

Annual Report 2010  
*Systematic growth*

## Nanogate at a glance

The following refers to the Nanogate Group (in accordance with IFRS, figures in EUR ,000)

	2010	2009	2008	2007	2006
Sales	20.940	10.703	12.152	10.404	7.834
Overall performance	29.201	14.225	16.450	12.353	8.827
Gross profit margin (%)	64,5	67,8	72,0	71,7	69,2
EBITDA	4.889	-1.231	1.805	1.496	1.385
EBITDA margin (%)	23,4	-11,5	14,9	14,4	17,7
EBIT **	-161	-2.318	1.271	1.628	1.099
Adjusted EBIT	974	-	-	-	-
EBT	-820	-2.602	1.070	1.548	1.166
Consolidated net income/loss	1.456	-1.367	984	1.296	1.171
Balance sheet profit	2.688	1.242	2.609	2.375	1.079
Earnings per share (EUR) *	0,76	-0,72	0,52	0,68	0,61
Cash flow from operating activities **	-848	-1.148	582	1.551	1.175
Cash flow from investing activities	-2.945	-4.188	-4.951	-2.021	-780
Balance sheet total	53.464	34.322	32.565	22.752	20.721
Equity	24.027	21.084	22.570	19.985	18.521
Equity ratio (%)	44,9	61,4	69,3	84,1	89,0
Cash and cash equivalents	4.067	5.906	8.477	12.378	12.858
Employees (average for the year)	124	75	68	58	44
Sales per employee	169	144	179	179	178

\* An identical figure of 1.905 million shares in the financial years from 2006 to 2010 is assumed.

\*\* Cash flow and EBIT were adversely affected by non-recurring factors in the financial year 2010.

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A woman in a white dress stands on the left, looking at a large, framed image of an oyster shell with a pearl inside. The frame is red and the background is light blue. The oyster shell is open, revealing a large, lustrous pearl. The image is presented as if it were a large-scale display or a wall-mounted artwork.

## Nanogate AG

**With know-how and technology from Nanogate,**

- engines run for longer and more economically.
- production processes are more efficient.
- polymers becoming more multifunctional.
- sports articles improve its performance.

Nanogate AG is one of the forerunners in the field of nanotechnology and the leading international integrated systems provider for nanosurfaces.

We alter materials, endow them with new properties and facilitate their use for industrial purposes in the field of high-value-surfaces. With help from Nanogate, products become more cost-effective, more powerful and better for the environment.

Our aim is value creation: For our customers, for our shareholders and for the society.

## Letter to shareholders

Dear shareholders,  
ladies and gentlemen, and staff members,

Nanogate has made further progress on its way to becoming the leading international integrated systems provider for nanosurfaces. We thereby set the course for faster sales and earnings growth and significantly improved our market position, especially in the lucrative market for high-performance surfaces. The results of the year 2010 – above all the majority stake in GfO AG and the conclusion of the innovation offensive – mean that we are better placed now than we have ever been, in both strategic and operational terms. At the same time we can report the highest sales and the fastest growth rate in the company's history and since 2010 have made a return to operating profit and consolidated net profit. The year 2011 also started with a bang for Nanogate: a few days ago we acquired the Dutch company Eurogard B.V., thereby extending our overall skill set to cover all surface geometries.

Our strategic goal is to position ourselves as a leading innovation partner for companies in the four target sectors Automotive/Mechanical Engineering, Buildings/Interiors, Sport/Leisure and Functional Textiles. Nanogate makes its customers' products more powerful and more competitive. We do this by equipping surfaces with new functions – they become scratchproof for example, are protected against corrosion and are easier to clean, or minimise the spread of bacteria and thus improve hygiene. By applying new materials and high-performance surfaces we therefore give our customers a competitive advantage. Demand for these applications is growing all the time – our customers see innovative surfaces that add value as an important instrument for differentiating themselves from their competitors.

### **Systematic growth**

In August 2010, we took an important step on our way to becoming a leading integrated systems provider for nanosurfaces by acquiring a majority interest in GfO AG. For many years the company has specialised in enhancing high-quality surfaces, mostly made of plastic, in optical quality and furnishing them with additional properties. It has a particularly strong market position in three-dimensional components. GfO owns market-leading technologies, has a broad customer base, and is profitable. The second important step was the takeover of the profitable Eurogard B.V. The Dutch company is one of the leading providers of coatings for two-dimensional components and global market leader in the niche market for transparent plastics in high optical quality. With GfO and Eurogard we now have excellent specialist knowledge of all surface geometries and a unique combination of expertise in technology, processes and production with which we can meet our customers' sophisticated demands even better than before: we supply complete systems built around "intelligent" surfaces. For all these reasons we have chosen "Systematic growth" as the leitmotif for our 2010 annual report.

### **Sales almost doubled – return to operating profitability**

With sales up by around 95 % we grew faster than ever before in 2010. Sales of EUR 20.9 million, compared with EUR 10.7 million in 2009, were well above even our revised forecast, beating our previous record from 2008. We benefited from strong demand in all target sectors – business grew particularly rapidly in the automotive sector. We also expanded our market position in the target areas Sport/Leisure and Functional Textiles. One of the main operating milestones is the new partnership with GEA Air Treatment GmbH for the joint development and marketing of filter systems. The upward trend, with growth of approximately 39 % in the first six months, accelerated in the second half-year when sales went up by about 130 %. In addition to organic growth this was also due to the pro rata consolidation of GfO, our new equity holding. Our Holmenkol subsidiary, a long-established manufacturer of care products for sport surfaces, turned its business around in a short financial year. Altogether, we have more than quadrupled Group sales since 2005.

Particularly gratifying is that in the second half of 2010 Nanogate returned to full profitability, generating EBIT of EUR 1.5 million (previous year: EUR -0.2 million) in the period. Adjusted for the non-recurring expenses at our equity holding Holmenkol and the transaction costs for the GfO acquisition, we also turned the corner on an annual basis, with adjusted EBIT of EUR 1.0 million (adjusted EBIT margin: 5 %). EBITDA came to EUR 4.9 million; the adjusted EBITDA margin came to 23.4 %, partly as a result of non-recurring factors. EBIT improved sharply to EUR -0.2 million (previous year: EUR -2.3 million), nearly making break-even. As in 2009, we again made strong progress on development projects and opening up new markets last year. Preparation for future growth has had priority in recent years. Not taking these steps would have saved money, but our long-term opportunities would have suffered. For us the key fact is that in a challenging environment we heightened our competitiveness and made an addition to our technological toolbox. In 2011 we will benefit from the steps we took in recent quarters.



Ralf Zastrau (CEO)

### Profit increases ahead

What can you expect from Nanogate in 2011? This year our growth initiatives will pay off in full. As a leading integrated systems provider for nanosurfaces we can draw on the full range of competences in materials development as well as in process integration and production. This will enable us to profit from the growing market for high-performance surfaces and coatings with nanostructures. New products from our innovation offensive and our new portfolio company Eurogard will make a contribution here, as will the first applications developed jointly with GfO. Right in the first quarter of the new financial year demand is already rising significantly: we won the first contracts in the field of air filtration in cooperation with GEA and are expanding our market position in coatings for the automotive industry with new multi-year projects for Audi and BMW.



Michael Jung (COO)

We will be using three levers as we progress along our ongoing growth track:

- Our positioning as a leading integrated systems provider for nanosurfaces will enable us to develop our market position in the four target sectors much faster, also internationally.
- We are concentrating on opening up the particularly high-margin segments of energy efficiency and plastic applications.
- We will also go for selective external growth in order to secure other complementary technologies, applications and sales channels.

On the basis of our strong market position, widespread distribution network and solid order books we intend to increase sales to at least a new record of EUR 30 million and again generate a full profit. The EBITDA margin is expected to be at least 10 %. In the medium term we are aiming for sales volumes of more than EUR 50 million and a sustainable EBITDA margin of more than 20 %. An order base worth a double-digit million euro figure and long-running contracts stabilise the overall financial position of the Group considerably. We look forward to moving along this growth trajectory with your support. In everything we do we are careful to add sustainability to Nanogate's net assets and enterprise value. As an integrated systems provider we are the only company to occupy the pivotal position, crucial for making cost-effective use of the multiple benefits of nanotechnology. In 2011, the investments we have made in recent years will pay a measurable dividend. As a corporation we set new standards in high-performance surfaces for nearly all surface types and geometries.

Yours,

Ralf Zastrau (CEO)

Michael Jung (COO)

## Review of 2010: Focus on high-performance surfaces

January	February	March	April	May	June
<p><b>Successful audit for quality and environmental management</b></p> <p>In January 2010, Nanogate again successfully completed a comprehensive audit for its quality management system (DIN ISO 9001:2008) and its environmental management (DIN ISO 14001:2004). All processes and systems were certified again for effectiveness, confirming the high quality and environmental standards we have as one of the leading companies in the industry. Back in 2000, Nanogate became the first nanotechnology company in Germany to earn certification. Nanogate was also the forerunner in achieving certification for all-round environmental management, which was first awarded in January 2007.</p> 	<p><b>Commitment to climate protection</b></p> <p>The initiative "2° – German Entrepreneurs for Climate Protection" campaigns for limiting global warming to an average of two degrees. Nanogate CEO Ralf Zastrau uses the forum to present opportunities for protecting the climate with nanotechnology applications. One example: heating systems from Bosch that run more efficiently thanks to materials from Nanogate. Since 2009 all of Nanogate's activities and products for protecting the environment and the climate have been bundled under the "Green Nano" label.</p> 	<p><b>Cooperation with GEA</b></p> <p>Nanogate launches a cooperation programme with the international technology group GEA to develop and distribute new systems in the field of air filtration. As part of the systems partnership, Nanogate is to enhance the existing filter systems from GEA Air Treatment GmbH. This will improve the performance of the filters, which are used in ventilation systems for air-conditioning for instance, and give them additional functions such as improved flame retardant or antimicrobial properties.</p> 	<p><b>First order for new technology platform</b></p> <p>A leading pan-European shoe retailer is the first customer to use the new technology platform permaProtect Membran. This improves the hygienic properties of functional textiles, by reducing unpleasant smells or lowering the risk of infection and improving moisture wicking and temperature regulation. In addition, the new Nanogate solution can be used for numerous hygiene-sensitive applications in the medical sector, for volume applications in the automotive industry and in household appliances.</p>  <p><b>Extension of the product portfolio</b></p> <p>At the Hannover Messe trade fair, Nanogate presents new applications for high-performance industrial surfaces. They give stainless steel surfaces, for instance, a coating that is particularly scratchproof and easy to clean.</p> 	<p><b>Broad responsibilities</b></p> <p>As a leading international systems provider for nano-surfaces, Nanogate assumes its responsibility for the industry. The company is involved in the EU project NanoSustain for instance, which starts in May 2010 and is intended to promote a sustainable approach to nanotechnology.</p>  <p>Furthermore, COO Michael Jung was a member of the German federal government's NanoKommission. In spring 2011, the commission published a report entitled "Responsible use of nanotechnologies".</p>	<p><b>Another order</b></p> <p>The first orders flow in for a new UV-hardened coating for plastic sheeting. The high-performance surface is scratchproof, easy to clean and low-cost. It can also be applied in mass production with minimal energy use. The new coating is presented by Nanogate for the first time at the trade fair for surfaces and coatings in Stuttgart.</p> <p><b>New product lines</b></p> <p>Nanogate adds the product line permaResist Hygienic to its portfolio in the plastics division. This gives plastic surfaces reliable, long-lasting antimicrobial properties that reduce contamination by germs, fungi and bacteria.</p>

\* The research leading to these results has received funding from the European Community's Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 247989 \*\*SchauPlatz NANO/ Hannover Messe 2010.

July	August	September	October	November	December
<p><i>Additional order from REWE International AG</i></p> <p><i>Expansion of international market presence: the supermarket MERKUR, part of</i></p>  <p><i>REWE International AG, is to stock care products from the Nanogate brand fielden in Austria. The product line includes high-quality shoe-care products, which improve dirt and water repellence while maintaining the breathability of leather and functional textiles. Its textile-care products have been available in Austria at the supermarket and chemist chains BILLA, MERKUR, BIPA and Sutterlüty since spring 2009.</i></p> 	<p><i>Nanogate becomes a systems provider with GfO</i></p> <p><i>With a majority investment in GfO (Gesellschaft für Oberflächentechnik), Nanogate accelerates its growth to become a leading international systems provider for high-performance surfaces. Together the two companies cover the entire value chain – from material development to process integration and production.</i></p>  <p><i>GfO has particular expertise in enhancing complex, high-quality, three-dimensional components. The focus is on optical coatings from plastic and metal, especially for surfaces in the automotive and industrial sectors.</i></p>	<p><i>Integration of GfO passes first milestone</i></p> <p><i>Michael Jung, COO of Nanogate, is also appointed to the board of the new equity holding GfO in order to drive the integration alongside the company's proven management.</i></p>  <p><i>Presence at the Glasstec trade fair</i></p> <p><i>At the world's largest trade fair for the glass industry, Nanogate displays various applications for the product line proGlass®. The Nanogate technology acts as a protective coating, ensuring that glass surfaces retain their qualities lastingly. The system is used by leading manufacturers of shower cabins, among others, and can also be used for picture glass and display cabinets.</i></p> 	<p><i>Premiere: first joint product</i></p> <p><i>At the leading trading fair for plastic and rubber, K 2010 in Düsseldorf,</i></p>  <p><i>Nanogate and GfO present their first joint application. Sicralan AP® provides scratchproof, anti-finger-print coatings for designer surfaces in car interiors, houses and other buildings.</i></p> <p><i>Industrial businesses pooled and innovation offensive completed</i></p> <p><i>Nanogate concentrates all its competences and activities for high-performance surfaces in Nanogate Industrial Solutions GmbH (NIS), formerly Nanogate Advanced Materials GmbH. The innovation offensive launched in 2008 also came to an end, having led to the development of many new applications.</i></p>	<p><i>Competence in building protection extended</i></p> <p><i>Nanogate expands the nanoGuard® product line with a system for universal tunnel coatings. It makes surfaces hydrophobic and dirt-resistant for easier cleaning and brighter road tunnels. In an initial reference project, part of the new Kreuzstraßentunnel near Tuttlingen was coated in cooperation with the Swiss company Kapyfract.</i></p>  <p><i>Award from Bertelsmann Foundation</i></p> <p><i>As part of the "Companies for the Region" initiative, the Bertelsmann Foundation awarded prizes to seven projects, including two from Saarland. They include the Responsibility Portal Saarland, which is supported by Ralf Zastra, CEO of Nanogate AG, as spokesman for the region and a member of the German Initiativkreis association.</i></p>	<p><i>Holmenkol restructuring a success</i></p>  <p><i>The venerable company turned the corner in its short 2010 financial year and made a return to operating profitability. It is benefiting from increasing demand from international distribution partners as well as new customer business. Holmenkol expanded its product range considerably, for example with new care series in the outdoor sector. The company also took numerous steps to achieve substantial efficiency gains.</i></p>

## Innovative high-performance surfaces for a competitive edge

Scratchproof displays in cars, touch-sensitive screens, buildings protected from exposure to the elements or hygienic plastics: high-performance surfaces with new properties are of great importance for many companies. They are a vital factor for gaining a competitive edge and differentiating oneself from the competition. Particularly sought after are surfaces that combine modern design with new functions. Demand for "intelligent" surfaces is increasing sharply in all sectors, but nowhere more than in the automotive industry. Today, many elements already receive special coatings with the help of Nanogate technology: trim strips become scratchproof and are protected against corrosion, xenon headlights are given anti-fogging systems and filters are made more powerful. High-performance surfaces are also found in other areas, such as commercial vehicles, heating systems, and sport and leisure.

Increasing demand for innovative surfaces means greater demands being made of the manufacturers as well: Customers want complete solutions from a single source. Innovation partners such as Nanogate have to demonstrate materials competence as well as the know-how required for process integration and mass production. Only those players who master the entire value chain will thrive over the long term and be able to earn attractive margins in the growing market for high-performance surfaces.

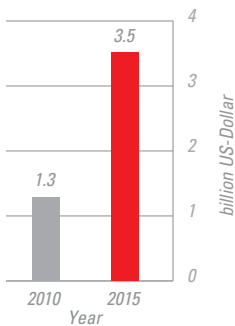
Nanotechnology is a cross-sectional technology and therefore predestined to enable innovative surfaces in many sectors. Nanostructures and nanomaterials are the basis for equipping materials such as plastic, glass or metal with new properties and functions – and thereby adding value compared with conventional products. This brings substantial benefits to the companies that are our customers: they can manufacture more cheaply, generate environmental advantages or command higher prices than their competitors thanks to novel functions – ideally all three factors can be realised simultaneously.

### Market for nanostructured surfaces is predicted to grow threefold

The market volume for nanostructured surfaces in Europe alone is already estimated at around USD 450 million. By 2015, sales are expected to rise to nearly USD 1.2 billion, according to a forecast by the experts from Futures Markets. Worldwide potential is then predicted to reach USD 3.5 billion. In many cases, nanostructured surfaces will replace conventional coatings over the medium term.

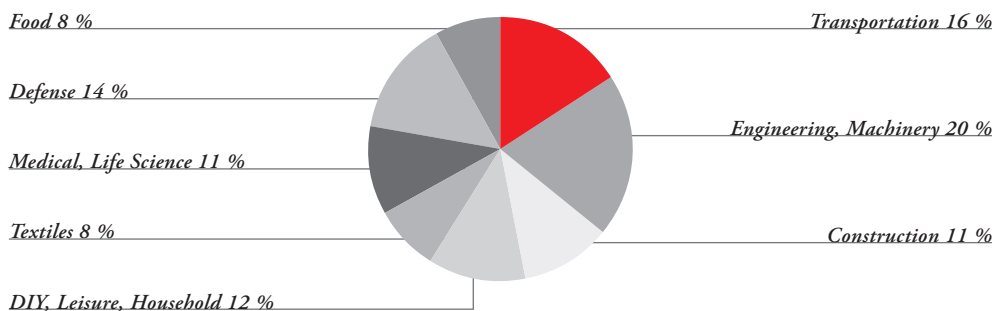
The most important users of nanostructured surfaces will be transport (including car manufacturing), engineering, buildings, home/leisure and textiles, which should account for around two-thirds of the global market by 2015, according to the experts' report.

**Global market for nanostructured surfaces**



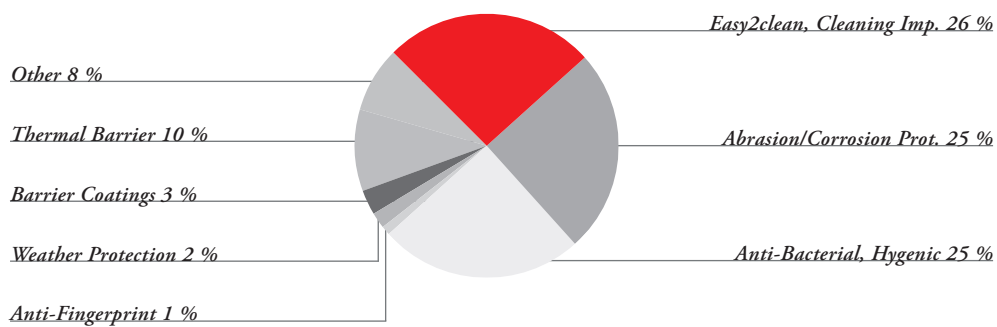
Source: Future Markets

**Segments by Industry**



Source: Future Markets, Nanogate

On centre stage are functions such as easy-to-clean, anti-corrosion and hygienic protection (antimicrobial properties), which will make up around three-quarters of the total market.



**Segments by  
Functionality**

Source: Future Markets, Nanogate

#### **Margins in the market for high-performance surfaces especially high**

Our focus is not only on dynamic market segments, but above all on those offering attractive returns. According to our own analyses, margins of up to 30 % are feasible in the market for high-performance surfaces – at a future market volume in Europe of around EUR 800 million.

Our range is precisely tailored to the most lucrative segments:

- Energy efficiency coatings that optimise the efficiency of, for example, central heating systems.
- Barrier coatings that preserve value.
- Visually high-quality surfaces that can be equipped with additional functions.
- Transparent plastics that can increasingly replace glass, offering the same properties and more efficient processing at the same time.

As an integrated systems provider that can process both two and three-dimensional surfaces, Nanogate is perfectly positioned and intends to increase its market share over the long term. As a Group we have the full technology and applications portfolio for innovative high-performance surfaces.

## To add capabilities and become an integrated systems provider with excellent processes



Additional capabilities, complementary technologies and new applications: in the 2010 financial year and the start of the new year, Nanogate has significantly improved its strategic market position and its business model. Milestones included the takeover of Eurogard in April 2011, the acquisition of the majority stake in GfO in August 2010, the conclusion of our innovation offensive, and new cooperation agreements and orders with Audi, BMW and GEA, for instance. These are all further steps on our way to becoming the leading international integrated systems provider for nanosurfaces.

Eurogard and GfO are the perfect match for our existing know-how: together we have unique, well-established competences in materials development, process integration and production. As an integrated systems provider we can now provide our customers with comprehensive service from the idea through to execution – one-stop shopping for high-performance surfaces. We provide our customers with competent advice and assistance at all stages of the value chain: from the selection of the necessary raw materials and the synthesis and formulation of the material systems, right through to process control and the enhancement and production of the finished surfaces. Our quality standards are unique in the industry thanks to our years of experience and high-quality equipment – such as robot-assisted production facilities in the clean room – and patented special processes. Whereas Eurogard concentrates on two-dimensional components, at GfO the focus is on three dimensions.

