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2016/17

## **QUARTERLY STATEMENT** **as of 31 December 2016**

Significant events · Financial position and performance · Consolidated income statement · Condensed consolidated balance sheet · Condensed consolidated cash flow statement · Selected notes · Events after the reporting date · 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 hitherto 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 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.

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# SIGNIFICANT EVENTS

01.10.2016 – 31.12.2016

## **Successful interim evaluation of the ZeroCarbFP strategic alliance**

The ZeroCarbFP (ZeroCarbonFootPrint) project was launched in summer 2013 along with the “Bioeconomy 2030” national research strategy and “Industrial Biotechnology Innovation Initiative” program of the German Federal Ministry of Education and Research (BMBF). This alliance – including the companies Bioeton, BRAIN, Fuchs Petrolub and Südzucker, among others – works on recycling high-carbon waste streams such as carbon dioxide with the help of microorganisms. The strategic alliance underwent its first interim scientific evaluation in mid 2016. The experts recommended the program be continued and consequently its transition to Phase 2 from October 2016 with corresponding proportional subsidisation of R&D expenses. It was agreed BRAIN AG should assume responsibility for coordinating the second subsidy phase up to September 2019.

## **First consumer goods manufacturer invests in DOLCE program to produce new biological sweeteners and sweetness enhancers**

In October 2016, BRAIN AG, natural product specialist AnalytiCon Discovery GmbH and Roquette, a market leader for ingredients for special foodstuffs made from plant-based raw materials, announced that an important globally operating consumer goods manufacturer would join the DOLCE product development program for two significant application areas. The DOLCE program that was just launched in August 2016 aims to develop natural sweeteners and reduce sugar and calories in food and beverages. BRAIN and AnalytiCon are focusing on identifying and developing natural sweeteners, whereas Roquette is concerning itself with the requisite formulations and production. Marketing is to be addressed with a consumer goods company as a third partner segment. The “breakfast cereals” and “snacks” product categories were integrated just a few weeks after program launch with the signing of the aforementioned agreement and consequent involvement by the first consumer goods manufacturer.

# FINANCIAL POSITION AND PERFORMANCE

01.10.2016 – 31.12.2016

## 1. Results of operations

During the first three months of the 2016/17 financial year, BRAIN generated EUR 6.1 million of revenue, compared with EUR 6.0 million in the previous year's reporting period. While revenue registered this slight increase, total operating performance<sup>1</sup> reduced to EUR 6.6 million compared with EUR 7.0 million in the prior-year period, mainly due to a decrease in change in inventories and lower other income.

Group profitability in the first quarter of the 2016/17 financial year was mainly characterised by effects from non-cash share-based payments (Post-IPO Framework Agreement) and an employee share scheme at AnalytiCon Discovery GmbH. Although the Post-IPO Framework Agreement was already accounted for in the previous financial year (see annual financial statements as of 30 September 2016), applicable IFRS standards necessitated a remeasurement of the related expense due to a strong share price performance during the first quarter. The expense to be recognised from both programs amounted to EUR –2.2 million. The Post-IPO Framework Agreement relates to payments made by the previous shareholders to selected members of the BRAIN AG management.

The following overview presents a reconciliation of the reported operating result (EBIT) with the adjusted operating result (adjusted EBIT), in each case in relation to the previous year's quarter.

EUR thousand	3M 2016/17	3M 2015/16
<b>Operating result (EBIT)</b>	<b>-4,430</b>	<b>-2,112</b>
<i>Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH</i>	-391	-450
<i>Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)</i>	-1,778	0
<i>IPO expenses</i>	0	-763
<b>Adjusted operating result (adjusted EBIT)</b>	<b>-2,262</b>	<b>-900</b>

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

All expenses eliminated as part of adjustments are attributable to the “BioScience” segment.

During the first quarter of this financial year, the “BioScience” segment was characterised by talks surrounding including further consumer goods companies as members in the DOLCE program that was launched in the 2015/16 financial year, as well as various other projects from the research pipeline of BRAIN AG (including green mining and CO<sub>2</sub> recycling).

Total operating performance reported a slight reduction from EUR 3.5 million to EUR 3.2 million in the “BioScience” segment, despite the company reaching important development milestones with international partners. This is partly attributable to cooperation projects expiring, which was not fully offset due to delays in arranging successor projects. The adjusted operating result of the “BioScience” segment amounted to EUR –2.3 million in the reporting period, compared with EUR –0.7 million in the prior-year period. This reduction is mainly due to special effects in personnel expenses and other operating expenses. The increase in personnel expenses arises firstly from an incentive scheme implemented in the 2015/16 financial year for BRAIN AG employees. These expenses were paid out at the start of the new calendar year, with the positive share price performance entailing a correspondingly higher cost. After higher other operating expenses connected with the IPO in the financial year elapsed, instigation costs were incurred in the first quarter of the current financial year in connection with requirements due to the stock exchange listing of BRAIN AG. The company expects these types of cost positions to reduce during the course of the current financial year. The segment result include the R&D expenses relating to new products and ingredients.

