

Annual Report 2008

*Innovation-driven
competitive advantage*

Nanogate: summary

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

	2008	Change	2007	2006	2005
Sales	12,152	+ 16.8 %	10,404	7,834	4,763
Overall performance	16,450	+ 33.2 %	12,353	8,827	4,726
EBIT*	1,271	- 22.0 %	1,628	1,099	341
EBT	1,070	- 30.9 %	1,548	1,166	253
EBT return (%)	8.8	- 6.1 %-points	14.9	14.9	5.3
Balance sheet profit	2,609	+ 9.9 %	2,375	1,079	- 92
Cash flow from operating activities	582	- 62.5 %	1,551	1,175	1,032
Cash flow from investments	4,951	+ 145.0 %	2,021	780	174
Balance sheet total	32,565	+ 37.1 %	23,752	20,721	3,652
Equity	22,570	+ 12.9 %	19,985	18,521	1,981
Equity ratio (%)	69.3	- 14.8 %-points	84.1	89.0	41.0
Earnings per share (EUR)**	0.52	- 23.5 %	0.68	0.62	0.08
Employees (average for the year)	68	+ 17.2 %	58	44	29
Sales per employee	179	+/- 0 %	179	178	164

* In accordance with IAS, the interest income was posted to EBIT in the financial years 2007 and 2008.

** An identical figure of 1.9 million shares in the financial years from 2005 to 2008 is assumed.

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Nanogate AG

With know-how and technology from Nanogate,

- engines run for longer and more economically.
- production processes are more efficient and cost-effective.
- buildings are less costly and time-consuming to clean.
- sports articles such as skis and boats pick up speed.

Nanogate AG is one of the trailblazers in the nanotechnology sector. We alter materials, endow them with new properties and facilitate their use for industrial purposes. Thanks to Nanogate, products become less expensive, more efficient and more environmentally friendly.

We generate value: for our customers, for our shareholders and for our company.

Letter to shareholders

Dear shareholders,
ladies and gentlemen, valued colleagues,

Nanogate has its eye firmly on its growth targets – the good results from 2008 with their excellent sales and earnings figures are underpinning our medium and long-term strategy. In the reporting year we considerably expanded our technology and application portfolio and successfully launched new products on the market. The demand for our solutions has risen further, and as a result Nanogate has again grown its customer base and achieved another significant increase in its unit sales – in the USA, for example, marketing has begun courtesy of our client in the bathroom fittings segment.

The operational field was not the only one in which we achieved significant interim goals, however: we now hold 100 % of our subsidiary Nanogate Advanced Materials GmbH and have acquired a majority interest in Holmenkol AG. In the high-volume market of sport and leisure, moreover, we acquired the long-established brand Feldten, which is another building block in our growth strategy in this segment and constitutes the core of our new subsidiary FNP GmbH. Having taken these three steps, we will continue with our medium and long-term course of growth. Parallel to that, the development of our three new technology platforms is making good progress.

“Innovation-driven competitive advantage”

Our position as an enabler is the foundation of our continuing success. We enable our customers to achieve valuable competitive advantages and have the right solutions for improving products’ performance or making them more cost-effective to produce. In this way, we make a substantial contribution to our customers’ generation of additional sales and earnings potential. Innovations ensure that customers will have that crucial competitive edge on their respective markets, thereby enhancing their growth opportunities along with our own. We provide materials with new or additional properties. In this way we improve, for example, the gliding properties of metals and their protection from corrosion. We expect that many companies, particularly in these highly challenging times, want to set themselves apart more strongly from the competition and open up new markets with innovative products. That is why Nanogate’s slogan for 2009 is “Innovation-driving competitive advantage” – we will step up our development of new products and applications and launch them on the market. In this way we will further increase our advantage over our competitors.

Nanogate-Technologie® in the “Car of the Year 2009”

Even at this early stage in the current financial year, we have presented further innovative products for various applications in the Functional Textiles segment. New properties ensure that even stubborn dirt hardly sticks to enhanced surfaces or is easy to remove. The product has also had its first mass usage: with the Insignia, the “Car of the Year 2009”, Opel became the first manufacturer in the world to equip its seat upholstery with this new-style coating.

Success factor “green nano”

Nanogate®-Technologie not only ensures higher-performance products and/or less costly production processes; at the same time, it facilitates the more efficient use of scarce resources. Nanotechnology is regarded as an essential key to sustainable economic management and improved environmental protection. Here are two examples of Nanogate’s performance: even today, our new high-performance coatings in heating systems ensure an optimum degree of effectiveness and low energy consumption. In the future, we want to achieve a massive increase in the light yield of LEDs by means of our trendsetting Dotfarm® Optics technology, while reducing energy consumption in this area too.

Our new NanoGuard® product family, too, is already making attractive contributions in the “green nano” field and is reducing the build-up of dirt deposits on buildings. We have been marketing NanoGuard® since last year. It is either making whole cleaning cycles superfluous or reducing them to such an extent that they can be carried out quickly and in an environmentally friendly way with significantly lower material use. Nanogate is contributing with many different solutions to sustainability and to a reduction in resource consumption – this is strengthening our business and will continue to do so in the future.