### A new dimension in the technology portfolio and distribution

The positioning as a systems provider for nanosurfaces gives us considerable advantages.

- Nanogate has a complete modular portfolio of solutions and supplies finished systems. We can now enhance any available substrates such as glass or concrete and have just expanded our capabilities in plastics and metals. Surfaces can be equipped with different functional modules, like building blocks that can be combined with one another in different ways. For instance we simultaneously enhance filter systems with flame retardant and antimicrobial properties.
- We specialise in especially high-quality optical coatings, particularly for multidimensional products.



### GfO AG: Specialist for high-quality optical coatings

Ornamental dashboard panels, Xenon/LED headlight casings, switches for medical technology: our new portfolio company GfO AG has a strong footing in coatings for demanding volume markets such as automotive and mechanical engineering, electrical and automation technology, building services, communications and medical technology. Its customers include numerous automotive manufacturers such as Audi and BMW. The company was established in 1977 as a centre of excellence for surfaces within the Degussa Group (now Evonik Industrie AG) and has been independent since 1993. GfO has about 150 employees, is profitable and beat its revenue targets in 2010. It has special expertise in enhancing valuable and complex three-dimensional components to a high optical standard. GfO specialises in coatings made of plastics and metals. It relies on its broad technology portfolio of proprietary and patented vapour deposition, flow and spray processes. In addition, GfO has an inkjet technology, which is unique in Europe and makes it possible to carry out selective coatings without templates on transparent and opaque plastics, similar to an inkjet printer. In Europe, GfO is one of the leading innovation partners for high-performance anti-fogging systems such as those used in Xenon and LED headlights for cars.



- We now have our own comprehensive application capabilities as well as the corresponding equipment to implement large-scale production runs in-house – until now we have mostly relied on partners.
- We focus on large-scale projects in order to make better use of economies of scale.
- Development times and time-to-market are reduced considerably.
- We improve our market access and increase international growth potential.

Now we want to play to our strengths and acquire extra orders on the back of an integrated product range. Back in the autumn, therefore, we presented our first joint application with GfO. Sicralan AP® is a transparent, scratchproof coating with anti-fingerprint properties for stainless steel or plastic surfaces. It is primarily suitable for designer surfaces in car interiors, houses and other buildings. We expect this application to generate sales with a mid-six-figure euro amount in the medium term. Integration was completed after just a few months in February 2011 and now development, production and distribution have all been dovetailed – the basis has been set for further medium-term growth. In view of the additional orders and applications expected, we will be adding considerable additional capacity in the years ahead and investing in new facilities. The integration of Eurogard, which was only acquired in April, should be completed in the third quarter.

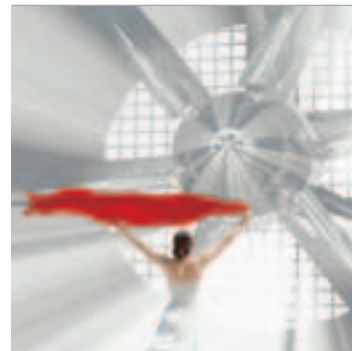
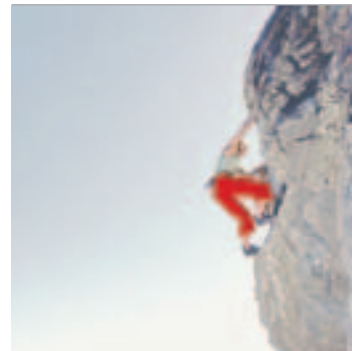
#### Focus on four attractive sectors

As an integrated systems provider we will be able to open up the target markets Automotive/Mechanical Engineering and Buildings/Interiors more quickly and win additional projects as a high-performance group of companies. In 2010, Nanogate already added substantially to its market position in all four target sectors. Growth results equally from new applications and customers as well as from increased demand for existing products. Nanogate has now put several hundred solutions into mass production and can provide a wide range of references.

- Automotive/Mechanical Engineering: the innovation offensive was concluded successfully in 2010. In parallel we have been advancing the use of our technology in the field of energy efficiency with Bosch. Other companies, like the engineering firm Otto Bihler Maschinenfabrik, use our permaSeal metal product for temporary protection against corrosion.
- Buildings/Interiors: we have extended our nanoGuard® product line considerably, with a new system for tunnel coatings for instance. Since January 2011, we have had a cooperation agreement in this area with the Swiss company Kapyfract.

#### **Eurogard B.V.: Global market leader in the niche market for transparent plastics**

Eurogard specialises in enhancing surfaces on two-dimensional components and is the global market leader in the lucrative specialist sector of transparent plastics. Based in Geldrop (Netherlands), the company was established in 1992 as a surfaces centre for the global GE Plastics group after it began operating in this segment in the 1980s. Most recently, the firm was owned by Vokes-Air Holding AB. In the 2010 financial year, Eurogard's sales were in the high single-digit millions and its EBITDA margin was in double figures. The company is free from debt and generates a positive free cash flow. The firm primarily focuses on supplying the buildings/interiors, aviation and automotive/mechanical engineering sectors. Its most important clients include the SABIC Group (formerly GE Plastics, one of the world's largest manufacturers of plastics) and the Hörmann Group. Eurogard coatings can be used on aircraft windows, utility vehicles, building elements and ski goggles, for example. Eurogard currently has some 30 employees and operates two production lines – a thermal cure coating facility and a UV cure coating facility – as well as a test plant. The facilities are fully automated, can each coat one or two sides, and apply multiple enhancements in a single production run.



- Sport/Leisure: our Holmenkol subsidiary has expanded its product portfolio substantially and tightened its internal processes in the course of the restructuring. The reward was a return to profitability and a sharp increase in sales. We supply REWE International AG in Austria under the feldten brand.
- Functional Textiles: we have started a strategic partnership in air filtration with GEA Air Treatment, an equipment manufacturer. Nanogate technology increases the performance of GEA's existing filter systems, which are used in air-conditioning for buildings for example. The first orders have now been received. In addition, we were awarded a large order in spring 2010 from a leading pan-European shoe retailer for the technology platform permaProtect Membran.

#### **Innovation offensive strengthens solutions portfolio**

Numerous new applications from our innovation offensive have boosted our sales potential. After substantial investment the products will now successively contribute to growth. One example: in April 2010 marketing was started for another glass coating, pro.Glass® Barrier, which creates an optically neutral barrier layer against UV light. It also makes the surface easier to clean, less susceptible to scratches and impervious to detergents.

We have also bolstered the patent portfolio in line with the range of applications on offer: as of December 2010 Nanogate had 95 patents (end of 2009: 85). At the same date 72 registrations were pending (end of 2009: 66). Patents are an important tool for us in securing our lead in terms of know-how and also in granting more high-margin licenses in the long term.

In the future, we will be concentrating above all on two particularly promising areas of application. Plastic surfaces especially give companies competitive advantages. We will therefore be presenting new products in this area, especially for the automotive industry. In the field of energy efficiency Nanogate technology ensures that existing products such as air-conditioning equipment or heat exchangers in central heating systems maintain a constant productivity and work efficiently over longer periods. We expect companies to apply our capabilities increasingly to the mass market, enabling us to increase our production runs.

#### **Nanotechnology promotes environmental protection**

Our applications not only make products better or cheaper, they also make them more environmentally friendly. Our tunnel coating means our customers save on detergents that would otherwise pollute the environment. Even though we have already achieved initial successes, we anticipate considerable growth over the medium term given the increasing efforts being made worldwide to protect the climate. We now distribute all our activities in this field under the GreenNano® label in order to emphasise our particular competence.

Furthermore, Nanogate campaigns for the interests of this relatively young industry and promotes a sustainable dialogue with stakeholders. For example, COO Michael Jung was a member of the German government's NanoKommission, which was active until February 2011, and chaired the focus group dealing with opportunities and risks in the field of nanomaterials. The company is also involved in other projects – "NanoKon" for instance, which is sponsored by the Federal Ministry for Education and Research and is developing new safety regulations and tests for the use of nanoparticles in medicine. The EU project "NanoSustain" focuses on the sustainable use of nanotechnology. In Saarland, which is one of the European centres for nanotechnology, we support various projects and initiatives as part of our programme of social responsibility. For instance, Nanogate CEO Ralf Zastrau is a member of the nationwide initiative "Companies for the Region" run by the Bertelsmann Foundation and its spokesman for Saarland.



## The share

Nanogate continued its intensive dialogue with the capital markets in 2010, emphasising its trustworthiness, credibility and transparency. We were in regular contact with investors and analysts, and also with financial journalists. The company's management presented the course of business, selected focus topics and future prospects in one-on-one meetings, investor conferences and roadshows. One focus of communications was on the benefits of the strategic equity holding in GfO AG, which was announced in August 2010. Following a strong rally in 2009, when the Nanogate AG share rose by more than 300 %, in the reporting year, the share settled at around the EUR 16 mark. It began in January at EUR 20.85 and over the course of 2010 reached a high of EUR 21.90. From a low of EUR 13.00 it picked up again to EUR 15.59 by the end of the year. Last year, the average price was EUR 16.78 compared with EUR 12.34 in the 2009 financial year.

The shareholder structure of Nanogate hardly changed over the reporting period. The largest investors are still HeidelbergCapital Private Equity Fund I and BIP Investment Partners. The free float came to 33 % as of year-end 2010. In April 2010, the capital increase carried out as part of the investment in sarastro GmbH was formally completed when it was entered in the commercial register. In August 2010, Nanogate announced another capital increase for subscription in kind to finance the investment in GfO AG. This capital increase of 37,639 new shares took effect in March 2011. It increased the free float to 34 %. The new shares were issued to the existing shareholders of GfO AG and are subject to a lock-up period of 15 months.

Two of the most important communications events in 2010 were a visit by selected fund managers to the company's headquarters in Göttelborn and the German Equity Forum in Frankfurt am Main, where we gave two presentations. Furthermore, Nanogate took part in the Entry and General Standard conference in Frankfurt. We now also use the short messaging service Twitter as an additional communications channel. The shareholders' meeting held in June 2010 approved all the proposals on the agenda by a large majority.

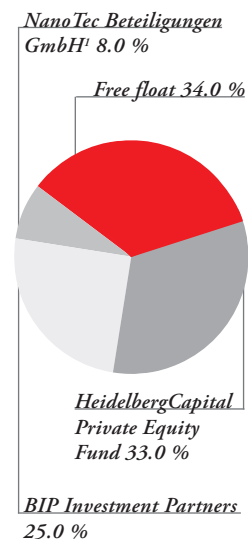
The Nanogate share is analysed and recommended as a buy by three renowned research firms: equinet Bank AG with a target price of EUR 23 (as of 14.3.2011), Landesbank Baden-Württemberg with a target price of EUR 20 (as of 4.2.2011), quirin bank AG with a target price of EUR 24 (as of 22.11.2010).

In the current financial year, Nanogate is extending its presence: we have been invited for the first time to a capital markets conference run by LBBW in London in April 2011, and in May the company will give a presentation in Frankfurt am Main at the Entry and General Standard conference organised by Deutsche Börse and for the first time at the „Münchener Kapitalmarkt Konferenz“. Information, corporate news and reports from the company as well as the financial calendar are published in German and English. The annual report is prepared in accordance with the International Financial Reporting Standards on a voluntary basis.

### Share details 2010

Stock market segment	Entry Standard
WKN / ISIN	A0JKHC / DE000A0JKHC9
Number of shares in circulation	1,905,000 (from March 2011: 1,942,639)
Designated sponsor	equinet Bank AG, LBBW
Share price at start/end of year	EUR 20.85 / EUR 15.59
Share price high/low for the year	EUR 21.90 / EUR 13.00
Average price	EUR 16.78

### Shareholder structure



As of: 31.3.2011,  
figures rounded

<sup>1)</sup> The shareholder in NanoTec Beteiligungen GmbH is the management of Nanogate AG.

## Report of the Supervisory Board

Dear shareholders,

Last year Nanogate AG achieved a number of important operating and strategic milestones. With growth of more than 95 % the Group generated the highest sales in its history and substantially reduced its losses. At an operating level adjusted earnings (EBIT) were positive again. Equally important is the strategic transition towards becoming an integrated systems provider for nanosurfaces. With the 51 % stake in GfO AG, an experienced specialist in high-quality optical coatings, and the option to acquire the remaining shares, Nanogate now covers the entire value chain for the enhancement of high-performance surfaces. We have therefore added all-round expertise in process integration and production, particularly for volume business, to our materials know-how. Together with the results of the innovation offensive we now have a complete technology and implementation portfolio. For Nanogate this is a significant technology upgrade, and at the same time presents the opportunity to implement major production runs for the first time in-house, instead of with external partners. In 2011 we should benefit considerably from the last year's successes and are aiming for a new dimension in sales and earnings.

The Supervisory Board followed this growth track closely, including the strategic transition to an integrated systems provider for nanosurfaces, and exercised its controlling function with regard to the Management Board. Altogether, the Supervisory Board met five times in the last financial year. All its members were present and the Management Board was invited to attend. In 2010 the Supervisory Board meetings took place on 2 March in Frankfurt/Main, on 15 April in Göttelborn, on 26 August in Frankfurt/Main, on 28 October in Göttelborn and on 16 December in Oestrich-Winkel. Topics of current interest were also discussed on an ad hoc basis in conference calls. We also approved decisions of fundamental or strategic significance by telephone or by circulation of documents where necessary. Important subjects of discussion between the Supervisory Board and the Management Board in the reporting year were the medium and long-term company strategy, the evaluation of external growth opportunities with the later investment in GfO, including the related fundraising, the product launches under the innovation offensive, the transactions relating to Holmenkol AG and sarastro GmbH, and the preparation and execution of the shareholders' meeting. Other regular agenda items included corporate planning and financing, cash flow planning, current sales and earnings performance, risk provisioning, and progress in key projects. The Management Board provided us with regular verbal and written information on the course of business, the position of the company and planning, and the strategic development. Between meetings we were informed of the course of business by means of reports from the controlling department and specific memoranda.

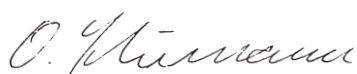
This ensured that the Supervisory Board was able to carry out all its duties in line with statutory regulations and the articles of association. In 2010 we were therefore again able to assure ourselves that the Management Board acted lawfully. Thanks to the extensive reporting carried out by the Management Board we saw no need to make use of the statutory possibility to inspect the company's accounts and files. We also did not find it necessary to appoint experts for special tasks (Section 111 (2) of the German Stock Corporation Act (AktG)). In the 2010 financial year the Supervisory Board had two committees: an Audit Committee, which dealt primarily with matters such as the preparation of the annual financial statements, and a Compensation Committee for remuneration matters. These are intended to ensure that particularly important topics are prepared and reviewed in depth. Although Nanogate AG is listed in the Entry Standard, an unregulated segment of the stock exchange, and is therefore not subject to the German Corporate Governance Code for publicly quoted companies, the

company does in some particularities align its reporting voluntarily with the higher demands of the Prime Standard. Nanogate prepares its accounts in accordance with IFRS, for instance, and publishes important company information in English as well. There were no changes to the Supervisory Board or the Management Board in the reporting year. The Supervisory Board welcomes the fact that Mr Michael Jung, the COO of Nanogate AG, also holds a Management Board seat at the recently acquired GfO AG.

The auditors CM Treuhandgesellschaft Regensburg mbH, Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Regensburg, audited the consolidated financial statements, the Group management report, and the individual financial statements together with the management report for the financial year 2010. They issued each of them with an unqualified audit certificate. The auditors' reports were sent to all six members of the Supervisory Board in good time and were discussed in detail at the Supervisory Board meeting held on 2 May 2011. The auditors were present during this discussion to answer questions from the Supervisory Board and reported on the main findings of their audit. The Supervisory Board reviewed all the necessary documents in detail – the annual financial statements, consolidated financial statements, management report and Group management report. The Supervisory Board had no objections to the documents presented and concurred with the results of the audit. The Supervisory Board approved the annual financial statements and the consolidated financial statements at its meeting on 2 May 2011. The annual financial statements are thereby confirmed. Having carried out our own examination of their accuracy and completeness, we expressly concur with the explanations given by the Management Board in the management report concerning relations with affiliated companies. We are of the opinion that the information provided by the Management Board is complete and correct.

We would like to thank all the employees and the Management Board for their successful commitment over the past year. Their work is the basis for the success of Nanogate AG. Our thanks also go to our shareholders, customers and business partners, for their confidence in the capabilities of our company. In the current 2011 financial year we are certain that Nanogate will continue on its growth track and benefit from its unique position as an integrated systems provider.

Göttelborn, 2 May 2011



Oliver Schumann  
Chairman of the Supervisory Board

# Group management report 2010 for Nanogate AG, Quierschied-Göttelborn

## 1. Business report

### 1.1. The Nanogate Group's service profile

The Nanogate Group (Nanogate) is a leading international systems provider for nanotechnology. Its focus is on enhancing high-performance surfaces for a variety of applications. As an integrated systems provider the company can draw on the full range of competences in materials development as well as in process integration and mass production. Nanogate opens up the diverse opportunities afforded by nanotechnology for companies in many different sectors. Nanogate has broad practical expertise in the fields of physical and chemical nanotechnology. With its knowledge of the properties of high-performance materials and surface technologies, combined with its process and engineering expertise, Nanogate enables its customers to access multifunctional surfaces. Nanogate aims to improve products through the use of nanotechnology, thereby increasing the competitiveness and profitability of its customers. As an enabler Nanogate is the central interface between manufacturers of the source materials and suppliers of innovative industrial products. Its activities always focus on creating value – for customers and for Nanogate itself.

### 1.2. The Nanogate Group

The Nanogate Group consists of the parent company Nanogate AG, based in Quierschied-Göttelborn, and the portfolio companies Nanogate Industrial Solutions GmbH (NIS), Quierschied-Göttelborn, GfO Gesellschaft für Oberflächentechnik AG (GfO), Schwäbisch Gmünd, and HOLMENKOL AG (Holmenkol), Ditzingen, with its subsidiaries. Nanogate is also sole shareholder of FNP GmbH (FNP), Quierschied-Göttelborn, and has a dormant holding in sarastro GmbH (sarastro), Quierschied-Göttelborn. The consolidated financial statements for 2010 were prepared in accordance with international accounting standards, IFRS. The company has two segments: its core business Multifunctional Surfaces and the Advanced Applications segment.

#### 1.2.1. Nanogate AG

In operational terms, the parent company, Nanogate AG, concentrates primarily on the Multifunctional Surfaces segment, the Group's core business. This segment deals primarily with enhancing surfaces with the help of nanotechnology, concentrating on the application areas Automotive/Mechanical Engineering, Buildings/Interiors, Sport/Leisure and Functional Textiles as well as the particularly promising fields of energy efficiency and plastics. In addition, Nanogate AG is working on selected new projects with complex applications which are assigned to the Advanced Applications segment.

#### 1.2.2. Nanogate Industrial Solutions GmbH

Nanogate Industrial Solutions GmbH, based in Quierschied-Göttelborn, is a 100 % subsidiary of Nanogate AG and until the end of September 2010 was known as Nanogate Advanced Materials. All core competences in the field of industrial high-performance surfaces have been pooled in the company in order to open up this market faster and make optimal use of internal synergies. The focus is primarily on innovative material systems and high-quality optical surfaces for the application areas Buildings/Interiors and Automotive/Mechanical Engineering. The company is primarily assigned to the Multifunctional Surfaces segment.

### 1.2.3. GfO Gesellschaft für Oberflächentechnik AG

In August 2010 Nanogate AG announced that it would be acquiring a 51 % equity interest in Gesellschaft für Oberflächentechnik AG (GfO), Schwäbisch Gmünd. The transaction was concluded with the registration of the capital increase for subscription in kind in March 2011, which also includes an option to purchase the remaining shares. The company has been part of the Multifunctional Surfaces segment since September 2010. The contract – with a value of around EUR 1.5 million – has both a cash and a share component. The cash partly went back to GfO to strengthen the company's capital base. The technology company GfO specialises in technical and optical surface enhancement as well as using an inkjet technology unique in Europe to apply coatings. GfO was established in 1977 as a subsidiary of Degussa AG in Schwäbisch Gmünd and was acquired by its current management, who still hold shares today, in 1993. In 2010 GfO generated sales well in excess of the forecast minimum of EUR 10 million.

### 1.2.4. HOLMENKOL AG

Nanogate AG has an equity holding of 50.01 % in HOLMENKOL AG, Ditzingen. The company is assigned to the Multifunctional Surfaces segment. HOLMENKOL is a long-established company with more than 85 years of experience, particularly in the field of winter sports. The company is being expanded as a strategic partner for Nanogate in the area of sport/leisure and is earmarked for further development as a leading international supplier of sports surfaces.

This currently entails substantially increasing the company's product range and technological expertise. In 2010 the company was restructured and its financial year changed to that of Nanogate AG. With considerable sales growth HOLMENKOL made a return to operating profitability (EBITDA) in its short financial year.

### 1.2.5. FNP GmbH

FNP GmbH, Quierschied-Göttelborn, is a wholly owned subsidiary of Nanogate AG and is assigned to the Multifunctional Surfaces segment. It concentrates on products in Nanogate AG's Sport/Leisure division. The company cooperates in marketing with HOLMENKOL.

