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2015/16

QUARTERLY STATEMENT **as of 30 June 2016**

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B·R·A·I·N

ABOUT BRAIN

BRAIN is one of Europe's technologically leading companies in the field of bioeconomy, applying its key technologies in the area of industrial, or so-called "white", biotechnology, to discover as of yet untapped highly performing enzymes, microbial producer organisms, or natural substances 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 chemical industry, as well as in the cosmetics and food 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 concluded on an exclusive basis. The second pillar, "BioIndustrial", comprises the development and marketing of BRAIN's proprietary products and product components.

BRAIN is one of the key players in bioeconomy, advancing industry's biologisation. The Paris Climate Summit and the Berlin Bioeconomy Summit in autumn 2015 delivered a significant boost to bioeconomy as a megatrend.

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SIGNIFICANT EVENTS

1 April 2016 to 30 June 2016 (Q3)

Cooperation with Südzucker in microorganism CO₂ utilisation

Due to good Phase 1 laboratory results in our cooperation with Südzucker AG in the microbial carbon dioxide processing field, both partners submitted an application in April 2016 for further backing from the German Federal Ministry of Education and Research (BMBF) to test the process in Phase 2 at larger pilot plant dimension on Südzucker's CO₂-emitting industrial plant in Zeitz. Here, CO₂ generated in industrial product manufacturing is to be transferred to material use by means of special microorganisms so that significantly less CO₂ enters the environment. Intermediate products generated, including monocarboxylic and dicarboxylic acid, can then be utilised as specialty products, including in the bioplastics industry, for example.

Achievement of important milestone in strategic partnership with DIANA Pet Food

In the strategic cooperation with DIANA Pet Food – an operating division of the Symrise Group and a globally leading developer of innovative solutions in pet food processing and manufacturing – an initial milestone was reached in June 2016 in researching taste function in cats. Already in the first year of a five-year cooperation, proliferating cat taste cells (CTCs) were isolated faster than planned and made available for long-term studies researching taste perception in cats.

The CTC technology is derived from the BRAIN Human Taste Cell Technology (HTC). BRAIN recently patented this technology and is currently applying it to screen for bioactive natural substances to improve foodstuff preparations in order to thereby cut calories (fat, sugar) and salt in human diet.

BRAIN accelerates biotechnology process optimisation

NatLife 2020 – a strategic alliance for which BRAIN AG conducts strategic coordination – has successfully started its second funding period under co-funding by the German Federal Ministry of Education and Research (BMBF). As part of this alliance, BRAIN has been working together with PS Biotech GmbH since the start of the reporting quarter on optimising substrate release in biofermentation processes. The related microbial expression systems deployed in the jointly developed processes are very multifaceted and include the yeast *Pichia pastoris* that is frequently used to produce proteins and peptides.

By applying polymer-based release systems in both screening as and process development, BRAIN expects time savings of 30 % compared to the conventional process development procedure.

FINANCIAL POSITION AND PERFORMANCE

1 October 2015 to 30 June 2016 (9 months)

1. Results of operations

During the first nine months of the 2015/16 fiscal year, BRAIN generated € 19.0 million of total operating performance¹ compared with € 19.8 million in the prior-year period². While revenue was up by 2.9 % to € 16.5 million, research and development grant revenue, changes in inventories, and other income, reported a reduction.

In the “BioScience” segment, the company further expanded its collaboration business with globally operating industrial partners, especially from the specialty chemicals and food industries. Underscored by the attainment of several development milestones, total operating performance in this segment grew from € 8.7 million to € 9.1 million. The reduction in the operating result from € -3.9 million to € -7.4 million arises partly from € 1.1 million of IPO costs, and € 1.3 million of personnel expenses from share-based employee compensation schemes relating to the subsidiary AnalytiCon Discovery GmbH. After adjusting for these effects, the segment achieved an adjusted operating result (adjusted EBIT) of € -4.9 million, compared with € -3.7 million in the previous year’s equivalent period. The segment result includes expenses to research and develop new products and constituent substances.

The product-related business of the “BioIndustrial” segment generated € 10.0 million of total operating performance in the reporting period, compared with € 11.2 million in the previous-year period. The segment operating result reduced from € -2 thousand to € -0.3 million. Within this segment, the strategic focus of the enzyme business is being placed increasingly on the special enzymes area. The reduction in revenue from bioethanol enzymes that started in Q1 2015/16 due to price pressure as a consequence of the continued fall in the price of crude oil continued to exert a negative effect on segment results in terms of both revenue and earnings during the past quarter. Some customers have meanwhile ramped up their production again, although the previous production level has not yet been reached. As already related in the report on the first six months of the year, the company is continuing to pursue its strategy of giving a stronger emphasis to its higher-margin special enzymes business, such as enzymes to process wine and fruit juice beverages.