Record sales thanks to new projects and products

In the reporting year 2008, we again set new records for sales and overall performance. Sales increased by almost 17 % to approximately EUR 12.2 million, overall performance by a good 33 % to nearly EUR 16.5 million. We generated most of this growth by expanding internationally, introducing new applications and increasing our involvement in Holmenkol AG. In this way, Nanogate is continuing to grow even in these economically difficult times. The pre-tax profit was almost EUR 1.1 million. In our current core business of Multifunctional Surfaces, we achieved a segment margin of around 17 %. Despite feeling the effects of a pronounced reluctance to invest and consume in individual projects – particularly in the Automotive/ Mechanical Engineering segment – since Q4, our broad orientation across four growth segments puts us in a position to compensate for temporary weaknesses in individual projects with additional orders in other areas. In order to open up future sources of sales and earnings with innovative products, Nanogate more than doubled its investments in, and commitment of funds to, market development last year.

Still on a growth curve

Nanogate can discern substantial opportunities in the current global challenges. Our position as an enabler that creates crucial competitive advantages for our customers from a variety of sectors will pay off. Both the current orders position and the planned new product solutions will facilitate a further long-term increase in our sales, provided that investment and consumption behaviour does not deteriorate further. We are expecting growth momentum primarily from the Sport/Leisure and Buildings/Interiors markets. Thanks to our large product portfolio and long-term business in series applications, we have a stable sales basis. In order to give a new dimension to our sales and profitability in the medium and long term, we will continue to make substantial investments and open up markets around the world. In Asia and Eastern Europe in particular, we still see growth opportunities. We will pay attention to the need for continued operational profitability in the medium term. Nanogate is flexible and has a lean cost structure. This, in conjunction with our high level of financial strength, means that we can implement our strategy as planned, even in difficult times. In addition to organic growth, we see good opportunities for expansion through acquisitions and equity holdings. From a financial point of view, we are well positioned to take quick decisions when the targets are attractive.

Focus on international markets

So far we have achieved a great deal: a broad product spectrum for a multiplicity of customers, highly effective technologies and market entry in the USA and Asia. This is encouraging us to set ourselves ambitious objectives for the future. We are convinced that we will be able to achieve these in the future. This confidence rests on the fact that we have a motivated team of employees who enhance Nanogate’s corporate value every day with their creativity and commitment. Together, we are currently setting a crucial course for opening up substantial sales potential in the higher eight-figure region with attractive returns. Nanogate is well equipped to take the upcoming steps. We will emerge strengthened from the current crisis and count among its beneficiaries.

Yours,



Ralf Zastrau (CEO)



Michael Jung (COO)





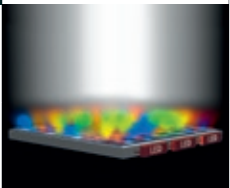
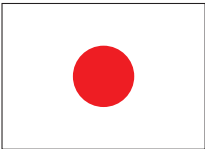







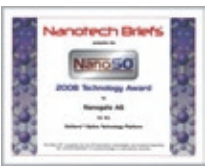






Ralf Zastrau (CEO)



Michael Jung (COO)

Review of 2008: international growth

January	February	March	April	May	June
<p><i>New technology for sports coatings</i></p> <p>New products from Holmenkol AG, a subsidiary of Nanogate, help to improve sporting performance in winter and water sports. "Nano-CFC-technology" significantly improves the gliding properties of sporting equipment. Numerous top athletes at the Alpine Ski World Cup use these new products with great success.</p>	<p><i>New optics application</i></p> <p>The penetration of a further market segment and product development for the trendsetting Dotfarm® Optics technology begins: the intention is to multiply the light yield from LEDs for illumination purposes. Nanogate expects significant sales and earnings contributions as from 2010. In addition, the company extends its influence over the subsidiary Nanogate Advanced Materials by increasing its shareholding.</p>	<p><i>Commitment to the region</i></p> <p>Nanogate gets involved as a "responsibility partner" in the Bertelsmann Foundation's nationwide campaign "Companies for the Region".</p> 	<p><i>New products</i></p> <p>At the world's biggest trade fair – Hannover Messe – Nanogate presents a new generation of surface enhancement for the automobile and mechanical engineering segment. The solutions focus on reducing energy consumption by using new, innovative materials.</p> 	<p><i>Course of growth accelerates</i></p> <p>Nanogate acquires the subsidiary Nanogate Advanced Materials GmbH in its entirety. In addition, its shareholding in Holmenkol AG is increased to 50 % plus an option for a majority interest.</p> 	<p><i>More practical expertise on the Supervisory Board</i></p> <p>With a large majority, the shareholders' meeting elects three additional members to the company's Supervisory Board: Dr Clemens M. Doppler (Managing Director, HeidelbergCapital Asset Management), Marc Faber (Managing Director, BIP Investment Partners SA) and Gerhard Asschenfeldt (self-employed management and human resources consultant).</p>
		 <p><i>Opening up the market in Asia</i></p> <p>Nanogate again participates in the world's biggest industry trade fair "nanotech 2008" in Tokyo and presents new applications, in particular for automotive and mechanical engineering. At the same time, its subsidiary Holmenkol establishes a branch in Japan to boost its market presence.</p>		<p><i>One more anchor investor</i></p> <p>Nanogate wins another anchor investor with a long-term perspective: HeidelbergCapital Private Equity Fund I acquires around 34 % in the company. At the same time, the existing anchor investor BIP Investment Partners increases its shareholding to over 25 %.</p>	
<p><i>Pilot plant starts up</i></p> <p>Production for the NanoPlating® procedure developed by Nanogate begins: the applications are in demand primarily from manufacturers in the mechanical and automotive engineering fields.</p> 					