### 1.2.6. sarastro GmbH

In the reporting year Nanogate converted the original equity holding in sarastro GmbH, Quierschied-Göttelborn, into a dormant holding. The transaction took place as part of the purchase of a technology package, which is being used for the programme of cooperation with GEA Air Treatment and in other projects. The purchased technology enables functional textiles and plastics in numerous spheres of application to be equipped with better hygienic properties, for example by applying a system of antimicrobial protection.

## 1.3. Company management – goals and strategy

Nanogate is pursuing a long-term growth strategy so that it can continue to improve its good market position. Its overriding goal is to increase the value of the company. To achieve this, the company is concentrating on four particularly attractive application areas as well as on developing new technologies and solutions, primarily in the high-potential specialist areas of energy efficiency and plastics. The intention is to gain new customers and distribution partners – if possible, internationally active market leaders in their fields – with both existing and new technologies. Beyond this, Nanogate's focus is on continuing its activities to open up international markets. Only a fraction of nanotechnology's possibilities have as yet been realised. This market therefore offers great growth opportunities

and earnings potential. For this reason, developing new products, acquiring new customers and opening up additional market segments and regions are currently the company's main objectives. With its large customer base, its positioning as a leading integrated systems provider and its technological expertise, Nanogate – one of Europe's market leaders – is particularly well placed to considerably improve its competitive position on this market, which is worth billions. The Group takes care, as far as possible, to safeguard its profitability in spite of substantial initial costs. Nanogate strives to find a balance between investing in growth and optimising its cost structure. The most important control variables are sales, gross earnings, EBITDA, EBIT, EBT, cash flow, investments and staff efficiency.

In a monthly reporting system for the Group as a whole, target-performance comparisons are made and deviations analysed. In addition, control is exercised via qualitative results such as the development of new solutions, the acquisition of reference customers, and certifications by customers, suppliers, external institutions and companies.

#### **1.4. The international economic situation**

Last year the economy returned to a growth track. Global gross domestic product rose by 5.0 % (2010: decline of 0.6 %) as reported by the International Monetary Fund (IMF) in January 2011. Germany turned the corner as well and was one of the countries where the upturn was strongest at 3.6 % (2010: decline of 4.7 %). In the euro area the economy grew by 1.8 % and in the USA by 2.8 %.

In Germany it is the sectors addressed by Nanogate that particularly profited from the upswing: automotive production here expanded by 12 % to 5.5 million new cars according to the industry association. The mechanical engineering sector increased its production by 8.8 % according to its trade association VDMA. The chemical industry association put revenue growth for its sector at 17.5 % back in December 2010. Consumer spending rose as expected by 0.5 % in 2010 as calculated by market research institute GfK in February 2011.

#### **1.5. The economic significance of nanotechnology: market, competition, customers**

Numerous industries already benefit from the advantages of nanotechnology. As a cross-sectional technology it can facilitate progress. Developments in the market for solutions and applications based on nanotechnology are therefore only partially dependent on the general economic situation. Nonetheless, a weak economy can hold back industry's willingness to innovate, even though nanotechnology generally improves companies' competitiveness – by means of more efficient production, for instance, or better products that differentiate them from their competitors.

Demand for nanotechnology is growing constantly – but market data for this broad, heterogeneous and dynamic sector is of limited value only. The market for nanostructured surfaces saw sales of around USD 1.3 billion in 2010 according to Futures Markets. Demand is particularly strong in the medical/healthcare, household, building/interiors, textiles/clothing, automotive and air transport sectors. The focus is on surfaces that help to maintain value (e.g. protective coatings against corrosion or abrasion), have an antimicrobial effect, are easy to clean or improve energy efficiency. Demand is set to go up sharply by 2015.

“Germany is Europe's leading nanotechnology nation and in third place worldwide in terms of implementation, behind the USA and Japan,” stated the German federal government in January 2011 in its Nanotechnology Action Plan 2015. In the foreword to the plan, Annette Schavan, Federal Minister for Education and Research, claims that “Nanotechnology has a decisive impact on the

technological performance and international competitiveness of the German economy.” Particularly in the fields of energy efficiency and environmental and climate protection she sees nanotechnology making a crucial contribution to progress. In this country around 950 companies operate in the sector (source: [www.nano-map.de](http://www.nano-map.de)). In 2007 companies based in Germany generated sales of around EUR 33 billion with the help of nanotechnology (source: nano.DE-Report 2009 – The status quo of nanotechnology in Germany). According to the German federal government, state financial subsidies came to around EUR 400 million in 2010.

## 1.6 Overview of business results

Nanogate almost doubled its sales in the 2010 financial year and returned to operating profitability. In parallel the Group continued its transition into a leading international systems provider for nanotechnology, concentrating primarily on enhancing high-performance surfaces. This enables the company to build its market position faster and generate additional business.

In operating terms Nanogate improved its market position in all four target sectors, nearly doubling consolidated sales. The Group expanded its business substantially in the Automotive/Mechanical Engineering division in particular. The Sport/Leisure division also benefited from successful product launches by Nanogate customers, for instance, the introduction of a novel shoe insole with improved hygienic properties, as well as further product launches at REWE in Austria and successes in the private label business. The air filtration division added significantly to the volume of its business. Progress was made in the partnership with Bosch for central heating systems, expanding the market position in the particularly promising application area of energy efficiency. The optical division was moved to high-performance surfaces for industry and integrated into Nanogate Industrial Solutions GmbH. The aim is to make use of the existing competences in optical solutions for the core high-performance surfaces business, as well as to examine other areas of application and realise synergies, even though optics is no longer part of the original strategic focus. High-quality optical surfaces are increasingly in demand, especially for plastic surfaces in the automotive sector, as shown by new projects commissioned by Audi and BMW. Nanogate already saw the benefits of its new equity investment in GfO in the reporting year, thanks to its strong performance in the automotive sector in particular. The first joint product was presented in October. Development, production and distribution are now coordinated and the basis for further growth has been set. The HOLMENKOL investment profited from adding care products and winter sports innovations (skiing) to the product range, as well as a care series for sports footwear and outdoor shoes.

In 2010 Nanogate also concluded its innovation offensive. A new glass coating offering protection against UV light was presented, for example. Applications in new high-potential specialist areas such as energy efficiency and air filtration were also integrated into operating units for further implementation.

In the reporting year Nanogate took numerous steps to optimise the cost structure further. Above all, this includes the decision to pool all activities in the field of high-performance surfaces in Nanogate Industrial Solutions GmbH. The steps will primarily be reflected in improved earnings for the current 2011 financial year.

Distribution for the Nanogate Group was partly realigned in the reporting year and strengthened by the majority stake in GfO AG. Activities were principally expanded in Austria and the southern European markets Spain and Italy. The product portfolio was optimised at the same time.

### 1.7 Sales and earnings position

After record sales in the first half of 2010, Nanogate also achieved a new revenue high for the full year 2010. Strong new business in all four target sectors played a role, as did the new GfO investment from September onwards. HOLMENKOL recorded significant growth, exceeding expectations. Altogether, Group sales nearly doubled in the reporting period, reaching EUR 20.9 million (previous year: EUR 10.7 million), an increase of 95.7 %. In the second half of the year revenue soared by more than 130 % to EUR 15.3 million (previous year: EUR 6.6 million), following growth of 38.6 % to EUR 5.7 million in the first half.

In the core business Multifunctional Surfaces sales went up to EUR 20.9 million (previous year: EUR 10.6 million). The Advanced Applications segment only made a marginal contribution to the operating performance. The segment also received a six-figure euro amount in subsidies. The focus remains on technology development and opening up new markets. Numerous applications were also integrated into Nanogate Industrial Solutions GmbH. International business accounted for 40.2 % (previous year: 47.5 %) of sales. Nanogate is active in around 30 countries.

Overall performance (sales, changes in inventories, own work capitalised plus other operating income) increased to EUR 29.2 million (previous year: EUR 14.2 million). Total revenue (sales plus other operating income) rose to EUR 26.3 million (previous year: EUR 11.3 million).

As announced, Nanogate concentrated its operations primarily on developing technology in the reporting year. Measures included launching a comprehensive innovation offensive and opening up new international markets. In line with the development of new applications and products, own work capitalised came to EUR 2.6 million (previous year: EUR 2.9 million). New products from the now concluded innovation offensive took centre stage, as did those for the particularly promising specialist areas energy efficiency and plastics.

In accordance with IAS 38, development expenses were only capitalised for products that are expected to be brought to market in the near future. In addition to the capitalisable own work, other research and development expenses in the reporting year amounted to some EUR 3 million (previous year: EUR 1.1 million). Investment and development expenditure will drop in future in relative terms, as many projects are well advanced. Particular development costs and investments are only expected in connection with the integration of GfO for systems adaptation.

Other operating income came to EUR 5.4 million (previous year: EUR 0.6 million), largely driven by non-recurring effects in the course of the transaction to acquire GfO AG. The cost of materials went up as a result of greater business volumes to EUR 10.4 million (previous year: EUR 4.6 million). The cost of materials ratio (in relation to overall performance) came to 35.6 % (previous year: 32.2 %). The gross profit margin (as a percentage of overall performance) reached 64.4 % (previous year: 67.8 %) and was affected by shifts in the product mix.

Personnel expenses increased following the first-time consolidation of GfO AG to EUR 7.6 million (previous year EUR 5.2 million). Substantial additional recruitment is not currently planned. The ratio of personnel expenses to overall performance came to 26.1 % (previous year: 36.8 %).

In the core business segment of Multifunctional Surfaces, segment EBIT came to almost EUR 2.6 million (previous year: EUR -0.6 million). This result is depressed by one-off expenses for restructuring the HOLMENKOL investment and transaction costs for the GfO acquisition. Despite this, the core business demonstrated its performance and earnings potential with a segment margin of 12.5 %.

In the segment of the future Advanced Applications, technology development, non-recurring effects and activities to open up new markets meant that segment EBIT came to EUR -3.8 million (previous year: EUR -1.4 million). Segment earnings should improve significantly in future.

#### Overview of the segments:

	Multifunctional Surfaces		Advanced Applications	
	2010	2009	2010	2009
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Segment revenues	20.929	10.596	11	107
Segment earnings	2.611	-553	-3.809	-1.387

In future Nanogate is not only to manage its business by reference to EBIT and adjusted EBIT, but also to EBITDA. Substantial basic investment in recent years, as part of the now completed innovation offensive for instance, which is intended to provide a strategic foundation for very long-term growth, means that depreciation and amortisation is comparatively high. For this reason EBIT does not fully reflect the success of the operating business. In contrast to the previous year, interest income was not included in EBITDA/EBIT, so the previous year's figures have been adjusted accordingly.

Consolidated EBITDA came to EUR 4.9 million (previous year: EUR -1.2 million), equivalent to an EBITDA margin of 23.4 %, also reflecting one-off factors. This also includes non-recurring effects which had a positive effect on earnings overall. Depreciation and amortisation amounted to EUR 5.1 million (previous year: EUR 1.1 million). Adjusted consolidated EBIT reached EUR 1.0 million (adjusted EBIT margin: 5.0 %). The non-recurring expenses at HOLMENKOL, other advisory expenses and transaction costs for the GfO investment totalling around EUR 1.1 million, have been subtracted. The Group thereby achieved a successful turnaround in its operating business. Consolidated EBIT improved to EUR -0.2 million (previous year: EUR -2.3 million), nearly reaching break-even again. In the second half of the year Nanogate generated EBIT of EUR 1.5 million (previous year: EUR -0.2 million).

Interest expenses rose to EUR 0.8 million (previous year: EUR 0.4 million). This principally reflects the financing structure of the subsidiaries, which typically for their industries rely on high debt levels, as well as the KfW loan for the Group's growth track. Group EBT for the 2010 financial year came to EUR -0.8 million (previous year: EUR -2.6 million). In view of the great market potential for products enhanced with nanotechnology, developing applications and opening up markets still have top priority. After taxes and minority interests consolidated net income was EUR 1.5 million (previous year: EUR -1.4 million), as the value of deferred tax assets went up sharply. Earnings per share (based on 1,905,000 shares as of 31.12.2010) improved to EUR 0.76 (previous year: EUR -0.72).

#### 1.8 Assets and financial position

The Group's balance sheet structure is marked by the first-time consolidation of the recently acquired 51 % stake in GfO AG. Notwithstanding the investment policy the equity ratio stands at 44.9 % (previous year: 61.4 %). The company's finances remain strong, with cash of EUR 4.1 million (previous year: EUR 5.9 million) as well as unused lines of credit.

The balance sheet total increased to EUR 53.5 million in the reporting year (previous year: EUR 34.3 million). Non-current assets rose to EUR 41.2 million (previous year: EUR 22.5 million).

Intangible assets were held at EUR 17.3 million (previous year: EUR 13.1 million). The optical division was integrated with the high-performance surfaces business during the reporting year in order to make use of synergies in development and marketing. Giving due consideration to the sharper focus of the business and the integration mentioned above, it is not currently possible to gauge the division's further prospects with precision, so that the conservative accounting approach necessitated significant one-off write-downs in the area of optical applications. This performance is offset by considerable accounting profits realised in the course of allocating the purchase price for GfO AG, which had a positive effect on the overall result. Property, plant and equipment totalled EUR 16.9 million as of the reporting date (previous year: EUR 5.3 million). Inventories went up to EUR 3.3 million (previous year: EUR 2.5 million). Trade receivables increased to EUR 4.4 million after adjustment for consolidation changes (previous year: 2.7 million).

Shareholders' equity increased to EUR 24.0 million (previous year: EUR 21.1 million). Subscribed capital went up to EUR 1,905,000 (previous year: EUR 1,900,000) in the course of a capital increase in kind; this corresponds to 5,000 new shares. A further capital increase of 37,639 shares – to finance the investment in GfO AG – took effect in March 2011. Capital reserves came to EUR 14.8 million (previous year: EUR 14.7 million). Non-current liabilities rose as a result of consolidation changes to EUR 18.6 million (previous year: EUR 8.4 million). The Group is currently examining ways of optimising its debt-equity structure. Trade receivables rose to EUR 3.0 million (previous year: EUR 1.9 million).

The positive business performance also brought an improvement to cash flow from operating activities over the course of the year. It was positive in the second half of the year at EUR 0.3 million. For the full year cash flow from operating activities came to EUR -0.8 million (previous year: EUR -1.1 million). The non-recurring expenses at HOLMENKOL, other advisory expenses and transaction costs for the GfO investment had a substantially negative effect here too. Cash flow from financing activities of EUR 2.0 million (previous year: EUR 2.8 million) is determined by the full drawdown of a low-interest KfW loan with a total volume of EUR 3 million and a fixed interest rate of around 4.5 %.

The loan runs for ten years and requires no repayment of the principal in the initial years. Both the Group and the subsidiaries have unused credit lines. Cash flow from investing activities of EUR -2.9 million (previous year: EUR -4.2 million) consists primarily of cash outflows for developing technology.

### **1.9 Employees**

The yearly average number of employees (FTE) on the reporting date rose for the Group as a whole to 229 (previous year: 77) as a result of the consolidation changes; on average over the year the Group had 124 employees (previous year: 75). Sales per employee came to around EUR 169,000 (previous year: around EUR 144,000). At year-end the Group had 7 apprentices (previous year: 8). At the beginning of the year Nanogate reacted to the underuse of capacity due to the recession by reducing working hours slightly until August 2010. At the same time senior managers waived their salaries by a similar percentage.

### **1.10 Research and development**

Nanogate is concentrating on developing new applications in the four target areas Automotive/ Mechanical Engineering, Buildings/Interiors, Sport/Leisure and Functional Textiles as well as in the two particularly promising areas of energy efficiency and plastics. For fundamental and applied research the company relies on cooperation with recognised research institutes such as the INM –

Leibniz-Institut für Neue Materialien gGmbH in Saarbrücken, the Fraunhofer Institute for Biomedical Technology in St. Ingbert, the Plastics technology department of the Kaiserslautern University of Applied Sciences, the Test and Research Institute Pirmasens and the Eco Institute Freiburg. In recent years Nanogate has made considerable investments to complete its technology and applications portfolio. In the 2010 financial year the R+D ratio came to about 25 %. This will decline in the years ahead as the innovation offensive is now finished. Nevertheless, the Group's growth will mainly be driven by new applications in the future too. To safeguard its technological lead and prepare the ground for subsequent license revenue at the same time, Nanogate pursues an active patent strategy.

The number of patents increased to 95 in the reporting year (previous year: 85) and the number of applications to 72 (previous year: 66). The high quality of Nanogate's technology is again confirmed by its certification in accordance with ISO DIN 9001 (quality management) and ISO DIN 14001 (environmental management).

### 1.11 Sustainability

Nanogate believes in high levels of safety and quality and is therefore deeply committed to the interests of this still young industry. For many years Nanogate has taken part in international research programmes such as Nanosafe (safe handling of nanomaterials, completed in 2009) and NanoSustain (sustainability analysis of the entire lifecycle of products enhanced using nanotechnology, begun in 2010).

Furthermore, Nanogate COO Michael Jung was a member of the federal government's NanoKommission, which was active until February 2011, where he chaired a working group on the opportunities and risks in the field of nanomaterials and nanoproducts. The aim of all these efforts is to define uniformly high quality and safety standards for the entire sector. The Group also fosters a sustainable dialogue with all stakeholders, such as business and the general public, by means of several projects. One example is Nanogate CEO Ralf Zastrau's involvement with the Bertelsmann Foundation.

In addition, all Nanogate's applications that contribute to environmental protection or the sustainable, sparing use of raw materials are distributed under the Green Nano brand. The company sees considerable growth potential here, especially in the field of energy efficiency.

## 2. Opportunities and risks for future development

### 2.1 Risk report

#### 2.1.1. Risk management

In order to grow profitably, Nanogate takes appropriate, reasonable and manageable risks. The higher the potential rewards associated with the risk and the more likely it is to result in an appropriate increase in the value of the company, the greater the acceptance of that risk. All in all, the aggregate extent of the risks entered into may not exceed the risk coverage potential at Nanogate. No transactions of a speculative nature are entered into. The Nanogate Group's risk management is an inseparable part of its value-based management philosophy and is integrated into the Group's management systems. Within the Group, the company identifies risks for all material business transactions and processes. The risk situation that can be influenced by the Group has not changed materially since the previous year. The risks explained below are those that are currently identified. The existence of further risks which have not been identified by the Management Board, or the likelihood of whose occurrence is estimated to be negligible, cannot be ruled out.

Nanogate's Management Board is confident that the following risks do not endanger the continued existence of the company either individually or collectively. The market and financing risks described here are limited and manageable. External factors, for instance the effects of the financial and economic crisis, or natural disasters, are naturally beyond Nanogate's control.

#### 2.1.2. Risks in Nanogate's ordinary business operations

**General economic risks:** Demand for nanotechnology products and services in Germany is dependent to some extent on the general economic conditions. Companies' willingness to invest might be adversely affected by a slowdown in domestic demand. In the light of this fact, the possibility of demand for nanotechnology declining to a low level and of investment in new projects "drying up" or being postponed cannot be ruled out.

**Market risks:** The attractive growth market of nanotechnology could entice competitors with a variety of core competencies, such as particle manufacturers, special chemicals companies and producers of end products to enter the market. This could lead to greater competition. It is possible that the Nanogate Group might not succeed in convincing customers of the value and benefits of its solutions. This could have an effect on sales and earnings. Neither can it be ruled out that a tightening of regulatory requirements at European level might mean that it would no longer be economically attractive for particular suppliers to produce individual source materials. For example, REACH (Registration, Evaluation, Authorisation of Chemicals) is a new EU regulation governing chemical substances that has applied since July 2007. It is designed to harmonise the previous chemicals legislation in the European Union and can have an impact on procurement and sales markets. It can also not be excluded that suppliers may no longer supply certain precursors in good time. If the Nanogate Group is unable to find alternative solutions in the event of supply shortages or regulatory changes this could have adverse effects on its business performance. Certain products could no longer be manufactured for example, or additional costs could be incurred in procuring alternatives. At the same time, there is a risk that acceptance of nanotechnology in general will be insufficient.

**Default risks:** The Group's customer structure is not yet sufficiently diversified, which means that it is dependent on specific sector trends or on individual customers. The company's strong growth should continue to improve its diversification in terms of customers and regions. In the financial year 2010, Nanogate generated about 70 % of sales with its 40 largest customers. Sales fluctuations due to economic developments in individual markets can also not be ruled out.

**Risks from cooperation agreements:** Nanogate generates a considerable proportion of its sales from its existing customer base and from cooperation agreements. If existing customers or cooperation partners decide not to extend their contracts or to reduce the length or scope of the contracts, the Group's operating result could be affected. At the same time, there is a risk of cooperation partners not achieving the agreed sales figures.

**Product risks:** Since 2000 the company has been one of the first nanotechnology firms worldwide to be certified in quality management in accordance with ISO DIN 9001. Since 2007 active environmental management has also been practised in line with the high standards of ISO DIN 14001:2004. Both audits were again completed successfully in January 2010. All products were tested and approved by well-known independent institutes such as Fraunhofer Gesellschaft and TÜV. Furthermore, the company welcomes, supports and actively assists in

steps to further clarify potential risks and to improve transparency about nanotechnology. The nanomaterials used at Nanogate are processed in liquid form, are always embedded in what is known as a binder matrix, and are applied in practice as a hardened surface coating. All the investigations currently available worldwide confirm unequivocally that based on current findings, nanomaterials permanently embedded in a matrix (comparable to a paint or lacquer) throughout their lifecycle do not constitute a danger to people or the environment. At the same time, however, the possibility of an application triggering unknown faults or defects that result in costs, general impairments or damage to the company's image cannot be ruled out. Damages claims from end customers or business partners in connection with this cannot be excluded entirely from the Group's considerations, particularly since in certain cases, Nanogate also launches, promotes and sells the products on the market itself. The Group has appropriate product liability insurance for such cases.

