

Explanatory report of the management board pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB) for the financial year 2018/19

The following information reflects the circumstances as at the 30 September 2019 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 those potentially deriving from agreements between shareholders.

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

MP Beteiligungs-GmbH, Kaiserslautern, holds an approximately 38 % interest in the company's share capital as at 30 September 2019. As at 30 September 2019, no further shareholders existed with interests of more than 10% in the voting rights.

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)

Pursuant to Section 179 of the German Stock Corporation Act (AktG) and the bylaws of BRAIN AG, amendments to the bylaws require an AGM resolution. AGM resolutions require a simple majority of votes, unless the law stipulates a greater majority.

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

BRAIN AG has the following authorized and conditional capital:

Authorized capital

With an AGM resolution on 8 March 2018, authorized capital of € 9,027,891 was created (Authorized Capital 2018/I). Authorized Capital 2018/I was entered in the commercial register on 23 March 2018. The Management Board was authorized, with Supervisory Board assent, to increase the company's share capital in the period until 7 March 2023, once or on several occasions, albeit by a maximum of up to a nominal amount of € 9,027,891 through issuing up to 9,027,891 new ordinary registered shares against cash 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 of shares issued in this manner under exclusion of subscription rights does not exceed 10% of the share capital. Accordingly, authorized capital of € 9,027,891 was reported as at the 30 September 2019 reporting date.

Conditional capital

Pursuant to Section 5 (3), (4) and (5) 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 € 123,000 through issuing up to 123,000 new ordinary registered shares (Conditional Capital 2015/II), and through issuing up to 1,682,578 new ordinary registered shares (Conditional Capital 2019/I).

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 authorization 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 utilize 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 at the 30 September 2019 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 123,000 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 utilize 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 at the 30 September 2019 reporting date. At the Annual General Meeting on 7 March 2019, Conditional Capital 2015/II was reduced from originally € 1,272,581 to € 123,000, as this capital was to remain exclusively for hedging stock options already issued. The authorization to issue further stock options from Conditional Capital 2015/II was revoked at the same Annual General Meeting and replaced by a new authorization (see following section). By resolution of the Annual General Meeting on 7 March 2019, the share capital was conditionally increased by € 1,682,578 through the issue of up to 1,682,578 new no-par-value registered shares (Conditional Capital 2019/I). The conditional capital serves exclusively to service subscription rights from stock options granted to members of the company’s Management Board and other senior company executives. The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase. The conditional capital increase is to be implemented only to the extent that the holders of issued subscription rights utilize 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 2019/I had not been implemented as at the 30 September 2019 reporting date.

Stock options

An AGM resolution dated 7 March 2019 authorized the Management Board, with Supervisory Board approval, to issue as part of a stock option plan until 12 March 2027 up to 1,682,578 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 grants the right to subscribe for one share according to further provisions. As far as issuing shares to members of the Management Board of BRAIN AG is concerned, this authorization is valid for the Supervisory Board alone. The AGM conditionally increased the share capital by € 1,682,578 to hedge and service the stock options (Conditional Capital 2019/I).

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

The company has not entered into any arrangements in the meaning of Section 315a (1) Nos. 8 and 9 HGB.