July	August	September	October	November	December
<p>Large-scale project in Stockholm</p> <p>Nanogate, together with its cooperation partner, receives a prestigious order from the Stockholm city authority: in the Södra Länken tunnel system – the longest urban tunnel in Europe – all of the exposed concrete elements are coated with Nanogate®-Technologie. NanoGuard®StoneProtect reduces the build-up of dirt deposits and consequently the amount of cleaning work that is required.</p>	<p>New application improves filtration of fine particulates</p> <p>The new technology platform N_charge® makes it possible for the first time to store electrical charges on a variety of materials. This facilitates a wide range of industrial applications.</p>	<p>Earnings forecast raised</p> <p>Nanogate AG expanded its business in the first half of the year and raises its earnings forecast for the financial year 2008 upon publication of its semi-annual report.</p>	<p>Marketing of new products begins</p> <p>At the specialist trade fair FILTREX, Nanogate presents PermaStatic®, its first products based on the technology platform N_charge®. These make it possible to improve the performance of filter systems considerably and generate significant benefits, especially with regard to fine particulates.</p> 	<p>Expansion of Sport/Leisure segment</p> <p>Nanogate extends its market position and restructures its fast-growing Sport/Leisure segment. Existing activities are transferred to the newly founded subsidiary FNP GmbH; at the same time, the long-established brand Feldten is acquired. In addition, the company exercises its majority option at Holmenkol AG. The objective is to accelerate growth on the high-volume market for coatings in the sport and leisure segment.</p>	<p>Successful ISO certification</p> <p>The new company headquarters in Göttelborn and the application centre in Spiessen meet high environmental and quality standards – DEKRA certifies both sites in accordance with ISO:9001:2000 and 14001:2004.</p>
<p>Award from NASA</p> <p>Nanogate becomes the first German nanotechnology company to receive the international "Nano 50 Award" from the US space authority NASA. More specifically, the prize is awarded to the Dotfarm® Optics technology. The NASA scheme honours the world's 50 most influential companies – either now or in the future – in the "Technology", "Products" and "Innovator" categories.</p> <p>New corporate headquarters</p> <p>Nanogate relocates: at its new Göttelborn site – formerly a coal mine – modern research and production facilities are completed</p>	  <p>on some 8,000 square metres of land. Increases in efficiency improve the company's long-term competitiveness.</p>	<p>Expansion of product portfolio</p> <p>Official launch of the pro.Glass product line, which meets with an excellent response at Glasstech 2008 in Düsseldorf. The innovative UV-hardened coating systems for industrial applications aroused particular interest. These systems can be used to offer, in particular, lasting solutions for outside applications.</p> <p>pro.Glass® Matt 610</p> 	<p>Expansion of product portfolio</p> <p>Official launch of the pro.Glass product line, which meets with an excellent response at Glasstech 2008 in Düsseldorf. The innovative UV-hardened coating systems for industrial applications aroused particular interest. These systems can be used to offer, in particular, lasting solutions for outside applications.</p>   <p>Trade fair presence in Asia</p> <p>Nanogate presents applications from the Buildings/ Interiors segment at GlassTech Asia in Vietnam. Promising initial talks are held with local and international glass manufacturers.</p>	 <p>Presence in Moscow</p> <p>Growth market Russia in focus: at RusNanotech, Nanogate conducts its first talks with potential regional customers and partners. The Russian government wants to invest around EUR 4 billion in nanotechnology over the next few years.</p> 	<p>Presence in Moscow</p> <p>Growth market Russia in focus: at RusNanotech, Nanogate conducts its first talks with potential regional customers and partners. The Russian government wants to invest around EUR 4 billion in nanotechnology over the next few years.</p> 

Technologies with value added: close to customers, present around the world

Tiny structures are revolutionising products, materials and production processes. Nanotechnology is being used in a whole range of sectors and everyday areas, be it in machinery for printing newspapers or coatings for skiers, energy-saving LEDs or surface protection for buildings. The market research company Lux Research estimates that the market volume will exceed three trillion US dollars by 2015.

On this billion-dollar market, Nanogate is concentrating on four particularly promising segments: Automotive/Mechanical Engineering, Buildings/Interiors, Sport/Leisure and Functional Textiles. All in all, Nanogate – one of the leading European suppliers in its field – has so far realised approximately 200 applications in mass production. In the past financial year alone, Nanogate introduced more than 30 innovations to customers' products and processes. Alongside these activities, we are developing three new technology platforms on whose basis the first applications are already being marketed successfully and which, in the long term, should open up substantial sales and earnings potential for us. We aim to act in an environmentally friendly way with all of our applications and solutions. With its brand GreenNano®, Nanogate is concentrating on ensuring the sustainable use of nanotechnology, improving energy efficiencies and minimising resource consumption.

Automotive/Mechanical Engineering: Greater reliability, lower resource consumption

In this segment more than any other, Nanogate is generating high margins with high unit sales. In the mechanical engineering area, the number of enhanced components increased substantially after a customer commenced mass production for a new generation of heat exchangers. Unit sales of printing machines doubled. In the automotive field, demand for exhaust gas recirculation valves for diesel engines increased substantially, even though the negative general economic trend put pressure on unit sales in this segment towards the end of the year.