**Financial risks:** The receivables portfolio can involve risks relating to the recoverability of receivables in individual regions or subsidiaries. Nanogate counters this risk across the Group by implementing strict receivables management.

**Employee risks:** The availability of highly qualified employees with high levels of technical expertise is an important success factor for Nanogate. Nanogate strives to uphold its reputation as an attractive employer in order to safeguard and strengthen these factors. By committing itself to recognising technical and managerial potential, Nanogate seeks to secure the long-term loyalty of specialist and management staff.

**Investment risks:** Nanogate is currently investing heavily in the development of new technology platforms and additional products, as well as in opening up new markets and in new portfolio companies. Funds are only committed when the marketing opportunities are sufficient or when business plans of portfolio companies have been reviewed for the probability of their success and potential profitability. The possibility that product and technology developments or portfolio companies might not reach their target figures in terms of sales and earnings cannot be ruled out, however.

At the same time, it might prove necessary to increase investment at short notice to reach set targets, leading to temporary impairments of profitability as a result of the initial costs incurred. In 2010 HOLMENKOL AG was restructured and its financial year changed to that of Nanogate AG. With considerable sales growth HOLMENKOL AG made a return to operating profitability (EBITDA) in its short financial year.

Further steps are still necessary to bring the restructuring to a successful conclusion, however. This also includes carrying out planned funding activities. To do so, Nanogate AG is dependent on the cooperation of third parties (business partners and shareholders of HOLMENKOL AG). Despite fundamental commitments by these parties, there is nevertheless a formal risk that their participation in the planned reorientation, including the necessary financing, may fail or fall short of requirements. In such a case, the continued existence of HOLMENKOL AG in its current form would be threatened.

### 2.1.3. Opportunities for future development

Nanotechnology adds significant value to products from a wide variety of sectors. In addition, the company makes it possible to manufacture goods more economically or to improve the energy efficiency of ongoing operations. The market therefore promises considerable long-term sales and earnings opportunities. Despite this, the financial and economic crisis depressed

growth in 2008 and 2009. Between 2010 and 2015 the global market for nanostructured surfaces is expected by Future Markets to nearly treble from USD 1.317 billion to USD 3.515 billion. For 2015 sales of nearly USD 1.2 billion are forecast in Europe alone. As today, demand should be particularly strong in the medical/healthcare, household, building/interiors, textiles/clothing and automotive sectors. The market research company AMI predicted back in 2009 that business with plastics of all kinds would grow by an annual average of 3 % from 2010 and regain its 2007 high in 2012. Nanogate itself estimates the market volume for high-performance surfaces in Europe at about EUR 2.9 billion, whereby the company concentrates on high-margin subsectors such as energy-efficiency coverings, inkjet coatings or multifunctional transparent films with a future potential of around EUR 800 million a year.

In the years ahead Nanogate would especially like to open up the emerging market for high-performance surfaces and it is in this segment that the company derives the greatest benefit from its positioning as an integrated systems provider. The Group concentrates its market-facing activities on high-growth application areas such as automotive and mechanical engineering, textiles, buildings and interiors. With its proprietary inkjet coating technology that is unique in Europe, Nanogate is counting above all on growth in plastic applications for the automotive sector. Management assumes that Nanogate will grow faster than the market for surface coatings.

### *3. Events after the balance sheet date*

In March 2011 the capital increase announced in August 2010 was formally completed and entered in the commercial register. The 37,639 new shares increase the total number of shares to 1,942,639, taking the free float to around 34 %. There is a lock-up period of 15 months for the new Nanogate shares, which are held by the existing GfO shareholders. The capital increase for contribution in kind is part of the purchase price for the 51 % equity interest in GfO AG.

### *4. Forecast*

The economic recovery should continue in 2011. In January the IMF forecast global economic growth of 4.4 %. An increase of 2.2 % is expected for Germany, 1.5 % for the euro area and 3.0 % for the USA. The upturn should continue in the markets relevant to Nanogate as well: the trade association VDA is expecting domestic car production to increase from 5.5 million to 5.8 million units, which would represent a new record. The engineering sector can expect growth of 10 % according to its industry representative VDMA. The trade association VCI predicts sales in the chemical industry to rise by 4.0 % and production by 2.5 %. Consumer spending should go up by 1.5 % if the forecast from GfK is correct. Nanogate will benefit substantially in 2011 from the investments of recent months and the strategic transition to an integrated systems provider. The company intends to expand its market position in all four target areas: Automotive/Mechanical Engineering, Buildings/Interiors, Sport/Leisure and Functional Textiles. The strong start to the year, with new orders from Audi, BMW and GEA Air Treatment for instance, as well as a new cooperation programme with the Swiss company Kapyfract in the field of tunnel coatings, confirms the growth path. The inkjet technology for coating plastic surfaces, which is unique in Europe, should continue to drive sales. In addition, Nanogate is expecting further customers for new applications created in the course of the innovation offensive. Business is also set to expand rapidly in the high-potential specialist areas energy efficiency and plastics, where margins are particularly profitable. Management is expecting a market breakthrough in UV-hardening coatings for plastics, which were presented for the first time at the Hannover Messe trade fair in April 2011. The construction of a new coating plant is planned, which is intended to increase capacities.

At the present time Nanogate is forecasting profitable growth: Group sales should rise to a new record of more than EUR 25 million. Sales will again be generated largely in the core Multifunctional Surfaces business. An important contribution is also expected to come from Nanogate Industrial Solutions GmbH, where the business of high-performance surfaces for industry has been pooled. The Advanced Applications segment should grow. Now that Nanogate has recovered its operating profitability in the 2010 financial year and generated substantially positive EBIT in the second half of 2010, the company will make a return to full profitability in 2011. Costs and capital expenditure for developing applications, primarily in the Advanced Applications segment, and for opening up new markets, are planned to decline. The equity holding GfO in turn expects sales to reach a double-digit euro million amount of at least EUR 15 million. GfO intends to develop its operating earnings on the basis of a double-digit EBITDA yield. HOLMEN-KOL AG also plans to continue on its growth track. With the planned increase in Group sales Nanogate is expecting operating cash flow for the Group to be positive. In the medium term the Group intends to generate sales of more than EUR 50 million, with a sustainable EBITDA margin of more than 20 %. Thanks to non-recurring effects the EBITDA margin already reached this mark in 2010.

In the current year and thereafter, the Nanogate Group will derive considerable benefits from its strategic direction and good market position. As a leading international integrated systems provider for nanotechnology the Group occupies the market for high-performance surfaces like no other. The combination of materials expertise with years of experience in process integration and mass production is unique in Europe.

Quierschied-Göttelborn, 20 April 2011



Ralf Zastrau  
Chairman of the Management Board/CEO



Michael Jung  
Member of the Management Board/COO

## Consolidated income statement of Nanogate AG

for the period from 1 January to 31 December 2010

	Notes	2010	2009
		EUR ,000	EUR ,000
Sales	3	20,940	10,703
Increase in finished goods and work in progress		221	48
Other own work capitalised	4	2,636	2,883
Other operating income	5	5,403	591
Cost of materials	6	-10,380	-4,575
Personnel expenses	7	-7,636	-5,232
Other operating expenses	8	-6,295	-5,649
<b>EBITDA</b>		<b>4,889</b>	<b>-1,231</b>
Amortisation of intangible assets and depreciation of property, plant and equipment	9	-4,681	-1,087
Depreciation of financial assets	10	-369	-
<b>EBIT</b>		<b>-161</b>	<b>-2,318</b>
Financial income	11	94	86
Financial expenses	12	-753	-370
<b>Earnings before taxes</b>		<b>-820</b>	<b>-2,602</b>
Income taxes	13	1,862	1,004
<b>Net income/loss after taxes</b>		<b>1,042</b>	<b>-1,598</b>
Net income/loss attributable to minority interests	14	414	231
<b>Net income/loss attributable to equity providers (consolidated net income/loss)</b>		<b>1,456</b>	<b>-1,367</b>
Earnings per share (EUR)	15		
Earnings per share (basic)		0.76	-0.72
Earnings per share (diluted)		0.76	-0.71
Weighted average no-par-value bearer shares			
Basic		1,905,000	1,900,000
Diluted		1,910,558	1,911,540

## Consolidated statement of comprehensive income of Nanogate AG

for the period from 1 January to 31 December 2010

	Notes	2010	2009
		TEUR	TEUR
<b>Net income/loss after taxes</b>		<b>1,042</b>	<b>-1,598</b>
<i>of which attributable to other shareholders</i>	14	-414	-231
<i>of which attributable to shareholders of Nanogate AG</i>		1,456	-1,367
<b>Changes in the amount recognised in equity from</b>			
Revaluation of property, plant and equipment		603	-
Cash flow hedges		-	-
Financial assets available for sale		-	-
Actuarial gains and losses from defined-benefit pension commitments and similar obligations		-	-
Foreign currency translation		-	-
<b>Other changes in value recognised in equity</b>		-	-32
<b>Total changes in value recognised in equity</b>		<b>603</b>	<b>-32</b>
<i>of which attributable to other shareholders</i>		295	-16
<i>of which attributable to shareholders of Nanogate AG</i>		308	-16
<b>Total of net income/loss after taxes and changes in value recognised in equity</b>		<b>1,645</b>	<b>-1,630</b>
<i>of which attributable to other shareholders</i>		-119	-247
<i>of which attributable to shareholders of Nanogate AG</i>		1,764	-1,383

# Consolidated statement of financial position of Nanogate AG

as at 31 December 2010

Assets	Notes	31.12.2010	31.12.2009
		EUR ,000	EUR ,000
<b>Non-current assets</b>			
Intangible assets	16	17,327	13,077
Property, plant and equipment	17	16,936	5,292
Financial assets	18	1,323	715
Other assets		25	2
Deferred tax assets	19	5,585	3,381
		41,196	22,467
<b>Current assets</b>			
Inventories	20	3,294	2,484
Trade receivables	21	4,372	2,710
Financial assets	22	55	207
Other assets	23	473	398
Income tax receivables		7	150
Cash and cash equivalents	24	4,067	5,906
		12,268	11,855
		53,464	34,322

Equity and liabilities	Notes	31.12.2010	31.12.2009
		EUR ,000	EUR ,000
<b>Equity</b>			
Subscribed capital	25	1,905	1,900
Capital reserves		14,827	14,703
Retained earnings		1,649	1,331
Consolidated balance sheet result		2,688	1,242
Minority interests		2,958	1,908
		24,027	21,084
<b>Non-current liabilities</b>			
Pension provisions	26	744	-
Provisions	27	348	103
Financial liabilities	28	8,961	2,655
Trade payables	29	28	55
Other financial liabilities	30	2,965	2,263
Other liabilities	31	686	544
Deferred tax liabilities	32	4,883	2,806
		18,615	8,426
<b>Current liabilities</b>			
Provisions	27	484	288
Financial liabilities	28	4,243	1,666
Trade payables	29	3,014	1,932
Other financial liabilities	30	2,503	781
Income tax liabilities		132	-
Other liabilities	31	446	145
		10,822	4,812
		53,464	34,322

## Consolidated statement of cash flows of Nanogate AG

for the period from 1 January to 31 December 2010

	Notes	1.1.-31.12.2010	1.1.-31.12.2009
		EUR ,000	EUR ,000
Earnings before taxes		-820	-2,602
Depreciation/amortisation of non-current assets		4,681	1,087
Increase in provisions		441	117
Gain on the disposal of non-current assets		-1	-1
Other non-cash income and expenses		-4,386	-138
Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		-1,262	92
Increase in trade payables and other equity and liabilities that cannot be allocated to investing or financing activities		472	320
<b>Subtotal</b>		-875	-1,125
Income tax payments		27	-23
<b>Cash flow from operating activities</b>		-848	-1,148
Proceeds from the disposal of non-current assets		29	-
Payments for investments in property, plant and equipment		-721	-891
Payments for investments in intangible assets		-2,545	-3,011
Payments for investments in financial assets		-250	-286
Payments from the acquisition of consolidated companies		542	-
<b>Cash flow from investing activities</b>		-2,945	-4,188
Proceeds from shareholder loans		200	375
Proceeds from the raising of loans		3,045	2,619
Payments from the redemption of loans		-1,291	-229
<b>Cash flow from financing activities</b>		1,954	2,765
Changes in cash and cash equivalents		-1,839	-2,571
Cash and cash equivalents at the beginning of the period		5,906	8,477
<b>Cash and cash equivalents at the end of the period</b>	24	4,067	5,906
<b>Interest income received</b>	11	27	125
<b>Interest expenses paid</b>	12	-623	-313
<b>Dividends paid/received</b>		-	-

## Consolidated statement of changes in equity of Nanogate AG

for the period from 1 January to 31 December 2010

	Subscribed capital	Capital reserve	Retained earnings	Consolidated balance sheet result	Parent company interests	Minority interest	Consolidated equity
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
<b>As at 31.12.2008</b>	1,900	14,594	1,331	2,609	20,434	2,136	22,570
Changes in equity recognised without effect on profit or loss	-	-16	-	-	-16	-16	-32
Share options granted	-	125	-	-	125	19	144
Consolidated net income/loss 2009	-	-	-	-1,367	-1,367	-231	-1,598
<b>As at 31.12.2009</b>	1,900	14,703	1,331	1,242	19,176	1,908	21,084
Capital increase by issuance of new shares (entered on 27.4.2010)	5	-	-	-	5	-	5
Premium (agio)	-	88	-	-	88	-	88
Changes from Group company changes							
Acquisition of shares, transfer to minority shareholders	-	-	-	-	-	1,173	1,173
Added to revaluation reserve	-	-	308	-	308	295	603
Transfer to retained earnings, Section 150 (2) AktG	-	-	10	-10	-	-	-
Changes in equity recognised without effect on profit or loss	-	-10	-	-	-10	-	-10
Share options granted	-	46	-	-	46	-4	42
Consolidated net income/loss 2010	-	-	-	1,456	1,456	-414	1,042
<b>As at 31.12.2010</b>	1,905	14,827	1,649	2,688	21,069	2,958	24,027

## Consolidated statement of assets 2010 of Nanogate AG

(appendix to the notes)

<i>Consolidated financial statements 2010</i>		Acquisition and production costs				
	As at 1.1.2010	Change in the companies included in the consoli- dated financial statements	Additions	Transfers	Disposals	As at 1.12.2010
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
<b>I. Intangible assets</b>						
1. Software, licenses, trademarks and patents	3,503	1,176	341	46	53	5,013
2. Client base	-	2,566	-	-	-	2,566
3. Development costs	6,242	-	2,442	-	-	8,684
4. Goodwill	5,599	1,251	-	-	-	6,850
5. Payments on account	9	-	-	-9	-	-
	15,353	4,993	2,783	37	53	23,113
<b>II. Property, plant and equipment</b>						
1. Land, equivalent rights and buildings, including buildings on third-party land	1,335	7,443	846	-	2	9,623
2. Technical equipment and machinery	1,936	2,694	399	373	25	5,377
3. Other equipment, office and plant equipment	2,162	89	83	163	30	2,467
4. Leased assets	1,503	803	-	-	-	2,306
5. Payments on account	305	198	99	-401	-	201
	7,241	11,227	1,427	135	57	19,974
	22,594	16,220	4,210	172	110	43,087

Depreciation/amortisation						Carrying amount	Carrying amount
As at 1.1.2010	Change in the companies included in the consolidated financial statements	Depreciation and amortisation in the financial year	Transfers	Disposals	As at 31.12.2010	31.12.2010	31.12.2009
EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
335	-	107	-	27	415	4,598	3,168
-	-	-	-	-	-	2,566	-
335	-	2,548	-	-	2,883	5,801	5,907
1,606	-	882	-	-	2,488	4,362	3,993
-	-	-	-	-	-	-	9
2,276	-	3,537	-	27	5,786	17,327	13,077
109	-	178	-	-	287	9,336	1,226
500	-	576	-	25	1,051	4,326	1,436
1,154	-	287	-	30	1,411	1,056	1,008
186	-	103	-	-	289	2,017	1,317
-	-	-	-	-	-	201	305
1,949	-	1,144	-	55	3,038	16,936	5,292
4,225	-	4,681	-	82	8,824	34,263	18,369

## Consolidated statement of assets 2009 of Nanogate AG

(appendix to the notes)

<i>Consolidated statement of assets 2009</i>		Acquisition and production costs				
	As at 1.1.2009	Change in the companies included in the consoli- dated financial statements	Additions	Transfers	Disposals	As at 31.12.2009
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
<b>I. Intangible assets</b>						
1. Software	177	-	55	-	-	232
2. Licences, trademarks and patents	305	-	186	2,780	-	3,271
3. Development costs	3,482	-	2,760	-	-	6,242
4. Goodwill	8,629	-	-	-2,674	356	5,599
5. Payments on account	76	-	9	-76	-	9
	12,669	-	3,010	30	356	15,353
<b>II. Property, plant and equipment</b>						
1. Land, equivalent rights and buildings, including buildings on third-party land	1,015	-	186	134	-	1,335
2. Technical equipment and machinery	1,252	-	229	524	69	1,936
3. Other equipment, office and plant equipment	2,565	-	171	-554	20	2,162
4. Leased assets	1,492	-	11	-	-	1,503
5. Payments on account	141	-	298	-134	-	305
	6,465	-	895	-30	89	7,241
	19,134	-	3,905	-	445	22,594

Depreciation/amortisation						Carrying amount	Carrying amount
As at 1.1.2009	Change in the companies included in the consolidated financial statements	Depreciation and amortisation in the financial year	Transfers	Disposals	As at 31.12.2009	31.12.2009	31.12.2008
EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
115	-	47	-	-	162	70	62
110	-	61	2	-	173	3,098	195
-	-	335	-	-	335	5,907	3,482
1,681	-	-	-	75	1,606	3,993	6,948
-	-	-	-	-	-	9	76
1,906	-	443	2	75	2,276	13,077	10,763
35	-	74	-	-	109	1,226	980
311	-	193	62	66	500	1,436	941
925	-	309	-64	16	1,154	1,008	1,640
118	-	68	-	-	186	1,317	1,374
-	-	-	-	-	-	305	141
1,389	-	644	-2	82	1,949	5,292	5,076
3,295	-	1,087	-	157	4,225	18,369	15,839

# Notes to the consolidated financial statements for the financial year 2010

## A. Principles of the consolidated financial statements

### General information

The consolidated financial statements for Nanogate AG as of 31 December 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) drawn up by the International Accounting Standards Board (IASB) in London and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in effect on the reporting date and endorsed by the European Union (EU).

Nanogate AG is registered in Germany at Zum Schacht 3, 66287 Quierschied-Göttelborn. Nanogate AG's shares are included in open market trading and in the Entry Standard segment of such trading on the Frankfurt Stock Exchange.

The object of Nanogate AG as specified in its articles of association is, in particular, the development, production and selling of chemical products; the enhancement, sale and/or contract processing of prefabricated and/or semi-finished products; the provision of advice and material engineering services in the above areas; and the administration and licensing of trademark rights and/or expertise.

The consolidated financial statements for the financial year ending on 31 December 2010 in accordance with IFRS as applicable in the EU are solely intended for public information. They were approved for publication by a resolution of the Management Board on 20 April 2011.

The consolidated financial statements have been drawn up in euros. Unless otherwise specified, all amounts are in thousands of euros (EUR ,000).

### 1. Legal principles of presentation

Nanogate AG's listing in the Entry Standard segment of the German Stock Exchange in Frankfurt obliges the company to publish audited consolidated financial statements, including a Group management report, in accordance with either the prevailing national accounting standards or International Financial Reporting Standards, no later than six months after the reporting period ends. The Management Board of Nanogate AG has resolved to prepare the consolidated financial statements solely in accordance with International Financial Reporting Standards.

Listed below are some of the accounting standards and interpretations which were applied for the first time in the financial year 2010. The new accounting regulations had no effect or no material effect on the presentation of the Group's assets, financial and earnings position, or on earnings per share.

Standard or interpretation	Published by the IASB (endorsed by the EU) <sup>1)</sup>	Mandatory application
IAS 27 Amendments: Consolidated and Separate Financial Statements	10.1.2008 (3.6.2009)	1.1.2010
IAS 39 Amendments: Eligible Hedged Items	31.7.2008 (15.9.2009)	1.1.2010
IFRS 1 Amendments: First-time Adoption of IFRSs	27.11.2008 (25.11.2009)	1.1.2010
IFRS 1 Amendments: First-time Adoption of IFRSs – additional exemptions	23.7.2009 (23.6.2010)	1.1.2010

Standard or interpretation	Published by the IASB (endorsed by the EU) <sup>1)</sup>	Mandatory application
IFRS 2 Amendments: Group Cash-settled Share-based Payment Transactions	18.6.2009 (23.3.2010)	1.1.2010
IFRS 3 Amendments: Business Combinations	10.1.2008 (3.6.2009)	1.1.2010
IFRIC 15 Agreements for the Construction of Real Estate	3.7.2008 (22.7.2008)	1.1.2010
IFRIC 18 Transfers of Assets from Customers	29.1.2009 (27.11.2009)	1.1.2010
Various Improvements to IFRSs	16.4.2009 (23.3.2010)	1.1.2009 resp. 1.1.2010

1) Based on: Endorsement Status Report dated 17.1.2011

The amendments to IAS 27 require that acquisitions and disposals of shares which do not result in a change of control be accounted for purely as equity transactions; further amendments to IAS 27 relate in particular to the reporting of losses attributable to non-controlling interests. From now on, allocating shares of losses can lead to a negative figure being reported in the balance sheet for the equity attributable to non-controlling interests. This had no effect on the consolidated financial statements of Nanogate AG.

