agreement relating to the acquisition of non-controlling interests in fully consolidated Group companies		-12,899				-12,899		-12,899
Balance at 31 March 2018	18,056	65,051	-52,403	-1,090	87	29,700	2,512	32,212

CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

€ thousand	6M 2017/18	6M 2016/17
Net profit (loss) for the period, after tax	-4,674	-5,892
Depreciation and amortisation	816	756
Deferred tax expense (income)	-89	-35
Change in deferred income recognised in profit or loss	-1,416	-432
Income from the release of provisions and liabilities	-176	-68
Other non-cash expenses (income)	205	2,119
Losses on disposals of intangible assets and property, plant and equipment	2	0
Gross cash flow	-5,331	-3,551
Change in trade receivables	2,361	-99
Change in inventories	204	479
Change in tax assets and liabilities	-407	226
Change in other assets and financial assets	-425	9
Change in trade payables	343	-412
Change in prepayments received	132	399
Change in provisions and other liabilities	-1,017	311
Additions from deferred income	1,325	385
Cash flow from operating activities	-2,814	-2,252
Payments to acquire companies (less cash and cash equivalents acquired)	-10,458	0
Payments to acquire intangible assets	-57	-63
Payments to acquire property, plant and equipment	-278	-456
Investments in interests in affiliated companies	0	-2
Net proceeds from other non-current assets	-122	13
Payments to acquire financial assets	0	-3,000
Disposals of financial assets	0	9,000
Proceeds from disposal of property, plant and equipment	1	0
Cash flow from investing activities	-10,914	5,492
Repayments of borrowings	-507	-547
Cash flow from financing activities	-507	-547
Net change in cash and cash equivalents	-14,235	2,692
Cash and cash equivalents at start of reporting period	38,954	8,261
Exchange-rate-related change in cash	7	0
Cash and cash equivalents at end of reporting period	24,726	10,953
Cash flows from operating activities include:		
Interest paid	120	128
Interest received	5	4
Income taxes paid	140	86
Income taxes received	9	15

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

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 six months of 2017/18. The interim consolidated financial statements have not been audited in accordance with Section 317 of the German Commercial Code (HGB), nor have they been reviewed by an auditor.

On 17 March 2018, the BRAIN Group concluded a purchase agreement concerning the acquisition of a majority interest in the company Biocatalysts Ltd, which is 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 production. 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, thereby offering each customer a large selection of potential and somatic solutions. Biocatalysts works in strategic partnerships with many globally positioned companies. Biocatalysts forms an outstanding fit for the existing product portfolio of the BRAIN Group. The acquisition purchase price for the acquired 65.55% interest in the Biocatalysts Group amounted to £ 11.8 million (€ 13.4 million). The purchase price comprises the purchase price component with an immediate cash outflow of £ 8.6 million as well as a payment of £ 3.2 million, which is due in six months and which is not otherwise connected to any further conditions. As of the date when this quarterly statement was prepared, the IFRS 3 purchase price allocation not yet been finalised for the acquired company. The difference between the purchase costs and the carrying amounts of the acquired assets and liabilities was consequently provisionally recognised in full as goodwill. Once the valuation survey for the purchase price allocation has been finalised, it is expected that some of the purchase price can be allocated to previously un-capitalised intangible assets, such as technologies and customer relationships.

Based on the provisional calculation excluding the disclosure of hidden reserves, a proportional carrying amount of the net assets of £ 3.9 million is derived.

The proportional carrying amount of the net assets is calculated as follows:

£ million		
Non-current assets		3.7
Current assets	+	5.5
Non-current liabilities	-	1.3
Current liabilities	-	1.9
Carrying amount of the net assets	=	6.0
Less the non-controlling interest in the net assets (x 35.45%)	-	2.1
Proportional carrying amount of the net assets	=	3.9

The resultant provisional goodwill in accordance with the interest held (partial goodwill) amounts to £ 7.9 million. This will prospectively reduce considerably once the valuation survey has been finalised.

Biocatalysts generated revenue of approximately £ 550 thousand in the 17 March 2018 to 31 March 2018 period, and net income of approximately £ 30 thousand. In the 1 October 2017 to 31 March 2018 period, revenue of around £ 5,535 thousand was generated and net income of approximately £ 600 thousand. As no significant operative links exist between the companies as of the acquisition date, these figures also reflected the effect on the consolidated net result.