With the first pilot applications having been presented in the reporting year, the company plans to launch the first series applications on the basis of the new technology platform NanoPlating® (see "New technologies" section) in 2009: innovative surface coatings minimise friction losses when used with metallic components and reduce energy requirements. In this area the product platform NanoGlide® is geared primarily towards component manufacturers in mechanical engineering and plant construction. Other products based on our NanoPlating® technology are already being developed and will be presented soon. Apart from that, we will be presenting an increasing number of new applications for synthetic surfaces and for increasing energy efficiency in the current financial year. The high quality of our process technology, too, was increased further through the expansion of our application centre at the Spiesen plant. The sales and marketing functions are due to be strengthened further by means of, in particular, additional cooperations and partnerships.

Buildings/Interiors: Prestigious order from Stockholm

The marketing of the new product family NanoGuard® is exceeding our expectations. The innovative surface sealer for buildings significantly reduces the build-up of dirt deposits. Surfaces such as all the exposed concrete elements in the 16-kilometre Södra Länken tunnel system in Stockholm – Europe's largest street tunnel system – need to be cleaned less frequently and there are fewer traffic diversions. Environmentally damaging cleansing agents, too, can be dispensed with and costs are reduced. With the NanoGuard® product family, which we have developed jointly with our US-based cooperation partner DowCorning, we are opening up the new and growing "building protection" market.



In the “bathroom fittings” area, marketing activity began in the USA: There we are cooperating with one of the leading bathroom fittings companies from the premium segment. Products such as shower cubicles are enhanced with an invisible protective layer based on Nanogate®-Technologie, which protects them from limescale and glass corrosion. In the financial year 2009 our primary aim is to open up new markets in Eastern Europe and Asia both through partnerships and, in selected cases, by means of strategic investments. At the same time, we will expand the product portfolio further, for example with new systems for ceramics and plastics.

Sport/Leisure:

Course of growth accelerated with acquisitions

Nanogate restructured its activities in the Sport/Leisure segment in the financial year ended so that it can press ahead with its growth strategy. On the one hand, we acquired a majority stake in Holmenkol AG in two stages. In cooperation with the minority shareholder Nanostart AG, which also contributed a capital increase, we want to establish Holmenkol in the medium term as a leading supplier of products for sports surfaces. The product range was expanded both in its original winter sports business and in the new markets of water sports and outdoor. The intention is that Holmenkol’s product range should be extended beyond the target group of top-class athletes and ambitious amateur sports enthusiasts to encompass industrial solutions in the sports segment. For Holmenkol, these new markets are significant engines of growth.

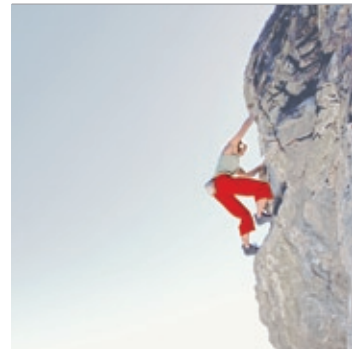
In summer we acquired the long-established brand Feldten, which has stood for high-quality applications for the care of leisure products such as tents, clothing and rucksacks for over 120 years. Organisationally, the brand is accommodated with our subsidiary FNP GmbH and should already be generating significant sales growth before the end of this year. At the same time, activities in Nanogate’s existing Sport/Leisure segment (excluding the shareholding in Holmenkol) are being transferred to the new subsidiary. The Feldten product spectrum, which is being completely restructured and developed at the moment, is opening up new market segments, e.g. for retail chains. At the same time, FNP and Holmenkol are going to cooperate closely – we expect this to benefit product development, manufacturing and the opening up of international markets. While Holmenkol is active in the premium segment, the newly acquired brand Feldten is positioned in the broad market environment. Entrance to the Austrian retail market proves that the Sport/Leisure division is flourishing: the REWE Group’s Austrian supermarket chains have been selling several Feldten textile care products since the beginning of April.

Functional Textiles:

Launch improves filter performance

Nanogate successfully launched the Functional Textiles segment last year: the first products based on the technology platform N_charge® (see “New technologies” section) have been marketed since autumn 2008. PermaStatic® increases the performance capacity of filter systems, thereby facilitating the binding of particulate matter. Our new application can be used in, for example, clean room filters in industrial applications or in interior filters in vehicles. Nanogate is expecting its first customers and sales contributions in the current financial year – other new applications are expected to contribute to this as well.

The market launch of innovative refinements for textiles subject to heavy wear began in March 2009. In its first application, Nanogate ensures that the Opel Insignia – the “Car of the Year 2009” – still looks like new on the inside after many years in action. With the help of the innovative technology, the seat covers are enhanced in such a way that they do not become soiled. Nanogate has already obtained approvals for other models and brands belonging to Opel’s parent company, General Motors.



New technologies:

Nanotechnology of the second and third generation

Nanogate®-Technologie is firmly established on the market and enables our customers to achieve a competitive edge by means of innovations. We would like to offer our customers competitive advantages which go well beyond those achieved so far with second- and third-generation nanotechnology.