The amendments to IAS 39 explain the circumstances in which inflation risks can be treated as a hedged item within hedge accounting and the possibility of using options to hedge against unilateral risks. They clarify that inflation risks cannot ordinarily be designated as a hedged item. However, inflation may be hedged against in cases where the inflation component represents contractually specified portions of a financial instrument's cash flow. The amendments to this standard had no effect on the consolidated financial statements of Nanogate AG.

The amendments made to IFRS 1 in 2008 were designed to make the standard easier to use. Outdated transitional guidelines were deleted and minor changes were made to the text. As Nanogate AG is not a first-time adopter of the IFRSs and has already produced consolidated financial statements using IFRSs, the amendments to this standard were irrelevant for the company.

In June 2009, the IASB issued amendments to IFRS 2 which clarify the balance sheet treatment of group cash-settled share-based transactions. Companies which receive goods or services as part of a share-based settlement transaction must carry these goods or services in the balance sheet, regardless of which company within the group discharges the associated obligation and whether the obligation is settled in shares or in cash. As in IAS 27, a "group" only comprises the parent company and its subsidiaries. As part of the amendments to IFRS 2, IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" were incorporated into the standard and the original interpretations were eliminated. The amendments first become applicable to financial periods beginning on or after 1 January 2010. They were endorsed by the EU in March 2010. The amendments had no effect on the consolidated financial statements of Nanogate AG.

The amendments to IFRS 3 give companies the option of either reporting goodwill pro rata or using the full goodwill method when reporting acquisitions. Furthermore, the incidental expenses of a business combination must now be recognised as an expense. The accounting rules for business combinations were also supplemented with further details regarding the reporting and valuation of assets, liabilities and contingent

liabilities which are assumed and the reporting of both pre-existing relationships with the acquired company and reacquired rights. Any subsequent adjustments to valuations of conditional purchase price components are now always recognised through profit and loss and no longer affect the amount of goodwill. The amendments to the standard mean that all shares purchased gradually as part of step acquisitions are entered uniformly on the date of acquisition. Those shares already held by the purchaser prior to gaining control must now be remeasured at fair value through profit and loss. The value of these shares thus identified is incorporated in the fair value of the consideration transferred. IFRS 3 was applicable to the Nanogate Group's acquisition of GfO Gesellschaft für Oberflächentechnik AG in the financial year 2010.

The following standards and interpretations which had already been published by the IASB but did not become mandatory until after 31 December 2010 were not applied in advance by the company on a voluntary basis. The Management Board does not expect the application of these new accounting regulations in future reporting periods to have any significant effect on the presentation of the Group's assets, financial and earnings position or on its earnings per share.

Standard or interpretation	Published by the IASB (endorsed by the EU) <sup>1)</sup>	Mandatory application
IAS 24 Amendments: Related Party Disclosures	4.11.2009 (19.7.2010)	1.1.2011
IAS 32 Amendments: Classification of Rights Issues	8.10.2009 (23.12.2009)	1.1.2011
IFRS 1 Amendments: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	28.1.2010 (30.6.2010)	1.1.2011
IFRIC 14 Amendments: Prepayments of a Minimum Funding Requirement	26.11.2009 (19.7.2010)	1.1.2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	12.11.2009 (23.7.2010)	1.1.2011

<sup>1)</sup> Based on: Endorsement Status Report dated 17.1.2011

The amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement" clarify reporting in cases where a contribution is prepaid in conjunction with minimum funding requirements within a pension plan. According to these amendments, the economic benefit of a company's contribution prepayments which reduce its future contribution prepayments must be recognised as an asset. The amendments to IFRIC 14 are applicable for the first financial period beginning after 31 December 2010 at the latest. This is not expected to have an impact on the consolidated financial statements of Nanogate AG.

IFRIC 19 deals with the reporting of debt for equity swaps. If a company repays financial debt in full or in part by issuing equity instruments, the latter must be carried at fair value. Any difference between the carrying amount of the repaid financial debt and the initial amount stated for the equity instruments issued is recorded through profit and loss.

IAS 24 "Related Party Disclosures" was revised in 2009 and includes a clarification of the existing regulations in IAS 24. In addition to an amended definition of related parties, the revised IAS 24 contains relaxed requirements for government-related entities. IAS 24 (revised 2009) and the associated amendment to IFRS 8 "Operating Segments" are applicable from the beginning of the first financial period commencing after 31 December 2010 at the latest. This is not expected to have an impact on the consolidated financial statements of Nanogate AG.

The amendment to IAS 32 "Financial Instruments: Presentation" includes a classification of subscription rights, options and warrants issued for the purchase of a set number of treasury shares at a predefined amount in a chosen currency. Rights of this kind must be classified as equity if they are granted pro rata to all existing holders of the same class of share. The amendment is applicable from the start of the first financial period beginning after 31 January 2010 at the latest. This is not expected to have an impact on the consolidated financial statements of Nanogate AG.

Consolidation principles

## 2. Accounting and measurement principles

### General principles

On the whole, the same accounting and measurement methods as those used to ascertain the comparable figures for the previous year in the consolidated financial statements to 31 December 2009 were used to prepare the consolidated financial statements to 31 December 2010. There was an exception in the financial year 2010 in the presentation of financial income in the income statement. This was entered using EBIT for the first time in the financial year 2010. By contrast, it was presented within EBITDA beyond other operating income in the financial year 2009. The financial income for 2009 was also reclassified to make it easier to compare the 2010 and 2009 financial years.

The individual financial statements of Nanogate AG and those of its domestic subsidiaries have been prepared on the basis of uniform accounting and measurement principles.

IAS 1 stipulates that in balance sheet presentation, a distinction is made between non-current and current assets and between non-current and current liabilities. Assets, liabilities and provisions are regarded as current when they can be realised, or fall due, within one year. The income statement was prepared using the total cost method. In cases where the balance sheet and income statement items are combined to improve the clarity of presentation, they are reported separately in the Notes.

With the exception of the revaluation of certain non-current assets – as part of the purchase price allocation resulting from the acquisition of equity holdings in companies in 2010 and prior years – the consolidated financial statements were prepared on the basis of the historical acquisition and production costs. The most important accounting and measurement methods are explained below.

### Consolidation principles

In addition to the parent company, the consolidated financial statements include all the subsidiaries in which the company exercises the majority of the voting rights or control either directly or indirectly if their influence on the assets, financial and earnings position of the Group is of material significance.

The reporting date for Nanogate AG and subsidiaries included in the consolidated financial statements is 31 December 2010. The reporting date for HOLMENKOL AG was altered to 31 December during this financial year. In addition to the short financial year from 1 April to 31 December 2010, the period from 1 January to 31 March 2010 was included. The interim financial statements for the period to 31 December 2009 were used as a basis. The financial year for HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria, starts on 1 April 2010 and ends on 31 March 2011. Interim financial statements were drawn up as at 31 December 2009 and 31 December 2010 for consolidation purposes.

If required, the annual financial statements of the subsidiaries are adjusted for the accounting and measurement methods applied in the Group.

The capital consolidation is carried out using the purchase method. This involves setting off the acquisition costs of the acquired shares against the revalued pro rata equity attributable to the parent company. In the process, the assets, liabilities and contingencies of the acquired equity holding must be stated at their respective fair values. Any remaining positive difference must be reported as an asset, recognised at cost as at the acquisition date and subjected to an annual impairment test; any remaining negative difference is recorded immediately in profit and loss in the consolidated financial statements after the measurements have been checked again.

Receivables, liabilities and provisions, as well as intra-Group income and expenses, are eliminated within the framework of debt consolidation or expense and earnings consolidation.

Intra-Group profits from transactions between the consolidated companies HOLMENKOL Austria Ges.m.b.H. and HOLMENKOL AG amounting to EUR 3,000 were eliminated as at 31 December 2010. There were no other intra-Group profits between the consolidated companies.

Minority interests in the equity and in the results of the subsidiaries are shown under minority interests. The minority interests consist of the amount of such interests on the date of the original business combination and the minority interest in the change in equity as from the time of the business combination.

#### Group companies and companies included in the consolidated financial statements

##### Group companies

In addition to Nanogate AG as parent company, the following companies belong to the Group as per 31 December 2010:

	Share of capital	Equity	Net income/loss	Consolidation
	%	EUR ,000	EUR ,000	
Nanogate Industrial Solutions GmbH, Quierschied-Göttelborn	100.00	6,775	-2,726	full
HOLMENKOL AG, Ditzingen	50.01	4,609	-907	full
HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria <sup>2)</sup>	50.01	30	-59	full
GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd	16.25	4,257	40	full
FNP GmbH, Quierschied-Göttelborn	100.00	235	-128	./.
HOLMENKOL Japan Co. Ltd., Osaka, Japan <sup>1) 2)</sup>	42.51	797	14	./.

1) Information from the annual financial statements as at 31 December 2010; national accounting.

2) Indirect equity holding.

There is also an indirect 3.0 % equity holding in HOLMENKOL NORGE A/S, Hokksund, Norway, via HOLMENKOL AG. HOLMENKOL AG reduced its stake from 49.0 % to 6.0 % in 2010.

Nanogate AG acquired a 51.0 % stake in GfO Gesellschaft für Oberflächentechnik AG (GfO AG for short) in Schwäbisch Gmünd as part of a larger transaction. The purchase is being completed in several steps. As at 31 December 2010, the company had legal ownership of 16.25 % of the shares. Furthermore, contributions were made towards the planned capital increase at GfO AG prior to the balance sheet date. The capital increase was

registered on 12 January 2011, meaning that Nanogate AG held 30.4 % of the shares in GfO AG soon after the balance sheet date. The third tranche, raising the stake held to 51.0 %, was completed subsequent to this. For legal reasons, the acquisition of the 51.0 % stake is divided into several steps. However, these should be viewed as part of a larger transaction. The date of acquisition is 1 September 2010, as this is when Nanogate AG acquired the ability to influence financial and business policy at GfO AG and therefore derived benefit from this activity. From an economic perspective, the company held a 51.0 % stake in GfO AG as at 1 September 2010. The portfolio company was therefore included in the consolidated financial statements of Nanogate AG.

#### Companies included in the consolidated financial statements

The consolidated financial statements of Nanogate AG, Quierschied-Göttelborn, as at 31 December 2010 include, in addition to the parent company, Nanogate Industrial Solutions GmbH, Quierschied-Göttelborn, HOLMENKOL AG, Ditzingen, HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria, and GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd, by way of full consolidation. Nanogate AG, Quierschied-Göttelborn, holds 100 % of the voting rights in Nanogate Industrial Solutions GmbH. Nanogate AG has a 50.01 % equity holding in HOLMENKOL AG and, indirectly, in HOLMENKOL Austria Ges.m.b.H. For further details of the equity holding in GfO AG, please refer to the "Group companies" section above.

FNP GmbH, Quierschied-Göttelborn, was established in November 2008. HOLMENKOL Japan Co. Ltd., Osaka, Japan, was also established in the course of 2008. These subsidiaries have not been consolidated as they are of only minor significance for the Group's assets, financial and earnings position. The financial figures for the immaterial subsidiaries make up less than 5 % of the Group's sales, equity and balance sheet total. Likewise, due to their minor significance, they are not equity-accounted.

Nanogate Industrial Solutions GmbH, Quierschied-Göttelborn, was consolidated for the first time as at the balance sheet date 31 December 2006. The capital offset date for the first-time consolidation of the subsidiary was 1 January 2006. In the course of 2008 the equity holding in Nanogate Industrial Solutions GmbH was increased from 55.5 % to 100.0 %.

Effective 1 September 2008, Nanogate AG has a controlling influence over HOLMENKOL AG. The subsidiary was therefore included in the consolidated financial statements by way of full consolidation as from 1 September 2008. HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria, was also fully consolidated as a wholly owned subsidiary of HOLMENKOL AG.

As from 1 September 2010, Nanogate AG has a controlling influence over GfO AG. The capital offset date for the first-time consolidation of the subsidiary was therefore 1 September 2010. The offsetting of capital for the newly acquired shares resulted in a negative difference of EUR 4,608,000, which was recognised immediately as an expense following an additional check.

#### Foreign currency translation

In the individual financial statements of Nanogate AG and its subsidiaries, receivables and liabilities in foreign currencies are translated at the exchange rate prevailing at the time of the respective transactions, and any translation differences are recognised through profit and loss on the balance sheet date at the rate prevailing on that date.

The financial statements of all the companies included in the consolidated financial statements are prepared in euros.

### Intangible assets

Intangible assets essentially comprise software, licences and trademark rights, a capitalised customer base and unpatented expertise, capitalised development costs and goodwill.

Intangible assets acquired individually are measured at acquisition or production cost the first time they are reported (IAS 38). The acquisition costs of an intangible asset acquired through a business combination correspond to its fair value at the time of acquisition. After being reported for the first time, intangible assets are recognised at their acquisition or production costs, less accumulated amortisation and all accumulated impairment expenses, or at their acquisition cost. Production costs in this case encompass all costs which are directly attributable to the production process and reasonable proportions of the production-related overheads. Capitalised development costs include financing costs. The basic prerequisites of capitalisation are that a future benefit is likely to accrue to the company and that the costs can be ascertained reliably. Intangible assets are amortised over their contractual or estimated useful lives.

Development costs are capitalised at production cost insofar as clear expense allocation is possible and both technical feasibility and the products' marketability and/or internal usability are secured. There must, moreover, be a sufficient degree of probability that the development activities will lead to corresponding cash inflows and/or cost reductions in the future. Only those cost components which can be attributed directly or indirectly to the development process can be capitalised. Up to 31 December 2010, development costs eligible for capitalisation amounting to EUR 5,801,000 were reported. The capitalised development costs were reduced by the EUR 265,000 (previous year: EUR 153,000) received in the form of expense grants. At the same time, there are a number of projects that did not fulfil the criteria for development costs in 2010. Research expenses and development costs not eligible for capitalisation are posted to expenses in the period in which they are incurred. Development costs are posted to expenses when their technical realisation is uncertain and when no estimate of a future economic benefit accruing from the resultant intangible asset can be made. Ongoing amortisation of EUR 322,000 (previous year: EUR 335,000) was recognised in 2010 as individual projects were completed.

The optical division was merged with the general high-performance surfaces business (Nanogate Industrial Solutions GmbH) during the reporting year in order to make use of synergies in development and marketing. Giving due consideration to the sharper focus of the business and the integration mentioned above, it is not currently possible to gauge the division's further prospects with precision. As a result, impairment in the optical applications division necessitated significant write-downs of EUR 2,226,000 on capitalised development costs.

IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" deal with accounting for derivative goodwill. Self-generated goodwill may not be capitalised under IFRS accounting rules.

This asset item in the consolidated financial statements includes goodwill arising from the capital consolidation of subsidiaries.

Goodwill acquired for a consideration is capitalised and subjected to impairment testing at least once a year or whenever there is an indication that the unit's value could be impaired, in accordance with IAS 36. The recoverable value of the goodwill is reviewed in a single-step process

conducted at the level of the cash-generating unit which it is assigned to. At the Nanogate Group, cash-generating units are defined as the legal units.

During the impairment test, the carrying amount of the cash-generating unit is compared with its recoverable amount. If the carrying amount exceeds the recoverable amount, the value is impaired and must be written down. The recoverable amount of a cash-generating unit is either its fair value less costs to sell or its value in use, whichever is the higher. At the Nanogate Group, the discounted cash flow method is used during impairment testing to calculate fair value less costs to sell.

Should the reasons for a prior goodwill impairment cease to exist, the value may not be written back.

If the present value of the identified assets, liabilities and contingencies of the acquired entity exceeds the acquisition costs of the business combination after a further assessment (negative goodwill), the surplus is recognised immediately in profit or loss.

During the annual impairment test, the goodwill previously capitalised for the optical applications division was impaired by 50 %, while the goodwill attributable to the security systems division was impaired by 25 %. These decisions were based on the information available at the time. All in all, the annual impairment test resulted in goodwill amortisation of EUR 881,000.

The revaluation of assets and liabilities that was carried out during the consolidation of GfO Gesellschaft für Oberflächentechnik AG as at 1 September 2010 resulted in an increase in value, which in turn gave rise to deferred taxes amounting to EUR 1,251,000, which is also reported in this amount as additional goodwill.

### Property, plant and equipment

Property, plant and equipment, in accordance with IAS 16, is capitalised at acquisition or production cost – or at fair value as part of a revaluation – and depreciated using the straight-line method over their likely economic useful lives. Depreciation of property, plant and equipment is based on useful lives of between 3 and 40 years which correspond to the expected useful lives within the Group.

The useful lives, depreciation method and carrying amounts of the property, plant and equipment are reviewed every year in order to guarantee that the depreciation methods and periods are in line with the expected economic benefits of the assets.

Following the acquisition of GfO Gesellschaft für Oberflächentechnik AG in 2010, the company's real estate assets were revalued. This identified an increase in value of EUR 1,721,000 for the property, which was added to the revaluation reserve. As part of the purchase price allocation, 51 % of the increase in value was already recognised pro rata in the consolidated financial statements for Nanogate AG on 1 September 2010. Following adjustments associated with the company's consolidation, an increase of EUR 843,000 was then made to reflect the fair value.

If the acquisition or production phase for property, plant and equipment continues for a longer period, the interest on borrowed capital until completion is capitalised as part of the acquisition and production costs in line with IAS 23 (Borrowing Costs). These circumstances did not occur in 2010 and so no interest on borrowed capital was capitalised.

In accordance with IAS 16, the costs of dismantling and removing an asset are included in the capitalised acquisition and production costs. In the financial year 2010, these came to EUR 50,000.

### Impairment of assets (excluding goodwill)

IAS 36 requires that a review be undertaken of property, plant and equipment and assets with a limited useful life on each balance sheet date to identify whether there are any impairment triggering events.

Property, plant and equipment and intangible assets with a limited useful life (excluding goodwill) are examined for impairment if facts or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised through profit and loss. The recoverable amount is either the net selling price or the value in use of an asset, whichever is the higher. The net selling price is the amount recoverable from the sale of an asset at market standard terms, less costs to sell.

The value in use is the present value of the estimated future cash flows expected to be derived from the ongoing use of an asset and its disposal at the end of its useful life. The recoverable amount is calculated for each individual asset or – if this is not possible – for the cash-generating unit the asset belongs to.

If the reason for a previous impairment of property, plant and equipment or intangible assets with a limited useful life (excluding goodwill) ceases to apply, the value is written back up to a maximum of amortised acquisition or production cost.

Impairment is reported in the income statement under depreciation/amortisation, while write-backs are included in operating income.

### Government grants

Government grants are subsidies granted to the company to compensate for the past or future fulfilment of particular conditions in connection with the company's operational activities. They must be reported in the balance sheet when there is a sufficient degree of certainty that the conditions will be met and the grant received. IAS 20 makes a distinction between grants which are related directly to the acquisition or production of particular assets (investment grants) and income grants which are not linked to a specific asset.

The income grants received were recognised immediately in profit and loss insofar as they are connected with expenses or losses that had already been incurred. The expense grants attributable to capitalised development costs were deducted from those costs.

Government grants made on condition of non-current assets being purchased, built or otherwise procured are recognised in the balance sheet as deferred income and reported in profit or loss over the life of the asset in question on a systematic and rational basis.

### Financial assets

Financial assets consist of loans and receivables, equity and debt securities acquired and cash and cash equivalents with positive fair values.

Financial assets are recognised and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). This means that financial assets are recognised in the consolidated statement of financial position when Nanogate AG has a contractual right to receive cash or other financial assets from another party.

Purchases and sales of financial assets at market rates are accounted for at the settlement date. The first-time recognition of a financial asset is made at fair value plus transaction costs. Transaction costs incurred when financial assets measured at fair value through profit or loss are acquired are recognised directly in the income statement.

Receivables that do not bear interest or do so at below-market rates are initially recognised at the present value of the expected future cash flows. Subsequent measurement is made in line with the classification of the financial assets according to the categories of IAS 39, which each have different measurement rules. The categories are: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale.

*Loans and receivables* are non-derivative financial assets not quoted on an active market. They are measured at amortised cost using the effective interest method. This measurement category includes trade receivables, financial receivables and loans included in other financial assets, other financial receivables and loans recognised in other receivables, and cash and cash equivalents. Interest income from items in this category is determined using the effective interest method except in the case of current receivables or if the effect of calculating interest is immaterial.

*Financial assets available for sale* are those non-derivative financial assets not assigned to one of the other three categories. These are in particular equity securities (e.g. shares) and debt securities not held to maturity that are included in other financial assets. Changes in the fair value of financial assets available for sale are recognised directly in equity. Changes in fair value are only recognised in profit or loss when the assets are disposed of. If the fair value is significantly below amortised cost or is below it for a longer period, an impairment is recognised in profit or loss. In cases where the market value of equity and debt securities can be determined, this is recognised as fair value. If there is no quoted market price and the fair value cannot be reliably estimated, the financial assets are recognised at cost less impairment losses.