The “BioIndustrial” segment, which comprises the development and commercialisation of the company’s own products and active product components, achieved total operating performance of EUR 3.4 million in the first quarter, compared with EUR 3.5 million in the previous year. The accounting deferral of revenues (EUR 0.3 million) – which are not to be recognised until the second quarter of the 2016/17 financial year when the related risks transfer – exerted such a stabilising effect. Within this segment, the strategic focus of the enzyme business is being directed increasingly at the special enzymes area. Following a revenue reduction in volume-driven enzymes for bioethanol production, which started in Q1 2015/16 due to price pressure following a continued slide in the crude oil price, the company advanced its strategic focus on special enzymes entailing less volume-dependency. Along with lower volume dependency, the latter also exhibit greater margin potential. This explains the improved operating result, up from EUR –178 thousand to EUR –9 thousand in the reporting period in the “BioIndustrial” segment, thereby almost reaching breakeven.

The net financial result amounted to EUR 41 thousand, compared with EUR –222 thousand in the prior-year period, mainly reflecting the subsequent measurement of financial liabilities. The reduction in borrowing costs from EUR –230 thousand to EUR –91 thousand arises from scheduled loan redemption, among other items.

The income tax expense increased from EUR –61 thousand to EUR –200 thousand. The current income tax expense increased from EUR –46 thousand to EUR –162 thousand, and the deferred tax expense also rose from EUR –15 thousand to EUR –38 thousand.

The consolidated operating result amounted to EUR –4.6 million in the first quarter, compared with EUR –2.3 million in the previous year's reporting period. Most of this development is attributable to the aforementioned special effects, such as personnel expenses from the share-based employee compensation schemes. Non-controlling interests accounted for a EUR –27 thousand share of results, compared with EUR –25 thousand in the previous year.

BRAIN continues to assume it can reach breakeven at operating result level as planned during the course of the 2017/18 financial year.

Unadjusted basic (undiluted) and unadjusted diluted earnings per share both amounted to EUR –0.28 compared with EUR –0.18 in the previous year's period.

## **2. Net assets**

Non-current assets of EUR 15.4 million as of 31 December 2016 were almost unchanged compared with their level as of 30 September 2016 (EUR 15.5 million). Current assets decreased from EUR 32.0 million to EUR 30.3 million over the same period. The drop in current assets relates mainly to a seasonally expected reduction in inventories and trade receivables due to the receipt of the related milestone payments. Offsetting this, liquid assets in the form of cash and short-term deposits were stable at EUR 17.5 million as of the quarterly reporting date, compared with EUR 18.3 million as of 30 September 2016.

Equity reduced from EUR 26.9 million as of 30 September 2016 to EUR 24.3 million as of 31 December 2016. Capital reserves rose from EUR 49.4 million to EUR 51.3 million as part of share-based payment schemes. The equity ratio decreased slightly to 53.1 % as of 31 December 2016, from 56.7 % as of 30 September 2016.

Non-current liabilities rose from EUR 10.2 million to EUR 11.8 million. This increase arises mainly from reclassifying EUR 1.5 million from current to non-current financial liabilities (which reflects the situation before a reclassification which became due at year-end, i. e. 30.09.2016, due to the existence of a termination option on that date). In turn, this reclassification led to a reduction of the current liabilities which decreased from EUR 10.4 million to EUR 9.6 million.

### **3. Financial position**

The Group's gross cash flow of EUR –2.2 million was below the previous year's level of EUR –1.7 million. This drop is chiefly attributable to the lower result achieved in the reporting period. By contrast, cash flow from operating activities improved significantly from EUR –2.3 million to EUR –0.1 million, which is partly attributable to larger milestone payments from development milestones achieved, which were still reported under trade receivables as of 30 September 2016.

Cash investments comprise mainly outflows for investments in current financial assets in the form of term deposits with an original term between 3 and 6 months (EUR 3.0 million), and for property, plant and equipment (EUR 0.2 million), mainly laboratory and technical infrastructure.

Cash flow from financing activities of EUR –0.5 million chiefly includes the scheduled debt repayment.

The liquid asset position, consisting of cash and cash equivalents as well as financial assets deriving from short term deposits, reduced from EUR 18.3 million as of 30 September 2016 to EUR 17.5 million as of 31 December 2016.