In the cosmetics area, the launch of the new Monteil ProBeActive series made a successful start in Q3 2015/16. ProBeActive is a probiotic activating anti-ageing care treatment based on the biotechnologically produced lactic acid bacteria *Lactococcus lactis*. At Monteil, this substance complex is being deployed in a cosmetics line for the first time worldwide.

The unadjusted consolidated operating result (EBIT) reduced year-on-year from € -3.9 million to € -7.7 million. EBIT adjusted for € 1.1 million (previous year: € 0.1 million) of one-off costs connected with the IPO of BRAIN AG, and € 1.3 million (previous year: € 0.1 million) of personnel expenses from the share-based employee compensation schemes relating to

¹ Defined as the sum of revenue, changes in inventories, and other income

² The figures for the first nine months of the 2015/16 fiscal year are comparable with the previous year’s figures to only a limited extent, as the business figures of the subsidiaries WeissBioTech GmbH and WeissBioTech S.A.R.L. are not included in the previous-year period until the start of the month of November 2014 for acquisition reasons, and are consequently only included for an eight-month period.

AnalytiCon Discovery GmbH, amounts to € -5.2 million, compared with € -3.7 million during the first nine months of the 2014/15 fiscal year.

BRAIN continues to assume that it can achieve breakeven at the operating result level during the course of the 2017/18 fiscal year, as planned.

The net financial result stood at € -525 thousand, compared with € -613 thousand in the previous year's period. The reduction in borrowing costs from € 619 thousand to € 554 thousand arises from scheduled loan redemption and the repayment of a shareholder loan, among other items.

The income tax expense increased from € 212 thousand to € 449 thousand. The current income tax expense reduced from € 105 thousand to € 91 thousand; the deferred tax expense rose from € 107 thousand to € 357 thousand.

The consolidated net result amounted to € -8.7 million during the first nine months, compared with € -4.7 million in the previous year's period. Most of this development is attributable to the aforementioned IPO costs and personnel expenses from the share-based employee compensation schemes. Non-controlling interests accounted for a € -103 thousand share of results, compared with € -87 thousand in the previous year.

Basic (undiluted) and diluted earnings per share amounted to € -0.58 compared with € -0.36 in the previous year's period.

2. Net assets

Non-current assets of € 15.1 million as of 30 June 2016 were almost unchanged compared with their level as of 30 September 2015 (€ 15.3 million). Current assets rose from € 15.1 million to € 33.0 million over the same period. The increase in current assets relates mainly to liquid assets and other current financial assets.

Equity grew from € 5.8 million as of 30 September 2015 to € 29.3 million as of 30 June 2016. Share capital increased from € 12.7 million to € 16.4 million as part of the pre-IPO capital increase in the first quarter of the fiscal year and the capital increase at the time of the IPO in the second quarter of the fiscal year. Capital reserves rose from € 16.9 million to € 45.4 million as part of the capital increases. The equity ratio reported a significant increase to 61 % as of 30 June 2016, from 18.9 % as of 30 September 2015.

Non-current liabilities reduced from € 16.9 million to € 12.4 million, mainly due to the debt/equity swap of part of the shareholder loan and the repayment of the remainder of the shareholder loan.

Current liabilities fell from € 7.7 million to € 6.4 million. The reduction is mainly due to the decrease in current financial liabilities from € 2.1 million to € 1.2 million as part of the scheduled redemption of a loan and of a silent partnership.

3. Financial position

The Group's gross cash flow of € -7.5 million was below the previous year's level of € -3.5 million. This reduction is chiefly attributable to the lower result that was achieved in the reporting period. Cash flow from operating activities decreased from € -3.3 million to € -6.9 million.

Cash-effective investments comprise mainly outgoing payments for current financial assets (€ 2.0 million), and property, plant and equipment (€ 0.5 million), predominantly laboratory and technical infrastructure.

The cash inflow from the share placement as part of the IPO amounted to € 30.0 million after deducting fees retained by banks managing the transaction. The company already received an amount of € 0.2 million in October 2015 as part of a capital increase that was entered in the commercial register on 6 November.

Cash flow from financing activities also include the repayment of the shareholder loan (€ 5.7 million) and the scheduled redemption of a silent partnership (€ 0.8 million).