A summary of our three technologies:

- 1. NanoPlating®:** Metallic composites with new properties are produced with the help of electrochemical processes and the use of nanostructures. As a result, surfaces can be protected from friction and wear and tear (tribology). It is estimated that the global market for tribology products will amount to USD 12 billion in 2012 (source: BCC Research Friction Products 2007) – an increase of 50 % since 2005. In the current financial year, Nanogate's customers are aiming to use the newly developed tribology products in mass production for the first time. With NanoGlide® already having been presented as the first product specifically for mechanical engineering since spring 2008, further applications are scheduled to follow in the current financial year.
- 2. N_Charge:** We have been marketing our latest technology platform since autumn 2008, which means that we offer high-performance debut products for the approximately USD 700 million market for air filtration media (source: FMC). A concrete application example is provided by fine particulate air filters: the particles are bonded more efficiently thanks to a lasting electrostatic charging of the filter – the filter's air permeability is nevertheless maintained almost in its entirety. To achieve this, the filters are equipped with highly capacitive, transparent and virtually permanent storage layers for electrostatic charges.
- 3. Dotfarm® Optics:** With this trendsetting technology of ours, we offer nanostructured optical systems for better light guiding. This technology, which consists of a nanostructured surface containing millions of individual and individually programmable diffractive gratings, offers great sales potential for our company. The global market for high-performance LEDs alone is growing by more than 50 % a year (source: iSupply). A new application, presented for the first time in February 2008, could increase the light yield of LEDs by a factor of two to ten. In the area of backlights for LCDs we are already cooperating with leading Asian manufacturers. Our objective is to adapt our innovation into small-format LCDs for consumer electronics. Our technology replaces the light-directing films that were previously required for backlights in LCD displays, and can therefore significantly reduce production costs.

Intensive dialogue

The world's stock markets have suffered severely from the global economic and financial crisis. The German benchmark index DAX fell by 40 % in the reporting year, and the Entry Standard by as much as 52 %. The general scepticism regarding second-line stocks, coupled with the poor performance of a number of its competitors, left even Nanogate with no escape route. In the reporting year, Nanogate's share price fell from around EUR 30 to EUR 7.35. The pleasing development of the company, with a continual increase in the volume of its business activity, new projects and an expanded market presence with additional customers, is not reflected in the share price despite intensive financial communication.

Additional anchor investor

In the reporting period, Nanogate broadened its shareholder base and won a further long-term anchor investor. In May, HeidelbergCapital Private Equity Fund I acquired a shareholding of some 34 % in the company. At the same time, the Luxembourg-based investment company BIP Investment Partners increased its shareholding to around 25 %. The shares originate from the holdings of Nanogate Technology GmbH, in which most of the original shareholders' investments were pooled. The Nanogate AG share continues to be analysed by Landesbank Baden-Württemberg and the investment bank equinet AG. Both institutions recommend buying Nanogate shares with target prices of between EUR 20 (LBBW, as per 21.11.2008) and EUR 30 (equinet, as per 8.4.2009).

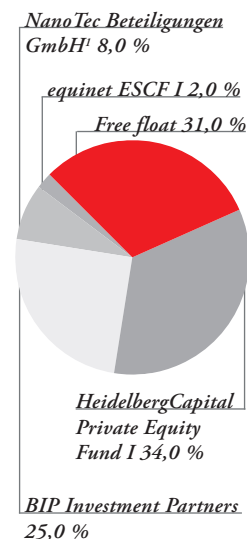
Active financial communication

In the reporting year, Nanogate intensified its contact with investors, analysts and journalists, since we regard an open and trusting approach as very important. In a conference call with analysts and investors in February, the increase in our shareholding in the subsidiary Nanogate Advanced Materials GmbH was explained in detail by the Management Board. In addition, the management was available to answer questions from investors, analysts and journalists at a number of roadshows, principally in Frankfurt and Zurich. In spring, the company took part in the Entry and General Standard Conference, and in autumn it participated in NanoEquityEurope as part of the German Equity Forum. The content of these communication activities focused primarily on implementation of the international growth strategy and the launch of new products based on the three new technology platforms. In our mandatory communication we orient ourselves by the strict rules of the Prime Standard and prepare our financial statements in accordance with the international accounting regulations IFRS. In addition, we publish the annual report within four months of the balance sheet date. All of the reports are available not only in German, but also in English.

Share details

Stock market segment	Entry Standard
WKN / ISIN	A0JKHC / DE000A0JKHC9
Designated sponsor	LBBW, equinet AG
Share price at start/end of year	EUR 30.11/7.35
Share price high/low for the year	EUR 30.11/6.30
Average price	EUR 18.63

Shareholding structure



As at: 31.12.2008,
figures rounded

¹⁾ The shareholder in NanoTec Beteiligungen GmbH is the management of Nanogate AG.

Report of the Supervisory Board

Dear shareholders,

In the financial year 2008, Nanogate AG continued with its course of growth and, in the process, reached some important milestones in the development of new solutions and the opening up of international markets. In addition, the company increased its level of shareholdings in the two existing subsidiaries and established one further company. Over the next few years it intends to expand its market position considerably on the basis of its good market position.

Throughout the financial year 2008, the Supervisory Board performed the duties incumbent on it under the law and the articles of association and carefully advised and monitored the Management Board. We were closely involved in important Management Board decisions of fundamental or strategic significance in a dialogue process right up to the point when the decisions were finally adopted. Wherever necessary, the Supervisory Board approved the measures proposed by the Management Board – also by telephone or the circulation procedure – after detailed examination and discussion. Throughout the year we satisfied ourselves on a regular basis as to the propriety of the Management Board's conduct. We regard ourselves as more than just a monitoring and control body; we also play a supporting role for the Management Board, for example with our practical expertise regarding implementation of the company's strategy.