*There were no financial assets at fair value through profit or loss or financial assets held to maturity as at 31 December 2010.*

If there are objective, substantive indications that financial assets in the two categories of loans and receivables and financial assets available for sale mentioned above may be impaired, a test is carried out to determine whether the carrying amount is greater than the present value of the expected future cash flows, which are discounted using the current market yield of a comparable financial asset. If this is the case, the difference is recognised in profit or loss as an impairment.

Indications of impairment include operating losses at a company for several years in succession, a diminished market value, a substantial decline in creditworthiness, the high probability of insolvency or other forms of financial restructuring by a debtor or the disappearance of an active market. If the reasons for having recognised an impairment loss cease to exist, the loss is written back, but not to more than amortised cost. Impairment losses are not written back on available-for-sale equity securities. Financial assets are derecognised if the contractual rights to payment from the financial assets cease to exist or the financial assets together with all risks and rewards are transferred.

### Inventories

Inventories are valued at acquisition or production cost in accordance with IAS 2. In addition to direct costs, the production costs include reasonable

portions of the necessary production-related material and production overheads, as well as depreciation necessitated by production and proportional administrative overheads that can be attributed directly to the production process.

Inventory risks resulting from the length of storage or diminished realisability are taken into account by means of write-downs if necessary.

#### **Cash and cash equivalents**

Cash and cash equivalents contain cash in hand and call deposits with banks with original terms to maturity of up to three months. Cash and cash equivalents are reported at face value.

As regards the treatment of cash and cash equivalents in foreign currencies, see the "Foreign currency translation" section.

#### **Income taxes**

Recognised income taxes include taxes on taxable profits in the respective countries as well as changes in deferred taxes. Income taxes are recognised for the probable amount of payment on the basis of the statutory regulations in force or adopted on the reporting date.

In accordance with IAS 12 (Income Taxes), deferred taxes are recognised for all temporary differences between the amounts in the balance sheet prepared for tax purposes and the IFRS balance sheet. In the event of the asset being realised or the liability discharged, temporary differences result in taxable or tax-deductible amounts. Taxable temporary differences result in the recognition of a deferred tax liability, while temporary differences which are tax-deductible result in the recognition of deferred tax assets.

In addition, deferred tax assets must be reported as loss carryforwards when it is likely that their utilisation will be possible. The deferrals are carried out for the amount of the likely tax burden or relief in subsequent financial years on the basis of the tax rate prevailing at the time of utilisation.

The carrying amount of the deferred tax assets is reviewed on each balance sheet date and reduced if it is no longer likely that sufficient taxable income will be available to satisfy the claim either wholly or partly.

If there is a change in tax rates, its impact on the deferred tax assets and liabilities is recognised in profit or loss.

In accordance with IAS 12, deferred tax assets and liabilities are not discounted.

Current and deferred taxes are posted to expenses or income, unless they have arisen in connection with items that were recognised directly in equity. In this case, the tax must also be recognised in equity.

#### **Pension obligations**

In line with IAS 19, the projected unit credit method is used to calculate the present value of pension obligations on 31 December of each year. Future obligations are taken into account with the aid of actuarial methods. Specific assumptions have to be made which map the economic environment. These primarily consist of the applicable discount rate, the expected income from plan assets, and future developments in income and pensions.

The fair value of the plan assets is deducted from the present value of the pension obligations. The plan assets – which consist solely of pledged reinsurance policies – are valued annually on 31 December.

Actuarial gains and losses are recorded immediately through profit and loss and entered under pension provisions.

#### **Provisions**

In accordance with IAS 37, provisions are formed for current legal or de facto obligations resulting from a past event which involve a probable outflow of resources whose amount can be estimated reliably. The amount to be carried as a liability is that which represents the best possible estimate of the outlay that is required to meet the current obligations as at the balance sheet date. Provisions which do not result in an outflow of resources the following year are reported at their settlement amount discounted to the balance sheet date, taking account of expected cost increases.

Market interest rates are used to calculate the present value. Provisions are not set off against rights of recourse. The provisions for guarantees are recognised on the basis of past experience. Provisions for dismantling and removal are recognised at the discounted amount necessary to settle the obligation, and property, plant and equipment is increased by the same amount (leasehold improvements). In subsequent periods, capitalised dismantling expenses are depreciated over the forecast (remaining) useful life of the leasehold improvements. The provision accrues annual interest.

#### **Financial liabilities**

Financial liabilities are recognised in the consolidated statement of financial position if the Nanogate Group has a contractual obligation to pay cash or other financial assets to another party. First-time recognition of a financial liability is made at the fair value of the goods or services received or at the value of cash received less transaction costs incurred. Financial liabilities at fair value through profit and loss are subsequently measured at fair value. Other financial liabilities are carried at amortised cost using the effective interest method.

Financial liabilities are derecognised when the contractual obligations are settled, cancelled or expire.

As regards the treatment of liabilities in foreign currencies, see the "Foreign currency translation" section.

#### **Other receivables and liabilities**

Deferrals, prepayments and other non-financial assets and liabilities are held at amortised cost. They are reversed as the performance obligation is discharged.

#### **Accounting for leases**

The classification of leases is based on IAS 17, having regard to IFRIC 4, according to which a distinction is made between finance leases and operating leases.

Leases are classified as finance leases when essentially all the risks and rewards associated with ownership are transferred to the lessee under the lease agreement.

Assets held under a finance lease are reported as Group assets for the first time at the beginning of the lease at the lower of their fair value and the present value of the minimum lease payments.

The corresponding liability to the lessor must be shown in the balance sheet as an obligation from finance leases. In 2010, assets of EUR 2,017,000 arising from finance lease agreements were posted (previous year: EUR 1,317,000). They are depreciated over their useful lives.

The lease payments are apportioned between interest expenses and lease obligations, with the result that the rate of interest on the remaining balance of the liability is constant. Interest expenses are recognised directly in the income statement.

Leases in which the economic ownership of the leased item remains with the lessor are regarded as operating leases. In these cases, rental or lease payments are recognised through profit or loss using the straight-line method over the term of the respective lease.

#### Expense and income recognition

The Nanogate Group's sales result from self-generated products and the enhancement of products. Sales are recognised at the fair values of consideration received or still to be received and reduced by the values of customer returns, discounts and other similar deductions.

Sales and other operating income are recognised on delivery and transfer of risks to the customer. Operating expenses are recognised in profit or loss at the time when the goods or services are utilised or when the expenses are incurred. Interest income and expenses are recognised using the accrual method.

#### Estimates made during preparation of the consolidated financial statements

The preparation of consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made that affect the assets and liabilities reported in the balance sheet, the disclosure of contingent liabilities and other financial obligations as of the balance sheet date, and the reporting of expenses and income during the reporting period.

The estimates are based on past experience and other assumptions that are considered appropriate under the given circumstances. They are continually reviewed but can differ from the actual amounts.

Assumptions and estimates mainly relate to defining useful lives, calculating discounted cash flows in the course of measuring intangible assets during purchase price allocation and when conducting impairment tests and recognising provisions, e.g. for litigation, taxes, rebates and guarantees.

The assumptions and estimates additionally relate to, in particular, the realisability of future tax relief. The estimates with regard to deferred taxes on loss carryforwards depend to a large extent on the development of income at the relevant taxable entities. The amounts which actually arise in future periods can therefore differ from the estimates.

An estimate was also made as part of segment reporting. This related to assigning assets and depreciation/amortisation to segments based on an estimate of pro rata use.

#### Changes in presentation

Regarding the changes in the presentation of financial income, we refer to "General principles" in section 2.

### Significant acquisitions in the financial year 2010 – company acquisitions

#### Business combination

##### GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd

In order to further strengthen its Multifunctional Surfaces segment, Nanogate AG purchased a majority stake in GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd. Nanogate AG acquired a controlling influence over GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd, effective 1 September 2010. As a consequence, GfO AG is included in the consolidated financial statements of Nanogate AG from this point onwards. For the resultant first-time inclusion of this entity in the consolidated financial statements by way of full consolidation, the additional assets, liabilities and contingencies represented by the newly acquired shares were revalued as part of the purchase price allocation as at 1 September 2010. The fair values of the identifiable assets and liabilities of GfO Gesellschaft für Oberflächentechnik AG in the amount of the acquired 51.0 % are as follows as per their first-time inclusion (IFRS 3.67):

Assets and liabilities acquired in approx. EUR	Carrying amounts	Adjustment to fair values	Fair values at time of acquisition
	51.00 %	51.00 %	51.00 %
Goodwill	87,873	1,162,808	1,250,681
Licensing rights	90,436	522,240	612,676
Customer base	-	2,566,320	2,566,320
Unpatented expertise	-	521,220	521,220
Other intangible assets	22,053	-	22,053
Property	3,348,127	878,027	4,226,154
Movable assets	1,929,817	-	1,929,817
Deferred tax assets	210,358	-	210,358
Other non-current assets	65,320	-	65,320
Inventories	375,558	15,964	391,522
Other current assets	1,926,798	4,036	1,930,834
Assets	8,056,340	5,670,615	13,726,955
Deferred tax liabilities	398,300	1,250,681	1,648,981
Pension obligations	264,187	-	264,187
Other non-current liabilities	4,100,000	-	4,100,000
Other provisions and contingent liabilities	444,513	20,000	464,513
Other current liabilities	1,151,132	-	1,151,132
Debt capital	6,358,132	1,270,681	7,628,813
<b>Net assets</b>	<b>1,698,208</b>	<b>4,399,934</b>	<b>6,098,142</b>

In the course of the company acquisition, the sub-sectors of customer base, Hydrophilm licensing rights and unpatented expertise were separated and assessed individually during the valuation of the intangible assets acquired. The purchase price allocation relating to intangible assets has not yet been fully concluded and its assessment is therefore based on preliminary figures. The revaluation of land and buildings was based on an expert's report, which in turn drew on an assessment of earnings power and the land's value. Average local commercial rents and a remaining useful life of 40 years for the properties were used as key parameters. On balance, the higher fair values resulted in a deferred tax liability, which influences the value of the goodwill in the amount of EUR 1,251,000.

The negative difference from the revaluation of the assets and liabilities arises as follows:

	rd. EUR
Accumulated fair values at time of acquisition	6,098,142
Actual purchase price	-1,490,180
Negative difference <sup>1)</sup>	4,607,962

<sup>1)</sup> Reported with effect on income/earnings from the purchase price allocation

In addition to the actual purchase price of EUR 990,000, Nanogate AG made a cash capital contribution of EUR 500,000. The acquisition also involved the assumption of pro rata cash and cash equivalents amounting to EUR 480,000. Since its acquisition, GfO Gesellschaft für Oberflächentechnik AG has contributed revenue of EUR 5,870,000 and pro rata EBIT of EUR 72,000 to the Nanogate Group. The transaction costs for the company's acquisition were reported as an expense.

As part of the larger transaction, it was also agreed that Nanogate AG could acquire a further 49.0 % of the shares in GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd, via a call option. Conditions precedent were agreed for the purchase.

## B. Notes to the consolidated statement of income

### 3. Sales

The consideration paid by customers for deliveries made and services rendered – less sales deductions – is reported under sales. The classification of sales by market can be found in section D. 35 “Segment reporting”.

### 4. Other own work capitalised

This item comprises own work expended in 2010 in connection with the development costs capitalised under intangible assets and the production costs for machinery reported in property, plant and equipment.

### 5. Other operating income

Other operating income consists of the following:

	2010	2009
	EUR ,000	EUR ,000
Transfer of costs	3	51
Subsidies	358	169
Income from accrual of grants	40	86
Income from disposal of assets	5	–
Non-cash benefits for use of vehicles etc.	114	137
Income from write-backs of receivables	31	11
Income from revaluation from purchase price allocation	4,608	–
Miscellaneous other income	244	137
	5,403	591

The grants reported above refer solely to income subsidies received in connection with expenses that had already been incurred in the respective financial year.

### 6. Cost of materials

The cost of materials is as follows:

	2010	2009
	EUR ,000	EUR ,000
Cost of raw materials and supplies	6,803	3,368
Cost of external services	3,577	1,207
	10,380	4,575

### 7. Personnel expenses

Personnel expenses are as follows:

	2010	2009
	EUR ,000	EUR ,000
Wages and salaries	6,095	4,213
Social security	1,404	802
Pensions	95	73
Non-cash remuneration costs for stock options	42	144
	7,636	5,232

In order to secure the long-term loyalty and motivation of the Nanogate Group's employees, Nanogate AG has launched a stock option programme to facilitate participation in the company's share capital in the form of share subscription in return for the fulfilment of certain requirements. All in all, 117,981 stock options had been subscribed for by 31 December 2010. As at 31 December 2010, there were 318,000 stock options which had been subscribed for and which had not yet expired as part of the stock option programme at HOLMENKOL AG. The stock option models influenced earnings in the amount of EUR 42,000 in the financial year 2010. More information about the stock option programme can be found in section C. 25 of the Notes.

### 8. Other operating expenses

Other operating expenses are made up as follows:

	2010	2009
	EUR ,000	EUR ,000
Operating expenses	1,889	1,840
Administrative expenses	1,431	1,283
Sales expenses	2,577	2,239
Losses on receivables and impairment	112	14
Miscellaneous other expenses	286	273
	6,295	5,649

### 9. Amortisation of intangible assets

A detailed breakdown of the amortisation of intangible assets and depreciation of property, plant and equipment can be found in the statement of assets, which is presented in the appendix to the Notes.

### 10. Amortisation of financial assets

Receivables totalling EUR 369,000 due to Nanogate AG from FNP GmbH were impaired in the financial year 2010.

### 11. Financial income

The financial income shown consists of income from loans of financial investments (EUR 19,000) and interest income (EUR 75,000). Of the interest income, EUR 27,000 (previous year: EUR 125,000) impacted on cash flow in 2010.

### 12. Financial expenses

EUR 623,000 (previous year: EUR 313,000) of the interest expenses shown had an impact on cash flow in the financial year 2010.

### 13. Income taxes

Expenses and income arising from income taxes in the financial year 2010 can be broken down as follows:

	2010
	EUR ,000
Current taxes	89
Taxes previous years	120
Deferred taxes	-2,071
(tax expense -; tax income +)	-1,862

The table below shows the reconciliation between expected and reported tax expenses in the respective financial years. To determine the expected tax expenses, the overall tax rate of 30.175 % applicable in 2010 is multiplied by earnings before tax.

This tax rate is a combined income tax rate comprising the uniform corporation tax rate of 15.0 %, plus the solidarity surcharge of 5.5 % and an effective trade tax rate of 14.35 %.

The following reconciliation statement shows the difference between expected and reported income tax expenses:

Tax Reconciliation	2010	2009
	EUR ,000	EUR ,000
Earnings before taxes	-820	-2,602
Applicable tax rate	30.175 %	30.175 %
Expected tax expense	247	785
Effects of changes in tax rates	-170	-
Effect of different foreign tax rates	-2	-2
Adjustment due to effects from corporate tax act Section 8b (5) KStG	419	-
Differences due to varying trade tax multipliers	6	44
Tax increase due to non-tax-deductible costs	-166	-82
Non-capitalised tax deferrals on losses; realisable loss carryforwards on which no deferred taxes were calculated	-28	257
Impairment on loss carryforwards	-63	-
Tax-neutral effects from company acquisition	1,751	-
Tax payments for prior years	-120	-21
Other tax effects	-12	23
Income tax expense recognised in the income statement	1,862	1,004

Deferred tax assets and liabilities are calculated for future effects that arise from the difference between the carrying amounts of assets and liabilities in the IFRS balance sheet and the amounts reported for tax purposes. The calculation of deferred taxes was based on forecast income tax rates for the future tax period.

The rate of corporation tax currently applicable in the Federal Republic of Germany is 15.0 %, while the index for trade tax is 3.5 %. Trade tax can no longer be deducted as an operating expense. For the companies included in the consolidated financial statements as at 31 December 2010, an effective corporation tax rate of 15.825 % was used as the basis for calculating deferred taxes. The deferred taxes were calculated using an overall tax rate determined for the parent company. The multiple for determining trade tax was 410.0 %, as in the previous year. Altogether, the combined income tax rate for determining deferred taxes was 30.175 %.

The deferred tax assets and liabilities arise from accounting differences and are distributed among the individual balance sheet items as follows:

	31.12.2010	31.12.2009
	EUR ,000	EUR ,000
Non-current assets	27	6
Inventories	18	4
Other assets	82	-
Other provisions	153	19
Other liabilities	440	373
Loss carryforwards	4,865	2,979
<b>Deferred tax assets</b>	<b>5,585</b>	<b>3,381</b>
Non-current assets	-4,834	-2,793
Trade receivables	-10	-1
Other assets	-29	-
Other provisions	-9	-12
Other liabilities	-1	-
<b>Deferred tax liabilities</b>	<b>-4,883</b>	<b>-2,806</b>
<b>Net deferred taxes, deferred tax assets</b>	<b>702</b>	<b>575</b>

The deferred tax liabilities include EUR 1,946,000 resulting from company acquisitions in prior years and in 2010 that could not be recognised through profit or loss. Developments in the reporting year included a change of EUR 1,251,000 not recognised through profit or loss arising from the higher fair values posted in conjunction with the purchase price allocation and a related increase in goodwill.

The tax loss carryforwards which are likely to be realisable were estimated at EUR 16,122,000 (previous year: EUR 9,872,000) on condition that the foreseeable realisation period applies. As a result, deferred tax assets on loss carryforwards amounting to EUR 4,865,000 (previous year: EUR 2,979,000) are reported in the consolidated statement of financial position as at 31 December 2010.

The amount of tax losses not recognised in 2010 was EUR 3,029,000. This corresponds to an unrecognised deferred tax asset of EUR 914,000.

IFRS stipulates that deferred tax assets and liabilities must be reported as non-current but also contain current elements that are realised within twelve months of the balance sheet date. The likely realisation of the deferred tax assets and liabilities (after netting out current deferred tax assets against deferred tax liabilities) is shown in the following table:

	31.12.2010		31.12.2009	
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
	Total	> 1 year	Total	> 1 year
Deferred tax assets	5,585	4,865	3,381	2,979
Deferred tax liabilities	-4,883	-1,946	-2,806	-695
Net deferred taxes	702	2,919	575	2,284

### 14. Net income attributable to minority interests

The reported net income attributable to minority interests relates to the pro rata annual net income of HOLMENKOL AG, Ditzingen, and HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria, attributable to the minority shareholder – amounting to EUR 484,000 (allocation of losses) – and the pro rata annual net income of GfO Gesellschaft für Oberflächentechnik AG attributable to the minority shareholder, which totals EUR 70,000 (allocation of profits).

### 15. Earnings per share

The basic earnings per share are determined in accordance with IAS 33 by dividing consolidated net income for the year (after minority interests and

allocation of earnings to shareholders of the parent company) by the average number of shares in circulation during the year. The key figures for earnings per share are as follows:

	2010	2009
Consolidated net income/loss including allocation of earnings to shareholders after minority interests (in approx. EUR)	1,455,782	-1,366,509
Weighted average number of shares issued		
Basic	1,905,000	1,900,000
Diluted	1,910,558	1,911,540
Basic earnings per share (in EUR)	0.76	-0.72
Diluted earnings per share (in EUR)	0.76	-0.71

The diluted number of shares issued refers to 43,241 shares that can only be issued under certain circumstances.

With regard to the stock option programme, the value of the shares to be granted from the first and second tranches is well below the exercise price of the options granted. The first two tranches therefore have no effect on the diluted earnings per share.

### C. Notes to the consolidated statement of financial position

Changes in individual items of intangible assets and property, plant and equipment are shown in the statement of assets (see appendix to the Notes).

#### 16. Intangible assets

Please refer to the consolidated statement of assets for a breakdown of intangible assets.

The software and licences, trademarks and patents shown are intangible assets acquired for payment. Of these intangible assets, EUR 1,227,000 have a limited useful life of three to 12 years and are amortised on a straight-line basis. The item also includes the HOLMENKOL brand at EUR 2,761,000, and unpatented expertise totalling EUR 521,000 that has an indefinite useful life.

The self-generated intangible assets reported in the balance sheet (IAS 38.57) relate entirely to development costs; these are accounted for by five overall development projects. In 2010, development projects were amortised by EUR 322,000 and impairment losses of EUR 2,226,000 were recorded.

In the financial year 2010, total research and development expenses of EUR 5,619,000 (previous year: EUR 3,990,000) were incurred.

The reported goodwill results from the acquisition of Nanogate Industrial Solutions GmbH on 1 January 2006, the acquisition of shares in HOLMENKOL Sport-Technologies GmbH & Co. KG (now HOLMENKOL AG) in the financial years 2007 and 2008, and the acquisition of shares in GfO Gesellschaft für Oberflächentechnik AG in 2010.

The acquisition of Nanogate Industrial Solutions GmbH generated goodwill of EUR 2,350,000 which was assumed as an asset following the acquisition of the subsidiary and goodwill of EUR 930,000 arising from the initial consolidation. In addition to the existing goodwill assumed as an asset following the subsidiary's acquisition, goodwill amounting to EUR 713,000 was also generated by the various tranches of the acquisition of HOLMENKOL Sport-Technologies GmbH & Co. KG and/or its legal successor HOLMENKOL AG.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, goodwill resulting from company acquisitions is not amortised, but subjected to an annual impairment test. In the course of impairment testing, the goodwill originally acquired from Nanogate Industrial Solutions GmbH was written down by EUR 881,000. There were no indications of any impairment to the goodwill of other entities.