Cash, cash equivalents and term deposits increased from € 3.2 million as of 30 September 2015 to € 20.8 million as of 30 June 2016.

CONSOLIDATED INCOME STATEMENT

[UNAUDITED] 1 October 2015 to 30 June 2016

in €	9M 2015/16	9M 2014/15	Q3 2015/16	Q3 2014/15
Revenue	16 524 785	16 054 129	5 364 516	5 120 148
Research and development grant revenue	1 563 043	1 992 858	320 910	681 035
Change in inventories of finished goods and work in progress	246 901	583 320	224 550	677 416
Other income	658 281	1 124 324	131 163	485 448
	18 993 009	19 754 631	6 041 140	6 964 047
Cost of materials				
Costs of raw materials & supplies and purchased merchandise	-6 314 006	-7 097 567	-2 338 757	-2 684 154
Cost of purchased services	-1 987 458	-2 031 853	-515 903	-743 170
	-8 301 464	-9 129 420	-2 854 661	-3 427 324
Personnel expenses				
Salaries and wages <i>(of which: from share-based employee compensation relating to AnalytiCon Discovery GmbH)</i>	-8 964 008 -1 337 069	-7 048 403 -58 371	-3 066 883 -445 690	-2 668 270 -46 109
Social security and post-employment benefit costs	-1 503 932	-1 405 670	-505 564	-512 864
	-10 467 941	-8 454 072	-3 572 447	-3 181 133
Depreciation, amortisation and impairment	-1 090 593	-1 090 733	-363 864	-383 275
Other expenses <i>(of which: IPO expenses)</i>	-6 815 326 -1 101 113	-4 941 250 -93 838	-1 661 799 25 000	-1 733 936 -93 838
Operating result (EBIT)	-7 682 313	-3 860 844	-2 411 631	-1 761 621
Adjusted operating result (EBIT)³	-5 244 131	-3 708 635	-1 990 941	-1 621 674
Finance income	29 320	6 187	17 570	502
Finance costs	-554 008	-618 796	-128 755	-170 750
	-524 688	-612 609	-111 185	-170 248
Pretax loss for the reporting period	-8 207 001	-4 473 453	-2 522 815	-1 931 869
Income tax				
a) Current income tax expense/income	-91 603	-104 984	-26 429	-1 871
b) Deferred tax expense/income	-357 277	-107 219	18 228	-4 052
	-448 881	-212 203	-8 201	-5 923
Net loss for the reporting period	-8 655 881	-4 685 656	-2 531 016	-1 937 792
of which attributable to:				
Non-controlling interests	-103 235	-87 115	-40 224	-48 092
Shareholders of BRAIN AG	-8 552 646	-4 598 541	-2 490 792	-1 889 700
Earnings per share, basic (undiluted)	-0,58	-0,36	-0,15	-0,15
Number of shares taken as basis	14 697 553	12 725 818	16 414 348	12 725 818
Earnings per share, diluted	-0,58	-0,36	-0,15	-0,15
Number of shares taken as basis	14 697 553	12 725 818	16 414 348	12 725 818

³ Adjusted for IPO expenses and costs from share-based employee compensation relating to the AnalytiCon Discovery GmbH subsidiary

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) [UNAUDITED] 30 June 2016

in €	30.06.2016	30.09.2015
Non-current assets	15 097 091	15 336 134
Current assets	32 961 744	15 070 620
ASSETS	48 058 835	30 406 755
Total equity	29 295 381	5 755 194
Non-current liabilities	12 385 294	16 924 236
Current liabilities	6 378 160	7 727 324
EQUITY AND LIABILITIES	48 058 835	30 406 755

CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED] 1 October 2015 to 30 June 2016

in €	9M 2015/16	9M 2014/15
Gross cash flow	-7 542 601	-3 503 609
Cash flow from operating activities	-6 944 254	-3 266 027
Cash flow from investing activities	-2 771 816	-427 106
Cash flow from financing activities	25 304 073	2 678 249
Net change in cash and cash equivalents	15 588 003	-1 014 884
Cash and cash equivalents at start of reporting period	3 247 352	4 458 926
Cash and cash equivalents at end of reporting period	18 835 355	3 444 042

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED] 1 October 2015 to 30 June 2016

Segment disclosure

Compared with the consolidated financial statements as of 30 September 2015, no changes have occurred in relation to segment reporting. The following overview presents the segment results⁴.