The Supervisory Board regularly obtains prompt and comprehensive oral and written information from the Management Board about the course of business, the position of the company and all matters relating to corporate planning and strategic development. We also discussed the most significant business transactions in detail on the basis of the reports provided by the Management Board. In the financial year 2008, the Supervisory Board held five full meetings at which the entire Board was present, discussing and if necessary deciding upon topical developments outside of the meetings in a number of telephone conferences. Even between the meetings, the Management Board informed the Supervisory Board regularly and in detail about ongoing developments and about all projects that were of special significance for Nanogate on the basis of reports from the Controlling department and extraordinary information. The main focal points of the discussions held were the implementation of the growth strategy, company planning, the position of the Group, the current development of sales and earnings with a detailed target/actual comparison, risk provisioning and the progress being made by important projects. Beyond the ongoing development of business, important operational and strategic topics were discussed with particular intensity and then decided upon. These included the acquisition of a majority interest in Holmenkol AG, the decision on the foundation of FNP in order to cultivate the sport and leisure market in a more focussed manner, the relocation to the new site, the full acquisition of Nanogate Advanced Technologies GmbH, and questions on personnel policy and the development of internal management personnel.

In the reporting year the Supervisory Board did not exercise its right to inspect the company's books and documents or to appoint special experts for particular assignments (Section 111 para. 2, German Stock Corporation Act – AktG), as the regular reports provided by the Management Board rendered this unnecessary. The Supervisory Board has not yet constituted any committees as they would not have made any contribution to increased efficiency. At the shareholders' meeting in June 2008, the Supervisory Board was increased from three to six members by means of an alteration to the articles of association. The new members elected to the Supervisory Board were Dr Clemens M. Doppler (Manag-



ing Director, HeidelbergCapital Asset Management), Marc Faber (Managing Director, BIP Investment Partners SA) and Gerhard Asschenfeldt (self-employed management and human resources consultant).

The auditors appointed, 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 2008 and awarded them an unqualified audit certificate. All Supervisory Board members received the relevant audit reports in good time. These reports were the subject of intensive discussions at the Supervisory Board meeting on 22 April 2009. The auditors took part in the Supervisory Board's discussions, reported on significant findings of the audits and were available to answer questions from the Supervisory Board and provide supplementary information. The Supervisory Board closely examined the financial statements, the consolidated financial statements, the management report, the Group management report and the proposal for the appropriation of the balance sheet profit. Having completed its examination, the Supervisory Board raised no objection to the documents submitted. The Supervisory Board concurred fully with the findings of the auditor and the proposal for the appropriation of the balance sheet profit. At its meeting on 22 April 2009, the Supervisory Board approved the financial statements and the consolidated financial statements; the financial statements are thereby adopted. Having carried out its own examination of its accuracy and completeness, the Supervisory Board expressly concurs with the information concerning relations with affiliated companies that the Management Board provided in the management report. The Supervisory Board is satisfied that the information given by the Management Board is complete and accurate.

The Supervisory Board would like to thank the Management Board and all the employees for their performance, their unyielding commitment and their successful implementation of the growth strategy in 2008. We also thank the Group's partners and, first and foremost, our shareholders for placing their trust in Nanogate AG's potential.

Göttelborn, 22 April 2009



Oliver Schumann

Chairman of the Supervisory Board

Consolidated management report 2008 for Nanogate AG, Quierschied-Göttelborn

1. Business report

1.1. The Nanogate Group's performance profile

The Nanogate Group (Nanogate) is an international enabler and functions as a door opener for companies in various industries, opening up the many different possibilities that nanotechnology offers them. Nanogate possesses a broad spectrum of practical expertise in the fields of physical and chemical nanotechnology. With its knowledge of the properties of nanostructured materials and its process and engineering know-how, Nanogate enables its customers to access this cross-sectional technology in order to improve their products through the application of nanotechnology, and thereby to increase their competitiveness and earnings power. 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 the creation of value-added – for customers and for Nanogate itself.

1.2. The Nanogate Group

The Nanogate Group consists of the parent company Nanogate AG, Göttelborn, Germany, and the three affiliated companies Nanogate Advanced Materials GmbH (NAM), Göttelborn; Holmenkol AG (Holmenkol), Ditzingen, Germany, with its subsidiaries; and FNP GmbH (FNP), Göttelborn, which was established in November 2008. The consolidated financial statements for 2008 were prepared in accordance with the international accounting standards IFRS.

1.2.1. Nanogate AG

Nanogate AG relocated to new premises in Göttelborn in the reporting year. Here, on the site of a former coal mine, the company now has over 8,000 square metres of space at its disposal for administration, sales, development and production. Despite the non-recurring expenses that this involves, the relocation is bringing about improvements in productivity and efficiency. In operational terms, the parent company, Nanogate AG, concentrates primarily on the Multifunctional Surfaces segment. This business segment essentially involves the enhancement of various products with the help of nanotechnology – mainly in the fields of buildings/interiors, automotive/mechanical engineering and functional textiles. This last field of business became operational in the reporting year. The main focus of the Sport/Leisure segment will in future be accommodated in the newly established subsidiary FNP GmbH. In addition to that, Nanogate AG is working on selected new projects with complex applications which are assigned to the Advanced Applications segment. These projects are primarily in the optics area.