The acquisitions of shares in Nanogate Industrial Solutions GmbH, HOLMENKOL Sport-Technologies GmbH & Co. KG and GfO Gesellschaft für Oberflächentechnik AG led to further goodwill of EUR 1,946,000. This resulted from the deferred tax liability, which had an impact on the goodwill's value.

#### 17. Property, plant and equipment

Compared with the previous year, property, plant and equipment is as follows:

	31.12.2010	31.12.2009
	EUR,000	EUR,000
Land, equivalent rights and buildings, including buildings on third-party land	9,336	1,226
Technical equipment and machinery	4,326	1,436
Other equipment, office and plant equipment	1,056	1,008
Leased assets	2,017	1,317
Payments on account	201	305
	16,936	5,292

The increase from 31 December 2009 to 31 December 2010 stems mainly from the acquisition of GfO Gesellschaft für Oberflächentechnik AG (EUR 11,227,000) and ongoing investment in 2010. This resulted in additions of EUR 1,562,000 in 2010. Disposals amounted to EUR 2,000 and current depreciation for the financial year 2010 to EUR 1,144,000.

The following economic useful lives formed the basis for determining the depreciation:

	Years
Outside facilities	6 - 13
Operating facilities	5 - 13
Buildings on third-party land	8 - 25
Technical equipment and machinery	4 - 15
Other equipment, office and plant equipment	2 - 15
Leased assets	8 - 40

#### 18. Financial assets

The financial assets reported as at 31 December 2010 include the equity holdings in FNP GmbH and the indirect holdings in HOLMENKOL Japan Ltd., Osaka, Japan, and HOLMENKOL NORGE A/S, Hokksund, Norway (EUR 1,099,000). Loans with a remaining term to maturity of more than one year are also included (EUR 224,000).

#### 19. Deferred tax assets

The deferred tax assets essentially comprise the tax loss carryforwards of EUR 4,865,000 (previous year: EUR 2,979,000) that are likely to be realisable. Changes in and components of deferred taxes are explained in section B. 13 "Income taxes".

#### 20. Inventories

As at 31 December 2010 and 31 December 2009, inventories were as follows:

	31.12.2010	31.12.2009
	EUR ,000	EUR ,000
Raw materials and supplies	937	710
Work in progress	374	190
Finished goods and merchandise	1,983	1,584
	3,294	2,484

The inventories relate almost entirely to Nanogate AG (EUR 634,000), HOLMENKOL AG (EUR 1,917,000) and GfO Gesellschaft für Oberflächentechnik AG (EUR 740,000). No impairment charges were necessary as per the respective balance sheet dates.

## 21. Trade receivables

Trade receivables on the respective balance sheet dates were as follows:

	31.12.2010	31.12.2009
	EUR ,000	EUR ,000
Domestic receivables	2,004	890
Foreign receivables	2,415	1,854
	4,419	2,744
Impairments on at-risk receivables	-47	-34
	4,372	2,710

As part of subsequent measurement, any impairments that may be necessary are taken into account (amortised cost). The impairments reflect the possible default risk. There are no significant overdue receivables which have not been impaired. There are no other noteworthy credit risks, interest rate risks or currency risks.

Changes in impairments:

	2010	2009
	EUR ,000	EUR ,000
Position at the start of the year	34	73
Change in the companies included in the consolidated financial statements	22	-
Write-downs during the financial year	22	-28
Increase/decrease in impairments through profit and loss	-31	-11
Position at the end of the year	47	34

Before the Group takes on a new customer, it arranges for an external credit assessment in order to judge the creditworthiness of the potential customer in question and set its credit limit. The determination of the recoverable value of trade receivables takes account of every change in creditworthiness between the granting of the payment period and the balance sheet date. The Management Board is convinced that no risk provisioning is necessary in addition to the impairments already recognised.

Trade receivables were overdue as follows:

	Carrying amount	of which: neither impaired nor overdue on the reporting date	of which: not impaired but overdue on the reporting date			
			up to 3 months	3 - 6 months	6 - 12 months	more than 12 months
			in	in	in	in
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
31.12.2010	4,372	3,257	791	110	28	149
31.12.2009	2,710	1,121	1,214	190	176	-

## 22. Financial assets

In 2010, current financial assets mainly consisted of loans of EUR 38,000.

No significant impairment charges as defined by IFRS 7.20 were recognised

in other operating expenses in the financial year 2010. No discounting of the current receivables was required. The receivables on a contractual basis reported as per the balance sheet date have been measured at amortised cost (IAS 39.46). If there are any objective indications of credit risks, these are taken into account when calculating amortised cost.

There were no interest rate or currency risks as per the balance sheet date.

Financial assets were overdue as follows:

	Carrying amount	of which: neither impaired nor overdue on the reporting date	of which: not impaired but overdue on the reporting date			
			up to 3 months	3 - 6 months	6 - 12 months	more than 12 months
			in	in	in	in
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
31.12.2010	1,378	1,377	-	-	1	-
31.12.2009	922	920	2	-	-	-

## 23. Other assets

The other assets reported as per 31 December 2010 and 31 December 2009 consist of the following:

	31.12.2010	31.12.2009
	EUR ,000	EUR ,000
Outstanding subsidies	115	138
Prepayments/payments on account	75	144
Sales tax	151	114
Accrual item for transaction cost of an equity transaction	95	-
Other	37	2
	473	398

## 24. Cash and cash equivalents

Cash and cash equivalents amounting to EUR 4,067,000 (previous year: EUR 5,906,000) were reported as per the balance sheet date. These consist solely of cash in hand and current credit balances at banks in the form of cash at call and fixed-term deposits. The fixed-term deposits held at financial institutions earn interest at standard market rates based on the three-month Euribor rate. The fixed-term deposits' terms end within 90 days of the balance sheet date.

In view of the short terms of the fixed-term deposits, i.e. the short fixed-interest periods, the market risk is of minor importance. In view of the banks' credit standing, there is no assumption of a default risk. The interest accrued but not yet settled up to 31 December 2010 is reported under other current financial assets. In the financial year 2010, interest income from these financial instruments assigned to the loans and receivables category amounted to EUR 24,000.

Changes in cash and cash equivalents in accordance with IAS 7 are shown in the cash flow statement.

## 25. Shareholders' equity

Group equity and its individual components are shown in detail in the consolidated statement of changes in equity.

### Subscribed capital

By resolution of the Management Board on 26 November 2009 and as entered in the commercial register on 27 April 2010, the company's capital was increased from EUR 1,900,000.00 to EUR 1,905,000.00 by issuing 5,000 new shares for subscription in kind. Subscribed capital as at 31

December 2010 therefore amounted to EUR 1,905,000.00. It is divided into 1,905,000 no-par-value bearer shares with an arithmetical share of the company's subscribed capital of EUR 1.00 per share.

### Conditional capital

The shareholders' meeting on 26 June 2006 (with the amendment passed on 28 June 2006) resolved to initiate a stock option programme and create conditional capital of EUR 150,000.00 in connection with the scheme ("2006 stock option plan"). On the basis of this, the Supervisory Board – or the Management Board with the Supervisory Board's approval – is authorised to grant entitled shareholders subscription rights ("stock options") for up to 150,000 no-par-value bearer shares in tranches up to 15 June 2011. Based on this authorisation, stock options to subscribe for a total of 117,981 no-par-value bearer shares were issued to entitled shareholders.

The shareholders' meeting on 16 June 2010 resolved to limit the authorisation granted to the Management Board at the shareholders' meeting on 26/28 June 2006 so as to allow a further 10,000 options to be issued. This limit applies to future options issues. It was also resolved to authorise the Supervisory Board to issue further stock options to members of the Nanogate AG Management Board under the 2006 stock option plan in the future. A conditional increase in share capital of up to EUR 114,090.00 was therefore effected (Conditional Capital I) by issuing a maximum of 114,090 new no-par-value bearer shares. The conditional capital increase is designed to satisfy share subscription rights held by members of the company's management, company employees and employees of affiliated companies granted in accordance with the resolution of the shareholders' meeting held on 26 June 2006. The conditional capital increase will be effected only insofar as is necessary to meet the requirements of options being taken up by holders of subscription rights exercising those rights.

Furthermore, the shareholders' meeting on 16 June 2010 resolved to effect a conditional increase in share capital totalling EUR 75,910.00 by issuing up to 75,910 new no-par-value bearer shares (Conditional Capital II). The conditional capital increase is designed to satisfy share subscription rights issued to executives and employees at Nanogate AG and executives and employees at companies affiliated with Nanogate AG at the time when subscription rights were issued, as defined in Section 15 ff. of the German Stock Corporation Act (AktG). The Management Board is authorised to issue stock options to entitled shareholders up to 15 June 2015 with the Supervisory Board's approval.

As at 31 December 2010, conditional capital therefore totalled EUR 190,000.00 and was made up as follows:

- Conditional Capital I: EUR 114,090.00 and
- Conditional Capital II: EUR 75,910.00.

### Authorised capital

The capital increase resolved by the Management Board on 26 November 2009 and approved by the Supervisory Board was entered in the commercial register on 27 April 2010. This reduced the original authorised capital to EUR 745,000.00.

The authorisation contained in Section 4 (3) of Nanogate AG's articles of association enabling the Management Board to increase the company's share capital by a maximum of EUR 750,000.00 in one or several stages up to 15 June 2011 was revoked by the resolution passed at the shareholders' meeting on 16 June 2010.

The Management Board, with the agreement of the Supervisory Board, is authorised by the shareholders' meeting held on 16 June 2010 to increase the company's share capital in one or more stages by 15 June 2015 by up to a total of EUR 950,000.00 by issuing a maximum of 950,000 new no-par-value bearer shares with a proportional share of EUR 1.00 in the share capital against contributions in cash or kind (Authorised Capital I). Shareholders must be granted subscription rights. However, subject to the agreement of the Supervisory Board, the Management Board is authorised to preclude the right of shareholders to subscribe for shares. Shareholder subscription rights may be precluded only under the following circumstances, however:

- to compensate for residual amounts;
- if the new shares are issued to employees of Nanogate AG or companies affiliated with Nanogate AG as defined in Section 15 ff. of the German Stock Corporation Act (AktG);
- if the new shares are issued as part of a capital increase for subscription in kind in order to acquire companies, parts of companies or equity holdings in companies as part of Nanogate AG's business purpose;
- if the shares are issued at a price which does not significantly undercut the quoted price and the preclusion of share subscription rights applies only to new shares whose arithmetical par value is less than 10 % of the share capital, i.e. no more than EUR 190,500.00; the utilisation of the 10 % limit and the preclusion of subscription rights must take account of other authorisations under Section 186 (3) (4) of the German Stock Corporation Act (AktG).

The Management Board decision dated 16 December 2010 and ratified by the Supervisory Board resolved to increase share capital using authorised capital by issuing 37,639 new no-par-value bearer shares, taking share capital from EUR 950,000 to EUR 1,942,639.00. Subscription for the new shares was permitted solely for Gwinner, Lechner, Paul und Scheyrer Beteiligungs GmbH & Co. KG, Schwäbisch Gmünd. Subscription rights were precluded. The Supervisory Board approved the preclusion of subscription rights (Section 204 [1] AktG). The capital increase was entered in the commercial register on 24 March 2011.

Further details of shareholders' rights and the terms of share issuance are decided upon by the Management Board with the approval of the Supervisory Board.

### Capital reserves

This item consists mainly of capital reserves pursuant to Section 272 of the German Commercial Code (HGB) amounting to EUR 15,612,000, reduced by the equity fund-raising costs of EUR 1,045,000.

The capital reserves also include the carrying amount of the obligations (EUR 260,000) that arise within the framework of the stock option programme launched by Nanogate AG and HOLMENKOL AG (cf. the explanations in "Share-based payment").

### Retained earnings

In addition to a EUR 10,000 statutory reserve as per Section 150 (2) of the German Stock Corporation Act (AktG) which was formed at GfO Gesellschaft für Oberflächentechnik AG in late 2010, retained earnings include a revaluation reserve of EUR 308,000 and other reserves worth EUR 1,331,000.

Deferred tax expense of EUR 122,000 was deducted from the EUR 430,000 revaluation reserve formed, taking the reserve to EUR 308,000.

### Share-based payment

#### Nanogate AG

Based on the resolution of the shareholders' meeting held on 26/28 June 2006 and the limit imposed by the shareholders' meeting on 16 June 2010, the Management Board is authorised, with the approval of the Supervisory Board, to grant entitled shareholders subscription rights (stock options) for up to 114,090 no-par-value bearer shares in one or more tranches up to 25 June 2011 (see also "Conditional Capital I"). Furthermore, the shareholders' meeting on 16 June 2010 authorised the Management Board, subject to the Supervisory Board's approval, to grant further stock options for the subscription of up to 75,910 no-par-value bearer shares to members of the Management Board and employees of both Nanogate AG and companies affiliated with Nanogate AG at the time the subscription rights are issued as defined in Section 15 ff. of the German Stock Corporation Act (AktG; see also "Conditional Capital II").

Once individual preconditions have been met, the beneficiaries receive the right to subscribe for no-par-value bearer shares in Nanogate AG with an arithmetical share of EUR 1.00 each in the share capital.

Four tranches had been issued by 31 December 2010. The periods of issue were 28 June to 31 December 2006, 2 July to 15 July 2008, 25 June to 8 July 2009 and 24 June to 7 July 2010. The exercise period has been set at three years for each tranche, with a two-year lock-up/vesting period agreed in each case.

Depending on the issue date, reference share prices were set at EUR 32.00, EUR 19.46, EUR 13.47 and EUR 15.86, with a hurdle of 120 % of the reference price. In total, 117,981 options had been granted as at 31 December 2010. 33,500 of these options were attributable to the Management Board.

As far as the balance sheet treatment of IFRS 2 is concerned, the stock option programme is classified as "equity-based", as the remuneration is always geared to subscription for shares. Share-based payment with genuine equity instruments must be measured at the fair value of the goods or services received (direct measurement). As this cannot be determined reliably, the fair value of the equity instruments at the time they were granted (indirect measurement method using the option pricing model) must be used.

The option pricing model applied was the Black-Scholes measurement model. The central parameters for the fourth tranche issued in 2010 are the basic price of this tranche, a volatility of 33.52 % determined using a peer group analysis, a term per tranche of 24 months, and a risk-free interest rate of 3.00 %. The fair value of the options granted individually, in combination with the fair value of the relevant tranche, amounts to an average of EUR 1.91 per option and a total of EUR 261,000. This means that EUR 50,000 (previous year: EUR 125,000) was to be recognised for the reporting period. In line with IFRS 2, this was posted via personnel expenses to capital reserves.

#### HOLMENKOL AG

Based on the resolution of the extraordinary shareholders' meeting of HOLMENKOL AG held on 13 May 2008, the Management Board is

authorised, with the approval of the Supervisory Board, to grant entitled shareholders subscription rights (stock options) for up to 455,000 no-par-value bearer shares in one or more tranches up to 31 March 2015 (see also "Conditional capital"). Once individual preconditions have been met, the beneficiaries receive the right to subscribe for no-par-value bearer shares in HOLMENKOL AG with an arithmetical share of EUR 1.00 each in the share capital.

The subscription rights can be exercised for the first time in the first full exercise period on expiration of at least two years (vesting period) after the date of issue. Performance targets specified in the resolution taken at the shareholders' meeting held on 13 May 2008 must also be met.

All in all, 318,000 options had been subscribed for within the framework of the stock option programme and had yet to expire on 31 December 2010.

As far as the balance sheet treatment of IFRS 2 is concerned, the stock option programme is classified as "equity-based", as the remuneration is always geared to subscription for shares. Share-based payment with genuine equity instruments must be measured at the fair value of the goods or services received (direct measurement).

As this cannot be determined reliably, the fair value of the equity instruments at the time they were granted must be used. As there is no active market, the stock options were measured initially by the company at EUR 1.00 per share using the measurement of the contribution in kind for the capital increase that took place in spring 2008, plus a payment of EUR 0.50 per share.

The agreed vesting period of 36 months and a current estimate of the probability that the option will be exercised of 25 % were also used to measure the options. At a fair value per option of EUR 0.50, the fair value of options granted during the period comes to a total of EUR 159,000 for the full term of 36 months.

#### Minority interests

The balancing item contains minority interests in the equity of the fully consolidated company HOLMENKOL AG, Ditzingen, and HOLMENKOL Austria Ges.m.b.H., Lauterach, amounting to EUR 1,420,000 (previous year: EUR 1,908,000) and minority interests in the equity of the fully consolidated company GfO Gesellschaft für Oberflächentechnik AG worth EUR 1,243,000.

#### 26. Pension obligations

Pension obligations were reported for the first time due to the acquisition of GfO Oberflächentechnik AG on 1 September 2010. For the purposes of comparison and appraisal, the figures for the financial year 2009 and for the period from 1 January to 31 August 2010 were incorporated as additional information. Pension obligations developed as follows after being offset against plan assets:

	2010	2009
	EUR ,000	EUR ,000
Present value of pension obligations	962	840
Fair value of plan assets	218	164
Performance obligations exceeding assets	744	676

The table below shows changes in the present value of the pension obligations:

	2010	2009
	EUR ,000	EUR ,000
Present value of pension obligations as of 1 January	840	814
Costs of new pension entitlements in financial year	9	9
Accrued interest on pension entitlements	47	46
Actuarial gains (+) / losses (-)	101	6
Pension obligations paid	-35	-35
Present value of pension obligations as of 31 December	962	840

The fair value of the plan assets developed as follows:

	2010	2009
	EUR ,000	EUR ,000
Fair value of plan assets as of 1 January	164	154
Expected income from plan assets	7	6
Actuarial gains (+) / losses (-)	-3	-4
Employer contributions	50	8
Fair value of plan assets as of 31 December	218	164

The following parameters were used to measure the pension obligations and plan assets as at 31 December of each year and to estimate pension expenses in the relevant reporting period:

	2010	2009
	EUR ,000	EUR ,000
Actuarial interest rate	5,20	5,75
Expected income development	2,00	2,00
Expected pension development	2,00	2,00
Expected asset income	4,00	4,00

Pension expenses for each period can be broken down as shown below:

	2010	2009
	EUR ,000	EUR ,000
Costs of new pension entitlements in financial year	9	9
Accrued interest on pension entitlements	47	46
Expected income from plan assets	-7	-6
Amortised net profit (+) / loss (-)	104	10
Pension expenses for period	153	59

Figures for the current year and the two previous years for pension obligations, plan assets and empirical adjustments:

	2010	2009	2008
	EUR ,000	EUR ,000	EUR ,000
Present value of pension obligations	962	840	814
Fair value of plan assets	218	164	154
Performance obligations exceeding assets	744	676	660
Empirical increase (+) / decrease (-) of pension obligations	101	6	4
Empirical increase (+) / decrease (-) of plan assets	-3	-4	-3

The figures for the four prior reporting periods are not shown based on the date when the company acquired a controlling influence over GfO Gesellschaft für Oberflächentechnik AG, i.e. 1 September 2010.

## 27. Provisions

The only provisions reported are "other provisions".

Alongside employee obligations of EUR 121,000, the non-current provisions mainly consist of removal and dismantling obligations of EUR 64,000 and archiving expenses of EUR 50,000.

The current provisions consist of the following:

	31.12.2010	31.12.2009
	EUR ,000	EUR ,000
Shareholders' meeting costs and annual report costs	87	79
Provision for warranties and accommodation	176	31
Other	221	178
	484	288

The following table shows changes in the individual categories of provisions (including both non-current and current provisions) in the financial year 2010:

	As at 31.12.2009	Utilisation 2010	Reversal 2010	Addition 2010	Aquisition 2010	As at 31.12.2010
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Personnel	10	5	5	-	134	134
Customers and suppliers	38	-	1	53	149	239
Litigation	60	-	60	-	-	-
Other	283	162	11	202	147	459
	391	167	77	255	430	832

## 28. Financial liabilities

The financial liabilities reported are liabilities to banks amounting to EUR 13,204,000 (previous year: EUR 4,321,000). These include liabilities falling due within one year amounting to EUR 4,243,000 (previous year: EUR 1,666,000).

Information on the provision of collateral is contained in section 33.

## 29. Trade payables

Of the reported trade payables amounting to EUR 3,042,000 (previous year: EUR 1,987,000), EUR 3,014,000 (previous year: 1,923,000) fall due within one year.

## 30. Other financial liabilities

As at 31 December 2010, there were other financial liabilities amounting to EUR 5,468,000 (previous year: EUR 3,044,000).

Of the above sum, EUR 1,515,000 (previous year: EUR 1,269,000) is accounted for by obligations arising from finance leases, EUR 1,319,000 of which (previous year: EUR 1,177,000) fall due in more than one year. Non-current liabilities also include liabilities within the framework of dormant holdings amounting to EUR 1,400,000.

EUR 2,503,000 (previous year: EUR 781,000) of the other financial obligations reported fall due in less than one year.

### 31. Other liabilities

As at 31 December 2010, there were other liabilities amounting to EUR 1,132,000 (previous year: EUR 689,000), of which EUR 446,000 (previous year: EUR 145,000) fall due within one year.

Non-current other liabilities comprise the special item for investment grants for non-current assets (EUR 258,000) along with accruals and deferrals from interest advantages resulting from loans (EUR 428,000).

The current other liabilities mainly include liabilities for sales tax and other taxes (EUR 257,000) and social security liabilities (EUR 93,000).

### 32. Deferred tax liabilities

The deferred tax liabilities solely relate to divergences between the IFRS balance sheet and the balance sheet prepared for tax purposes. Changes in and components of deferred taxes are explained in section B. 13 "Income taxes".