in thousand €	BioScience		BioIndustrial		Reconciliation		Group	
	9M 15/16	9M 14/15	9M 15/16	9M 14/15	9M 15/16	9M 14/15	9M 15/16	9M 14/15
Total operating performance	9 126	8 653	9 964	11 211	-97	-109	18 993	19 755
Adjusted operating result (adjusted EBIT) ⁵	-4 932	-3 707	-312	-2	0	0	-5 244	-3 709

Number of employees in the Group⁶

Average for the reporting period	9M 2015/16	FY 2014/15
Employees	221	215
of whom scholarship/grant holders	7	11
of whom temporary employees	10	13

Share-based employee compensation

Share-based employee compensation at the BRAIN Group includes the share-based payment commitments transferred with the acquisition of the subsidiary AnalytiCon Discovery GmbH on the 20 December 2013 acquisition date, as well as such commitments that have meanwhile been granted additionally to employees and managers of the AnalytiCon Discovery GmbH subsidiary. It also includes payments from options granted reciprocally to purchase and sell shares in AnalytiCon Discovery GmbH between employees and managers of AnalytiCon Discovery GmbH, on the one hand, and BRAIN AG, on the other.

⁴ After partial elimination within the segment

⁵ Adjusted for costs of the IPO (€ 1,101 thousand; previous year: € 94 thousand) and for the expenses deriving from share-based employee compensation relating to the subsidiary AnalytiCon Discovery GmbH (€ 1,337 thousand; previous year: € 58 thousand)

⁶ Excluding the members of the parent company's Management Board (3) and the subsidiaries' managing directors (7)

EVENTS AFTER THE END OF THE QUARTER

US patent granted for new generation of taste bud technology

On 2 August 2016, BRAIN received the US patents to utilise taste bud technology for screening purposes. The company has developed this technology on the basis of human taste buds. BRAIN assumes that a parallel patent will soon be granted in Europe.

The patent comprises the utilisation rights in the USA to investigate taste modulation mechanisms based on human taste buds compared with conventional simplified and very limited cell models. The cell lines developed by BRAIN are adapted to laboratory conditions and enable high-throughput screening programs for identification purposes.

These cells and technologies based on human taste buds and developed as part of the patent are already being applied in several strategic cooperation ventures between BRAIN and leading industrial partners to develop constituent substances for food formulations which improve taste and also help reduce calorie and salt content.

"DOLCE" strategic industrial partnership to develop new generation of biological sugar substitutes

On 29 August, BRAIN AG, AnalytiCon Discovery GmbH as part of the BRAIN Group, and Roquette S. A. (Roquette) – a market leader in intermediate products for the food manufacturing industry with a focus on processing starch products – agreed a strategic partnership to develop a new generation of natural sweeteners and sweet flavour enhancers. As part of this consortium, the partners address the food industry's need to offer increasingly calorie-reduced products. At the same time, they meet consumers' growing requirements for natural and healthy ingredients.

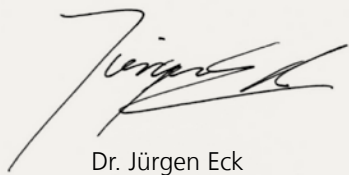
The industrial partnership with the "DOLCE" name is based on a unique combination of screening technology and BRAIN's BioArchiv collections with AnalytiCon's worldwide leading natural substance libraries. Moreover, consumer goods manufacturers can make recourse to "DOLCE" for the entire value chain, from research through to development and production of natural sweeteners by Roquette.

Negotiations with two major consumer goods manufacturers concerning participating in "DOLCE" advanced further in Q3 2015/16. Further consumer goods manufacturers have been invited to join the industrial partnership in various foodstuff markets and to participate in the partnership's innovations.

Since the 30 June 2016 quarter reporting date no further significant events and developments of particular importance for the company's financial position and performance have occurred.

Zwingenberg, 27 August 2016

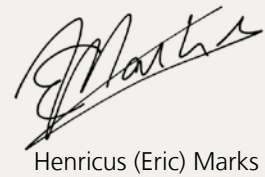
The Management Board



Dr. Jürgen Eck



Dr. Georg Kellinghusen



Henricus (Eric) Marks

CONTACT

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FINANCIAL CALENDAR

31. 08. 2016 Publication of the quarterly report for
the period ending 30 June 2016 (9M)

20. 12. 2016 Publication of the annual report for the
period ending 30 September 2016 (12M)

28. 02. 2017 Publication of the quarterly report for
the period ending 31 December 2016 (3M)

March 2017 Annual General Meeting

Disclaimer

This quarterly 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 prepared originally in German. Where differences occur, preference shall be given to the original German version.

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