Put/call option agreements were also arranged between the predominant proportion (25.1% out of 34.5%) of the remaining non-controlling interests and the BRAIN Group, which enable the BRAIN Group to acquire the remaining non-controlling interests at a contractually agreed EBITDA multiple during two exercise periods between 1 January 2022 and 31 March 2023. The put option gives the non-controlling interests the right to tender shares to the BRAIN Group at contractually agreed EBITDA multiples (depending on the exercise date) in five exercise periods between 1 January 2019 and 31 March 2023.

The financial liability is recognised so as to reflect the highest probable liability, as the actual exercise dates are uncertain. The provisional present value of the resultant potential acceptance obligation amounts to € 12.9 million. The capital reserves were reduced accordingly by € 12.9 million. The liability is subsequently measured through profit or loss.

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 anticipated 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 results².

€ thousand	BioScience		BioIndustrial		Reconciliation		Group	
	6M 17/18	6M 16/17	6M 17/18	6M 16/17	6M 17/18	6M 16/17	6M 17/18	6M 16/17
Total revenue	4,092	5,462	6,647	6,669	-33	-11	10,705	12,120
of which: Revenue generated with other segments	21	6	12	5	-33	-11	0	0
of which: Revenue generated with external customers	4,071	5,456	6,634	6,663	0	0	10,705	12,120
R&D grant revenue ³ [External]	921	1,112	35	0	0	0	957	1,112
Changes in inventories ⁴	139	-6	-101	-442	0	0	38	-448
Other income	451	301	176	244	0	-38	627	507
Total operating performance	5,603	6,869	6,757	6,470	-33	-48	12,328	13,291
EBITDA	-3,682	-5,209	-31	440	-6	-48	-3,719	-4,878
Adjusted EBITDA	-2,855	-2,470	61	440	-6	-48	-2,800	-2,139
Operating result (EBIT)	-4,217	-5,697	-312	172	-6	-110	-4,535	-5,634
Adjusted operating result (adjusted EBIT)	-3,390	-2,958	-220	172	-6	-110	-3,616	-2,895
Finance income							30	162
Finance costs							-214	-182
Result before taxes							-4,719	-5,654

Number of employees in the Group⁵

Average for the reporting period ^{6v}	6M 2017/18	FY 2016/17
Employees	234	228
of which scholarship/grant holders	6	7
of which temporary employees	11	15

² After partial elimination within the segment

³ Research and development grant revenue

⁴ Changes in inventories of finished goods and work in progress

⁵ Excluding the members of the parent company's Management Board and the subsidiaries' managing directors

⁶ Excluding the staff of Biocatalysts as the inclusion between 17 March 2018 and 31 March 2018 is to be categorised as immaterial. The number of staff at Biocatalysts amounted to 55.5 full-time equivalents as of 31 March 2018.

Related party transactions

During the first six months of the 2017/18 financial year, no new transactions with related parties were concluded that were not already presented in the financial statements as of 30 September 2017, and that had a significant effect on the financial position and performance of the BRAIN Group.

Events after the end of the quarter

The Management Board is not aware of any events of particular significance, or with considerable effects on the financial position and performance, after the balance sheet date on 31 March 2018.

Responsibility statement

According to the best of our knowledge and in accordance with applicable principles for interim reporting, the interim consolidated financial statements convey a true and fair view of the Group's financial position and performance. The interim Group management report conveys a true and fair view of the development and course of business operations as well as of the Group's position, and appropriately presents the significant opportunities and risks entailed in the Group's future development during the remaining months of the financial year.

Zwingenberg, 30 May 2018

The Management Board



Dr Jürgen Eck



Frank Goebel

CONTACT

The following contact person is available to respond to your queries:

Corporate Development & Investor Relations

Dr Martin Langer

Fon: +49-(0)6251-9331-16

FINANCIAL CALENDAR

30.05.2018 Publication of the half-year report
for the period ending 31.03.2018 (6M)

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.

Publication date: 30 May 2018

Published by:

B·R·A·I·N

Biotechnology Research And Information Network AG

Darmstädter Straße 34 – 36

64673 Zwingenberg · Germany

phone +49 (0) 62 51 / 9331-0

fax +49 (0) 62 51 / 9331-11

e-mail public@brain-biotech.de

web www.brain-biotech.de