1.2.2. Nanogate Advanced Materials GmbH

Nanogate Advanced Materials GmbH, Göttelborn, is now a wholly-owned subsidiary of Nanogate AG. In the reporting year, the equity holding was first increased to 78 % by way of a capital increase carried out solely by Nanogate AG. In a second stage, Nanogate acquired the remaining shares amounting to some 22 % from its former joint venture partner Air Products Inc. in return for a mid-six-figure euro amount. The shareholding is being fully consolidated and is assigned to the Advanced Applications segment. Nanogate Advanced Materials is concerned primarily with complex applications and systems for high-volume, highly specialised markets. Prominent among the trendsetting applications of this kind are nanostructured high-performance optics.

1.2.3. Holmenkol AG

As per December 2008, Nanogate AG had an equity holding of 50.01 % in Holmenkol AG, Ditzingen. The reported equity holding was increased accordingly in the reporting year; the original HOLMENKOL Sport-Technologies GmbH & Co. KG was transformed into a stock company beforehand. Holmenkol AG has been fully consolidated since September 2008.

Holmenkol is a long-established company with 85 years of competence behind it, particularly in the field of winter sports. The company is being expanded as a strategic partner for Nanogate in the Sport/Leisure segment and is earmarked for further development as a leading international supplier of sports surfaces. With this in mind, the company's product range and fields of technological competence are currently being expanded significantly – for example in the new aquatics segment (water sports).

1.2.4. FNP GmbH

FNP GmbH, Götterborn, was established in November 2008 and is a wholly-owned subsidiary of Nanogate AG. Its business activities are concentrated on products in Nanogate AG's Sport/Leisure segment. While Holmenkol focuses on the premium segment, FNP GmbH is expected to open up new segments in the mass market. That is why the long-established brand Feldten – under whose name care products for sport and leisure articles have been marketed for more than 120 years – was acquired at the same time in November. Nanogate, Holmenkol and FNP cooperate closely in the fields of technology and product development and in the opening up of market potential.

1.3. Company management – goals and strategy

Nanogate is pursuing a long-term growth strategy so that it can continue to improve its market position in a steady, persistent manner. Its overriding goal is to increase the value of the company. To achieve this, the company is concentrating on four particularly attractive sectors and on the development of three new technology platforms. 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, the focus is on a continuation of its activities to open up international markets.

The potential of nanotechnology has still only been tapped to a limited extent, which is precisely why this market 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 concerns. With its large customer base and technological expertise, Nanogate – one of Europe's market leaders – is particularly well positioned 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, 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

At global level, the general economic climate deteriorated sharply in the reporting year; the financial crisis spread and deepened to become a general economic crisis. An additional negative effect came

from commodity prices which for a time reached record levels, especially those for crude oil, which placed a burden on companies and consumers alike. In Germany, economic output has been decreasing since the second quarter of 2008. For 2008 as a whole, however, an increase of 1.3 % in gross domestic product (GDP) is expected (sources: German Federal Statistical Office, Kiel Institute for the World Economy – IfW). The sectors worst affected are mechanical engineering and the automotive industry. In the USA, too, economic output fell in the fourth quarter; an increase of 1.3 % is being forecast for 2008 as a whole (source: US Department of Commerce). At global level, economic output is expected to have grown by only 3.4 % in the reporting year, compared with 5.2 % in 2007 (source: IMF).

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

As a cross-sectional technology, nanotechnology can be used in a variety of sectors and applications, and can facilitate or accelerate technical progress. The development of the market for solutions and applications is therefore only dependent on the general economic situation to a limited extent. The demand for technology is growing continually, although the market data available is limited because the sector in question is new and highly dynamic. According to data gathered by the market research institution Lux Research in July 2008, sales of products refined using nanotechnology were already worth USD 147 billion in 2007; some 40 % of these were accounted for by the USA, 32 % by Europe and around 21 % by the Asia/Pacific region. In the process, research costs increased by around 14 % from their 2006 level to USD 13.5 billion, with companies providing more of these funds than government bodies for the first time. At the same time, the acceptance of nanotechnology by companies showed a marked increase.

1.6. Summary of the business result – important events

In the reporting year, Nanogate continued along its course of growth and achieved important successes in the marketing of new products and applications, the development of technology and the penetration of new markets. The development of the Group's business depends first and foremost on successfully launching new products and gaining new customers, rather than on the overall economic trend.

In the area of product launches, for example, the NanoGuard® product series has so far exceeded expectations. It was first marketed in the USA by one of our partners, a leading bathroom fittings company in the premium segment. All in all, Nanogate presented more than 30 new products and solutions. The first products have also been presented in the Functional Textiles segment. With regard to the four segments, Buildings/Interiors and Sport/Leisure expanded their business volume considerably, while growth in the Automotive/Mechanical Engineering segment was slowed down by the poor overall economic trend as the year drew to a close. Demand from this area nevertheless showed a pronounced increase, for example for heat exchangers, exhaust gas recirculation valves and solutions for the printing industry, where unit sales doubled. In this way, concentrating on four different growth areas is paying off, as it reduces the Group's dependency on individual sectors.

The first cooperation agreement for applications based on the new technology platform Dotfarm®Optics was concluded, thereby opening up the Japanese market. The safety technology area is no longer part of the Group's core business; only hand-picked and commercially useful projects are now being pursued.

In addition, Nanogate increased its equity holdings in its two subsidiaries Holmenkol (to 50.01 %) and Nanogate Advanced Materials (to 100 %). The subsidiary FNP was founded with a view to strengthening the Group's sport and leisure business; its operations will be a focal point of the parent company's Sport/Leisure segment.