### 33. Obligations from finance leases

Finance leases for property, plant and equipment relate to a company building and to technical plant and machinery as well as to office and plant equipment. The terms of the finance leases entered into are between five and ten years. The interest rates on which the individual agreements are based are between 5.5 % and 10.5 % p.a. They are reported under other financial liabilities.

Liabilities from finance leases (present value):

	2010	2009
	EUR ,000	EUR ,000
With a remaining term of less than one year	196	92
With a remaining term of more than one year and up to five years	593	374
With a remaining term of more than five years	726	803
	1,515	1,269

The minimum lease payments from the agreements entered into are as follows:

	2010	2009
	EUR ,000	EUR ,000
With a remaining term of less than one year	291	161
With a remaining term of more than one year and up to five years	803	587
With a remaining term of more than five years	120	219
	1,214	967
Less as yet unrealised interest expenses	-384	-383
Plus remaining lease liability	685	685
Present value of the minimum lease payments to be made	1,515	1,269

EUR 71,000 in contingent lease payments were recognised as expenses in the reporting period.

## D. Other notes

### 34. Disclosures on financial instruments

#### Risk analysis for financial instruments

The risk management system for the Nanogate Group covers the areas of default risk, liquidity risk and individual market risks (interest rate risk, currency risk and other price risks). The objectives, methods and processes of the risk management system are described in the risk report section of the management report.

#### Default risk

The default risk arises from the danger that a contractual partner cannot fulfil its obligations in a transaction arising from a financial instrument and thereby causes financial losses in the Nanogate Group.

The amount of financial assets indicates the maximum default risk. If default risks are identifiable for financial assets, these risks are recognised by means of impairment.

#### Liquidity risk

Liquidity risk is the risk that existing or future payment obligations cannot be settled due to a lack of available cash. It is managed centrally for the Nanogate Group. Cash is held to ensure solvency at all times and to enable the Group to meet all of its planned payment obligations as they fall due. Liquidity is managed on the basis of a maturity analysis for financial liabilities. The results of this analysis as at the balance sheet date (31 December 2010) are shown in the individual categories of financial liabilities.

The flotation of Nanogate AG in October 2006 enabled the company to advance its planned growth within the Nanogate Group. In addition to organic growth, this has also entailed making acquisitions. There was no material liquidity risk as at 31 December 2010.

#### Market risk

Market risk is the risk of fluctuations in the fair value or future cash flows from a financial instrument due to changes in market prices. Market risk includes currency risk, interest rate risk and miscellaneous price risk.

Sensitivity analysis is a method of measuring risk. It enables an estimate to be made of potential losses to future income, fair values or the cash flows of instruments sensitive to market risks by simulating one or more hypothetical changes in interest rates, exchange rates, raw materials prices and other relevant market rates or prices in a given period.

We use sensitivity analysis as it enables reasonable risk estimates to be made on the basis of direct assumptions. In our risk estimate, we have assumed a parallel shift of 100 basis points in the yield curves for all currencies.

#### Currency risk

Currency risk means that the value of a financial instrument can change as a result of exchange rate fluctuations. Both the Group's sales and purchases are transacted essentially with companies based in the euro zone. There is no material currency risk in these consolidated financial statements.

*Interest rate risk*

The interest rate risk is caused by the fact that the value of a financial instrument can change as a result of fluctuations in the market interest rate. The Nanogate Group is particularly exposed to interest rate risk for financial assets and liabilities falling due in more than one year.

The risk of changes in capital market interest rates gives rise to a fair value risk for fixed-income financial instruments, as fair values fluctuate in line with interest rates. Financial instruments at floating rates are exposed to cash flow risk, as interest payments can go up in future.

A sensitivity analysis was carried out for our floating-rate financial instruments as at year-end 2010. A hypothetical increase of 100 basis points or 1 percentage point p.a. in these interest rates as at 1 January 2010 would have increased earnings by EUR 9,000 as at 31 December 2010.

*Other price risks*

Among other things, the Nanogate Group requires chemicals for its various production processes. The purchasing prices for these raw materials can vary considerably depending on the state of the market. It also cannot be ruled out that tighter European regulations may mean that it is no longer economically attractive for certain suppliers of raw materials to manufacture certain materials required for production. If Nanogate is then unable to find alternative solutions for these materials, this could have an adverse effect on the company's performance.

**General legal risks**

The Nanogate Group is insured against the dangers and risks that generally arise. There are no material risks of a general legal nature as per 31 December 2010.

**Collateral**

Collateral was provided to banks comprising the assignment of trade receivables totalling EUR 5,762,000. GfO Gesellschaft für Oberflächen-technik AG also assigned its machinery and technical equipment as security (EUR 2,622,000) and made over all its own industrial property rights (EUR 782,000). There is also a land charge amounting to EUR 7,556,000; this is appraised at EUR 3,618,000 as at 31 December 2010. HOLMEN-KOL AG has provided further collateral for liabilities to banks by assigning goods as security (collateral agreement relating to property kept at a specific address) worth EUR 394,000.

**Objectives of capital management**

The objectives of capital management are to safeguard liquidity, thereby ensuring the continued existence of the company, and to increase enterprise value sustainably while earning an adequate return on equity. The Management Board regularly reviews various performance indicators relating to Nanogate's capital base against the financial strategy drawn up for the company. Key financial indicators include leverage, gearing (static and dynamic) and the equity ratio. Performance targets include reducing the cost of capital as well as optimising the capital structure and cash flows from financing activities.

**Risk management**

In view of the persistent market and industry situation in the nanotechnology sector, the company's risk and opportunity policy is geared particularly towards the achievement and safeguarding of long-term profitable growth. For this to be achieved, prompt and timely reactions to the changing market conditions are essential.

The Nanogate Group's risk management consists of several interlocking planning, monitoring and information systems.

These encompass every area and segment of the company, including the portfolio companies, and are adjusted constantly to the changing underlying conditions.

**Information on financial instruments by category**

The following table shows the carrying amounts and fair values of individual financial assets and liabilities for every category of financial instruments held in the Nanogate Group as well as a reconciliation with the corresponding items in the balance sheet.

<i>Financial assets</i>	2010			2009		
	31.12. 2009	Amor- tised cost	Fair value	31.12. 2008	Amor- tised cost	Fair value
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
<b>Loans and receivables (including cash and cash equivalents)</b>						
Financial assets						
Non-current (solely loans)	224	224	-	83	83	-
Current	55	55	-	207	207	-
Trade receivables (current)	4,372	4,372	-	2,710	2,710	-
Cash and cash equivalents	4,067	4,067	-	5,906	5,906	-
<b>Total loans and receivables (including cash and cash equivalents)</b>	<b>8,718</b>	<b>8,718</b>	<b>-</b>	<b>8,906</b>	<b>8,906</b>	<b>-</b>
<b>Financial assets available for sale</b>						
Equity holdings not included in the consolidated financial statements	<b>1,099</b>	<b>1,099</b>	<b>-</b>	<b>632</b>	<b>632</b>	<b>-</b>

<i>Financial liabilities</i>	2010			2009		
	31.12. 2009	Amor- tised cost	Fair value	31.12. 2008	Amor- tised cost	Fair value
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
<b>Financial liabilities at amortised cost</b>						
Financial liabilities	13,204	13,204	-	4,321	4,321	-
Other financial liabilities						
non-current	2,921	1,603	-	2,263	1,086	-
Current	2,484	2,288	-	781	688	-
Current trade payables	3,042	3,042	-	1,987	1,987	-
<b>Total financial liabilities at amortised cost</b>	<b>21,651</b>	<b>20,137</b>	<b>-</b>	<b>9,352</b>	<b>8,082</b>	<b>-</b>
<b>Financial liabilities at fair value through profit or loss</b>						
Derivatives (mark-to-market)	<b>61</b>	<b>-</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>-</b>

The sum of the positive carrying amounts corresponds to the Nanogate Group's maximum default risk arising from financial assets. With the exception of financial instruments held for trading – which are classified as level two using the fair value hierarchy laid out in IFRS 7.27 A – the financial instruments are valued at level three.

Expenses, income, gains and losses from financial instruments have been assigned to the following categories:

2010	Loans and receivables	Financial assets available for sale	Liabilities measured at amortised cost	Liabilities at fair value through profit or loss	Total 2010
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	TEUR
Interest income	88	-	-	3	79
Interest expenses	-	-	-658	-9	-667
Income from equity investments	-	-	-	-	-
Changes in fair value	-	-	-	3	3
Impairment expenses	-440	-	-	-	-440
Income from write-backs	-	-	-	-	-
Gain/loss on disposals (+ gain, - loss)	-40	-18	-	-	-58
Other financial expenses and income (+ gain, - loss)	31	2	8	-	41
<b>Net result</b>	<b>-361</b>	<b>-16</b>	<b>-650</b>	<b>-3</b>	<b>-1.030</b>

2009	Loans and receivables	Financial assets available for sale	Liabilities measured at amortised cost	Liabilities at fair value through profit or loss	Total 2010
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	TEUR
Interest income	79	-	-	-	79
Interest expenses	-	-	-367	-	-367
Income from equity investments	-	-	-	-	-
Changes in fair value	-	-	-	-	-
Impairment expenses	-7	-	-	-	-7
Income from write-backs	-	-	-	-	-
Gain/loss on disposals (+ gain, - loss)	-21	-	-	-	-21
Other financial expenses and income (+ gain, - loss)	46	-	-	-	46
<b>Net result</b>	<b>97</b>	<b>-</b>	<b>-367</b>	<b>-</b>	<b>-270</b>

### 35. Segment reporting

Dividing the segments into Multifunctional Surfaces und Advanced Applications corresponds to the structure of internal reports ("management approach") to the Management Board as the main decision-making authority. Internal performance measurement for the segments is primarily carried out by means of the operating result (before interest income and expenses and before income taxes) and personnel expenses per segment.

#### Multifunctional Surfaces

The Multifunctional Surfaces segment mainly comprises the enhancement of products by means of surface functionalisation in order to develop new properties. This involves combining business activities which encompass the manufacturing and selling of chemical products, the enhancement, sale and/or contract processing of prefabricated and/or semi-finished products,

and licensing and material engineering in the aforementioned areas. In this segment, the Nanogate Group concentrated primarily on the application areas of buildings/interiors, automotive/mechanical engineering and sport/leisure.

#### Advanced Applications

The Advanced Applications segment covers complex applications and systems for highly specialised markets which are characterised by substantial sales potential as well as a considerably longer time to market. This segment encompasses fields such as optics, security systems and new technologies.

2010	Advanced Applications	Multifunctional Surfaces	Total of Segments	Reconciliation	Group
Segment information	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Segment revenue (external)	11	20,929	20,940		20,940
Segment revenue (internal)	-	1,165	1,165	-1,165	-
Key income and expense items					
Personnel expenses	707	5,945	6,652	984	7,636
Depreciation/ amortisation	3,040	1,361	4,401	280	4,681
Segment EBIT	-3,809	2,611	-1,198	1,037	-161

2009	Advanced Applications	Multifunctional Surfaces	Total of Segments	Reconciliation	Group
Segment information	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Segment revenue (external)	107	10,596	10,703		10,703
Segment revenue (internal)	-	800	800	-800	-
Key income and expense items					
Personnel expenses	1,131	3,132	4,263	969	5,232
Depreciation/ amortisation	265	420	685	402	1,087
Segment EBIT	-1,387	-553	-1,940	-378	-2,318

Segment revenue (internal) shows the sales generated between segments. The prices for intra-Group sales are determined by the market (arm's length principle).

The following table shows the reconciliation with the operating result (EBIT). The reconciliation eliminates intra-Group items as well as income and expenses not directly attributable to the segments.

	2010	2009
	EUR ,000	EUR ,000
Operating result of reporting segments	-1,198	-1,940
Reconciliation	1,037	-378
<b>Operating result (EBIT)</b>	<b>-161</b>	<b>-2,318</b>
Interest expenses	-416	-370
Earnings before tax	<b>-577</b>	<b>-2,688</b>

### Information about geographical areas

The following table shows external sales by region of final use:

		2010	2009
		EUR ,000	EUR ,000
Gross revenue:	Germany	12,821	5,619
	Abroad <sup>*)</sup>	8,378	5,270
		21,199	10,889
less:	Sales deductions	-259	-186
	<b>Overall Group</b>	<b>20,940</b>	<b>10,703</b>
	<sup>*)</sup> of which in		
	European Union	5,696	3,145
	Other countries	2,682	2,125
		8,378	5,270

Further intersegmental information is not disclosed, as calculating it would involve unreasonable costs and any data generated would not contribute significantly to improving the presentation of the Group's assets, financial and earnings position.

### 36. Notes to the cash flow statement

The cash flow statement records the payment flows in the financial year in order to present information about the movements in the company's cash and cash equivalents. A distinction is made between cash flows from operating, investing and financing activities.

Please refer to section B. 24 "Cash and cash equivalents" for a detailed breakdown of this item.

Cash flow from operating activities is determined using the indirect method by adjusting earnings before tax for non-cash expenses and income and changes in net current assets.

Cash flow from investing and financing activities is determined on a cash basis.

The company also has access to unutilised credit lines amounting to EUR 1,873,000 which could be used for operating activities or to fulfil future obligations.

### 37. Contingent liabilities and other financial obligations

#### Contingent liabilities

There were no contingent liabilities of any significance as at 31 December 2010.

#### Other financial obligations

The Nanogate Group's contractual obligations (operating leases) to third parties as at 31 December 2010 were as follows:

	Due			
	< 1 year	2 - 5 years	> 5 years	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Building rental agreement	365	1,341	1,805	3,511
Other rental/lease agreements	208	539	2	749
	573	1,880	1,807	4,260

When determining the terms of the other financial obligations, the earliest possible termination periods were assumed for the indefinite rental and lease agreements.

Payments of EUR 602,000 under leases and sub-leases were recognised as expenses in the reporting period in accordance with IAS 17.35.

### 38. Significant events after the balance sheet date 31 December 2010

A capital increase for subscription in kind entailing the issue of 37,639 new shares from Nanogate AG's authorised capital was formally completed on 24 March 2011 when it was entered in the commercial register (HRB Saarbrücken). This stock was exchanged for 76,848 shares in GfO AG, which were transferred to Nanogate AG.

### 39. Number of employees

Employees (average for the year):

	2010	2009
Blue-collar employees	58	22
White-collar employees	57	48
	115	70
Apprentices	9	5
	124	75

The two members of the Management Board are not included in the average number of employees during the year.

The Nanogate Group employed 229 staff (previous year: 77) as at the balance sheet date; there were seven apprentices at the end of the year (previous year: eight).

### 40. Related party disclosures

Related parties within the meaning of IAS 24 (Related Party Disclosures) are persons or entities which can exert influence over Nanogate AG and its subsidiaries or which are subject to a significant influence or control by Nanogate AG and/or its subsidiaries. These include in particular non-consolidated subsidiaries, joint ventures and associated companies.

The direct parent company is Nanogate AG, Quierschied-Göttelborn. Its head office is in Germany.

In addition to the companies included in the consolidated financial statements, the wholly owned subsidiary FNP GmbH was established in November 2008. Sales between the companies and FNP GmbH were low and took place on arm's length terms. Nanogate AG also made a loan of EUR 350,000 to FNP GmbH on market standard terms. Overall, a receivable of EUR 369,000 is owed by FNP GmbH as per the reporting date.

Furthermore, the subsidiary HOLMENKOL Co. Ltd., Osaka, Japan, was established by HOLMENKOL AG in the financial year 2008. HOLMENKOL AG holds 85.0 % of its shares. Nanogate AG likewise maintains a minimal business relationship with this indirect equity holding. Goods worth EUR 306,000 were supplied to the company in the financial year 2010. On the reporting date, a receivable of EUR 255,000 was owed by HOLMENKOL Co. Ltd., Osaka, Japan.

There is also an indirect 3.0 % equity holding in HOLMENKOL NORGE A/S, Hokksund, Norway, via HOLMENKOL AG.

There were no other relationships with related parties not included in the consolidated financial statements in the financial year 2010. There were no

major transactions with other companies or related parties having a significant influence over the Nanogate Group in the reporting period. There is an obligation of EUR 99,000 to a related individual in conjunction with a defined-benefit plan. This obligation was taken on in conjunction with the corporate acquisition of GfO Gesellschaft für Oberflächentechnik AG. Loans totalling EUR 96,000 were granted to individuals related to the company; these likewise relate to the corporate acquisition in 2010. Interest of EUR 2,000 was incurred in the financial year 2010; EUR 51,000 was impaired.

Business transactions in 2010 and 2009 between Nanogate AG and its subsidiaries were eliminated in the course of consolidation and are not explained in these disclosures. Transactions with non-consolidated subsidiaries were carried out on arm's length terms.

#### Shares and stock options held by the boards of Nanogate AG

As at the respective balance sheet date, board members held the following shares and stock options in Nanogate AG either directly or indirectly:

	31.12.2010		31.12.2009	
	No. of shares	No. of options	No. of shares	No. of options
<b>Management Board</b>				
Michael Jung	37,787	15,859	39,077	12,859
Ralf M. Zastrau	52,132	17,641	52,552	14,641
<b>Supervisory Board</b>				
Oliver Schumann	1,250	8,125	-	9,375
Dr. Farsin Yadegardjam	1,000	8,375	-	9,375
Gerhard Asschenfeldt	-	-	-	-
Dr. Clemens Doppler	3,050	-	2,050	-
Marc Faber	500	-	-	-
Hartmut Gottschild	1,000	2,750	-	3,750

The shares/options held by members of the Supervisory Board were purchased privately.

#### Remuneration of employees in key positions

The members of the Management Board and other employees in key positions at Nanogate AG and its subsidiaries received current payments during the financial year amounting to EUR 980,000 (previous year: EUR 825,000) in 2010. Of this amount, EUR 415,000 was outstanding at year-end. In the financial year 2010, contributions totalling EUR 14,000 were made towards defined-benefit plans. The company also had obligations amounting to EUR 92,000 from defined-contribution plans as at 31 December 2010. These obligations were taken on in conjunction with the corporate acquisition of GfO Gesellschaft für Oberflächentechnik AG.

#### 41. Company boards

##### Supervisory Board of Nanogate AG

Oliver Schumann, Bad Soden, Chairman of the Supervisory Board; partner in European Co-Investment Partners.

Dr Farsin Yadegardjam, Roßdorf, Deputy Chairman of the Supervisory Board, full-time member of the Management Board of EVP Capital Management AG.

Gerhardt Asschenfeldt, Bad Homburg, management consultant.

Dr Clemens Doppler, Heidelberg, Managing Partner at HeidelbergCapital Private Equity Fund, Heidelberg.

Marc Faber, Bertrange, Luxembourg, Senior Investment Partner at BIP Investment Partner SA, Luxembourg.

Hartmut Gottschild, Eltville/Rhein, management consultant.

The members of the Supervisory Board received remuneration totalling EUR 80,000 (previous year: EUR 78,000).

##### Management Board

Ralf M. Zastrau, Saarbrücken, diplomas in business studies and business IT, MBA; full-time Chairman of the Management Board of Nanogate AG, Quierschied-Göttelborn, and Managing Director of Nanogate Industrial Solutions GmbH, Quierschied-Göttelborn.

Michael Jung, Riegelsberg, diploma in engineering; full-time member of the Management Board of Nanogate AG, Quierschied-Göttelborn, and Member of the Management Board of GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd.

No loans or advances were made to members of the company boards.

Quierschied-Göttelborn, 20 April 2011

Nanogate AG



Ralf M. Zastrau  
Chairman of the  
Management Board/CEO



Michael Jung  
Member of the  
Management Board/COO

## Auditors' report

### *To Nanogate AG, Quierschied-Göttelborn*

We have audited the consolidated financial statements prepared by Nanogate AG, Quierschied-Göttelborn, Germany, comprising the income statement and statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2010. It is the responsibility of the company's statutory representatives to prepare the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU. Our responsibility is to express an opinion of the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the assets, financial and earnings position in the consolidated financial statements and in the Group management report in accordance with applicable accounting standards are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the statutory representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the assets, financial and earnings position of the Group in accordance with IFRS as applicable in the EU. The Group management report is consistent with the consolidated financial statements and altogether provides a correct view of the Group's position and correctly presents the opportunities and risks for future development.

Regensburg, Germany, 21 April 2011

CM Treuhandgesellschaft Regensburg mbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Mehltretter  
Auditor

## Contact:

Nanogate AG  
Zum Schacht 3  
D-66287 Quierschied-Göttelborn, Germany  
Telephone: +49(0)6825-9591-0  
Fax: +49(0)6825-9591-852  
Email: [info@nanogate.com](mailto:info@nanogate.com)  
[www.nanogate.com](http://www.nanogate.com)  
[http://twitter.com/nanogate\\_ag](http://twitter.com/nanogate_ag)

Contact for Investor Relations  
Cortent Kommunikation AG  
Christian Dose  
Telephone: 49(0)69-57 70 300-0  
Fax: 49(0)69-57 70 300-10  
[nanogate@cortent.de](mailto:nanogate@cortent.de)

The annual report of Nanogate AG is available in German and English.  
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Nanogate AG

Zum Schacht 3, 66287 Quierschied-Göttelborn, Germany  
Telephone +49(0)6825-9591-0, Fax: +49(0)6825-9591-852

Email: [info@nanogate.com](mailto:info@nanogate.com)

[www.nanogate.com](http://www.nanogate.com)