

Explanatory report by the Executive Board regarding the information pursuant to §§ 289 (4), 315 (4) of the German Commercial Code (HGB) for Fiscal Year 2016/17

The following information reflects circumstances on the 30.09.2017 reporting date.

Composition of subscribed share capital (No. 1)

The share capital of BRAIN AG amounts to € 18,055,782 on the reporting date. The share capital is divided into 18,055,782 ordinary shares to each of which a proportional amount of the share capital of € 1.00 is attributable. The shares are fully paid-in registered shares. The company holds no treasury shares on the reporting date.

Restrictions affecting voting rights or transfer of shares (No. 2)

The company's Management Board is not aware of any restrictions affecting voting rights or the transfer of shares, including potentially deriving from agreements between shareholders.

Shareholdings with more than 10 % of the voting rights (No. 3)

MP Beteiligungs-GmbH, Kaiserslautern, holds a 35 % interest in the company's share capital as of 30 September 2017. As of 30 September 2017, no further shareholders existed with interests of more than 10 % in the voting rights.

Dependent companies report

Pursuant to Section 312 (3) of the German Stock Corporation Act (AktG), the Management Board of BRAIN AG states that, in the case of legal transactions listed in the report on relationships with affiliates for the period from 9 March 2017 until 30 September 2017, the company received appropriate consideration for each legal transaction according to the circumstances known to it at the time when the legal transaction was implemented. During the reporting period, no other measures existed at the instigation or in the interests of the controlling entity, or an entity affiliated with it.

Holders of shares with special rights (No. 4)

No shares exist at BRAIN AG with special rights endowing control powers.

Voting rights control of employees who are shareholders (No. 5)

No voting rights controls for employees who are shareholders exist for the instance of control rights that are not to be exercised directly.

Rules concerning the appointment and recall from office of Management Board members (No. 6)

Pursuant to Section 84 of the German Stock Corporation Act (AktG) and the bylaws of BRAIN AG, the Supervisory Board appoints the members of the Management Board. Pursuant to Section 7 of the bylaws of BRAIN AG, the Management Board consists of one or several individuals. The Supervisory Board determines the number of Management Board members. It can appoint a Management Board Chair (CEO) and a Deputy Management Board Chair, as well as deputy Management Board members. If the Management Board consists of several members, Management Board resolutions are passed with a simple majority of votes. If the Supervisory Board has appointed a Management Board Chair, and if the Management Board consists of three members, the vote of the Management Board Chair decides given an equal number of votes.

Rules concerning amendments to the bylaws (No. 6)

Bylaw amendments require an AGM resolution. AGM resolutions require a simple majority of votes, unless the law stipulates a greater majority.

Management Board authorisations concerning issuing and repurchasing shares (No. 7)

BRAIN AG has the following authorised and conditional capital:

Authorised capital

The Authorised Capital of € 2,862,909 existing as of 30 September 2016 (Authorised Capital 2015/1) was cancelled by AGM resolution on 9 March 2017.

With a resolution of the AGM on 9 March 2017, authorised capital of € 8,207,174 was created (Authorised Capital 2017/I). Authorised Capital 2017/I was entered in the commercial register on 20 March 2017. The Management Board is authorised, with Supervisory Board assent, to increase the company's share capital once or on several occasions until 8 March 2022, albeit by up to a maximum of nominal € 8,207,174 through issuing up to 8,207,174 new ordinary registered shares against cash and/or non-cash capital contributions, whereby shareholders' statutory subscription rights can be wholly or partially excluded. If the new shares are issued against cash capital contributions, shareholders' statutory subscription rights can be wholly or partially excluded if the new shares' issue price is not significantly less than the stock market price of the company's shares already listed on the date when the issue price is finally determined, and the total number shares issued in this manner under exclusion of subscription rights does not exceed 10 % of the share capital.

Under first-time partial utilisation of Authorised Capital 2017/I, the Management Board, with Supervisory Board consent of 7 September 2017, issued new shares against cash capital contributions in an amount of € 1,641,434 on 7 September 2017. Authorised capital of € 6,565,740 consequently existed on the 30 September 2017 reporting date.

Conditional capital

Pursuant to Section 5 (3) and (4) of the company's bylaws, the share capital is conditionally increased by € 5,090,328 through issuing up to 5,090,328 new ordinary registered shares (Conditional Capital 2015/I) and by a further € 1,272,581 through issuing up to 1,272,581 new ordinary registered shares (Conditional Capital 2015/II).

Conditional Capital 2015/I serves exclusively to grant shares to the holders of bonds with warrants and convertible bonds that the company issues based on the authorisation of the Management Board by way of AGM resolution passed on 8 July 2015. The conditional capital increase is to be implemented through issuing up to 5,090,328 new ordinary registered shares only to the extent that the holders of convertible bonds and/or bonds with warrants utilise their conversion rights or warrant rights, or the holders of convertible bonds that are obligated to convert satisfy their obligation to convert, and to the extent that other forms of satisfaction are not deployed to service the bonds. An increase in the share capital from Conditional Capital 2015/I had not been implemented as of the 30 September 2017 reporting date.

Conditional Capital 2015/II serves exclusively to service subscription rights arising from stock options that are granted – pursuant to the AGM resolution dated 8 July 2015 as part of a stock option plan comprising up to 1,272,581 stock options that carry subscription rights to shares of BRAIN AG with a term of up to eight years – to the members of the company's Management Board, members of

affiliated companies' management boards, as well as managers and other company employees in senior positions. The conditional capital increase is to be implemented only to the extent that the holders of issued subscription rights utilise them, and the company does not grant treasury shares or cash settlement to satisfy these subscription rights. An increase in the share capital from Conditional Capital 2015/II had not been implemented as of the 30 September 2017 reporting date.

Stock options

An AGM resolution dated 8 July 2015 authorised the Management Board, with Supervisory Board approval, to issue as part of a stock option plan until 30 September 2020 up to 1,272,581 stock options with subscription rights to shares of BRAIN AG with a term of up to eight years, with the condition that each stock option grant the right to subscribe for one share, and according to further provisions. As far as issuing shares to members of the Management Board of BRAIN AG is concerned, this authorisation is valid for the Supervisory Board alone. No stock options had yet been issued as of the 30 September 2017 reporting date. The AGM conditionally increased the share capital by € 1,272,581 to hedge and service the stock options (Conditional Capital 2015/II).

With a resolution dated 8 July 2015, the AGM authorised the Management Board pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act (AktG), to purchase treasury shares for any permissible purpose in the context of statutory restrictions and according to more detailed provisions. This authorisation is valid from the date on which the authorisation resolution becomes effective until 7 July 2020, and is restricted to a total proportion of 10 % of the share capital existing on the date when the resolution is passed, or, if this amount is less, as of the date when the authorisation is exercised. The resolution was entered in the commercial register on 1 October 2015. As in the previous year, in the 2016/17 financial year BRAIN made no utilisation of this authorisation to purchase treasury shares.

Significant agreements for the instance of a change of control due to a takeover over (Number 8) and compensation agreements in the case of a takeover over (Number 9)

The company has not entered into any arrangements in the meaning of Section 315 (4) Nos. 8 and 9 of the German Commercial Code (HGB).