# CONSOLIDATED INCOME STATEMENT [UNAUDITED]

1 October 2016 to 31 December 2016

EUR thousand	3M 2016/17	3M 2015/16
Revenue	6,079	6,048
Research and development grant revenue	515	566
Change in inventories of finished goods and work in progress	-179	-4
Other income	179	362
	<b>6,594</b>	<b>6,972</b>
<b>Cost of materials</b>		
Costs of raw materials & supplies and purchased merchandise	-2,224	-2,264
Cost of purchased services	-512	-720
	<b>-2,736</b>	<b>-2,983</b>
<b>Personnel expenses</b>		
Salaries and wages	-3,351	-2,785
Share-based compensation	-1,938	-21
Social security and post-employment benefit costs	-569	-499
	<b>-5,857</b>	<b>-3,306</b>
Depreciation and amortisation	-375	-364
Other expenses	-2,055	-2,431
<b>Operating result (EBIT)</b>	<b>-4,430</b>	<b>-2,112</b>
Finance income	132	9
Finance costs	-91	-230
	<b>41</b>	<b>-222</b>
<b>Pretax loss for the reporting period</b>	<b>-4,389</b>	<b>-2,334</b>
<b>Income tax</b>		
a) Current income tax expense	-162	-46
b) Deferred tax expense	-38	-15
	<b>-200</b>	<b>-61</b>
<b>Net loss for the reporting period</b>	<b>-4,588</b>	<b>-2,395</b>
of which attributable to:		
Non-controlling interests	-27	-25
Shareholders of BRAIN AG	-4,561	-2,370
Earnings per share, basic (undiluted)	-0.28	-0.18
Number of shares taken as basis	16,414	12,861
Earnings per share, diluted	-0.28	-0.18
Number of shares taken as basis	16,414	12,861

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

31 December 2016

EUR thousand	31.12.2016	30.09.2016
Non-current assets	15,377	15,511
Current assets	30,317	32,001
<b>ASSETS</b>	<b>45,694</b>	<b>47,512</b>
Total equity	24,275	26,926
Non-current liabilities	11,777	10,173
Current liabilities	9,642	10,413
<b>EQUITY AND LIABILITIES</b>	<b>45,694</b>	<b>47,512</b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

1 October 2016 to 31 December 2016

EUR thousand	3M 2016/17	3M 2015/16
<b>Gross cash flow</b>	<b>-2,241</b>	<b>-1,733</b>
<b>Cash flow from operating activities</b>	<b>-68</b>	<b>-2,289</b>
<b>Cash flow from investing activities</b>	<b>-3,239</b>	<b>-348</b>
<b>Cash flow from financing activities</b>	<b>-483</b>	<b>1,885</b>
<b>Net change in cash and cash equivalents</b>	<b>-3,791</b>	<b>-752</b>
Cash and cash equivalents at start of reporting period	8,261	3,180
<b>Cash and cash equivalents at end of reporting period</b>	<b>4,470</b>	<b>2,428<sup>2</sup></b>

<sup>2</sup> Previous year's figure restated in line with the consolidated financial statements as of 30 September 2016.

# SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

1 October 2016 to 31 December 2016

## Segment disclosure

Compared with the consolidated financial statements as of 30 September 2016, no changes have occurred in relation to segment reporting. The following overview presents the segment results<sup>3</sup>.

EUR thousand	BioScience		BioIndustrial		Reconciliation		Group	
	3M 2016/17	3M 2015/16	3M 2016/17	3M 2015/16	3M 2016/17	3M 2015/16	3M 2016/17	3M 2015/16
Total operating performance	3,189	3,490	3,433	3,518	-28	-37	6,594	6,972
Adjusted operating result (adjusted EBIT)	-2,252	-722	-9	-178	0	0	-2,262	-900

## Number of employees in the Group<sup>4</sup>

Average for the reporting period	3M 2016/17	FY 2015/16
<b>Employees</b>	<b>206</b>	<b>204</b>
of whom salaried employees	193	191
of whom industrial employees	13	13

The BRAIN Group also employs grant recipients (7, 2015/16: 7) as well as temporary help staff (15, 2015/16: 10) and trainees (2, 2015/16: 2).

## Share-based compensation

To enhance transparency, the consolidated income statement of the BRAIN Group for the first time reports separately the personnel expenses attributable to share-based compensation components (see above). The previous year's reporting was restated accordingly.

## Long-term employee benefits

Employee compensation at the BRAIN Group includes the 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.

<sup>3</sup> After partial elimination within the segment

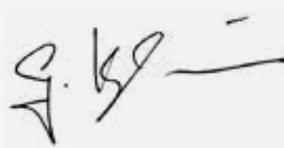
<sup>4</sup> Excluding the members of the parent company's Management Board (3) and the subsidiaries' managing directors (6)

Zwingenberg, 28 February 2017

The Management Board



Dr Jürgen Eck



Dr Georg Kellinghusen



Frank Goebel

# CONTACT

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# FINANCIAL CALENDAR

**28.02.2017**    **Publication of the quarterly statement**  
for the period ending 31. 12. 2016 (3M)

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**09.03.2017**    **Annual General Meeting**

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**31.05.2017**    **Publication of the half-year report**  
for the period ending 31. 03. 2017 (6M)

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**31.08.2017**    **Publication of the quarterly statement**  
for the period ending 30. 06. 2017 (9M)

## 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 originally prepared in German. Where differences occur, preference is given to the original German version.

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