1.7. Sales and earnings position

In the reporting year, Nanogate increased its Group sales by 16.8 % to EUR 12.2 million (previous year: EUR 10.4 million). In the third quarter in particular, the Group enjoyed high demand in all of its business segments, while in November and, especially, December, the global economic crisis impacted on sales volumes in the Automotive/Mechanical Engineering and Buildings/Interiors segments. In the core segment of Multifunctional Surfaces, earnings increased by about a quarter to more than EUR 11.6 million (previous year: EUR 9.2 million). This means that the company once again improved on its good market position in this area. This growth originates first and foremost from new applications and the acquisition of additional customers. The consolidation of a larger percentage of Holmenkol AG also contributed to growth. Sales in the future-oriented Advanced Applications segment declined as expected by around 54 % to EUR 0.5 million (previous year: EUR 1.2 million) due to the current focus on optical applications. As a result of increased international activity in all Nanogate AG's segments as well as at Holmenkol AG, foreign earnings doubled, coming in at EUR 5.1 million (previous year: EUR 2.6 million) and their share of Group sales rose to 41.8 %. This confirms the Group's international orientation as an important driver of growth.

The overall performance (sales, changes in inventories, own work capitalised plus other operating income) increased by some 33.2 % to EUR 16.5 million (previous year: EUR 12.4 million). Total earnings (sales plus other operating income) improved by 28.2 % to EUR 14.6 million (previous year: EUR 11.4 million).

Nanogate considerably expanded its investment programme in the reporting year so that new products based on the three promising technology platforms could be launched on the market quickly. Its own work capitalised thereby increased to EUR 2.3 million (previous year: EUR 0.8 million). This concerns development expenses for products whose market launch is expected soon. These expenses are capitalised in accordance with IAS 38. In addition to these capitalised developments, further research and development expenses amounting to more than EUR 1 million were incurred in the reporting year.

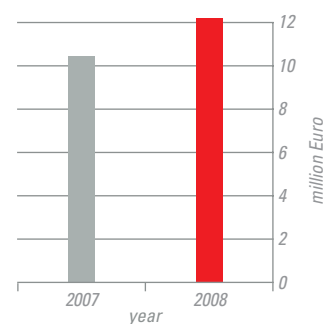
Other operating expenses amounted to EUR 5.8 million (previous year: EUR 3.9 million), reflecting the chosen course of growth with its high commitment of funds to technology and product development, internationalisation and the opening up of markets. Other operating income increased to EUR 2.5 million (previous year: EUR 1.0 million). This growth was largely attributable to the Holmenkol transaction and was countered by the considerable loss posted by Holmenkol as a result of realigning and further developing the product portfolio.

The increase in the cost of materials to EUR 4.5 million (previous year: EUR 3.5 million) is attributable to the higher volume of business, changes in the product assortment and temporary increases in commodity prices. The material cost ratio (as a proportion of overall performance) was 27.6 % (previous year: 28.3 %), while as a proportion of sales it came to 37.1 %. Gross earnings increased to EUR 11.8 million (previous year: EUR 8.9 million). The gross profit margin increased from 71.7 % to 72.4 %.

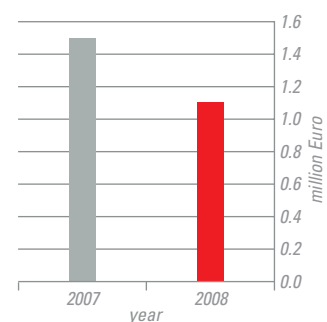
Personnel expenses increased to EUR 4.6 million (previous year: EUR 3.5 million), a reflection mainly of the additional selling and development capacities that were created to press ahead with the international growth strategy. The personnel expenses ratio (as a proportion of sales) increased to 37.8 % (previous year: 33.4 %).

In the core business segment of Multifunctional Surfaces, the segment result came to almost EUR 2.0 million (previous year: EUR 2.0 million). Despite the increased selling expenses and the weak sales

Sales



Earnings before tax (EBT)



volume in December, the segment margin fell only slightly to 16.9 % (previous year: 21.9 %). Notwithstanding the decrease, this demonstrates the earnings potential of Nanogate-Technologie®. The future-oriented Advanced Applications segment generated a result of EUR -0.8 million (previous year: EUR -0.1 million) against a background of substantial investments in the development of new technologies and the commitment of funds to opening up markets.

Overview of the segments:

	Multifunctional Surfaces		Advanced Applications	
	2008	2007	2008	2007
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Segment earnings	11,617	9,233	534	1,171
Segment result	1,960	2,017	-781	-61

Group EBITDA fell to EUR 1.8 million (previous year: EUR 2.0 million). Depreciation and amortisation amounting to EUR 0.5 million (previous year: EUR 0.3 million) relates primarily to investments in the new premises. Group EBIT totalled EUR 1.3 million (previous year: EUR 1.6 million) against a backdrop of high expenditure on penetrating international markets. In accordance with the EBIT definition that is generally used, interest income was posted to EBIT for the first time in the financial year 2008 – had interest income been excluded, EBIT would have totalled EUR 0.9 million. The financial result (excluding interest income) of EUR -0.2 million is influenced by the working capital requirements of the Group's subsidiary Holmenkol. If interest income were included, the financial result would have been EUR 0.2 million.

EBT for the financial year ended amounted to EUR 1.1 million (previous year: EUR 1.5 million). The EBT margin decreased to 8.8 % in the reporting year (previous year: 14.9 %), mainly as a result of the costs incurred in penetrating international markets. In order to tap long-term sales and earnings potential, expanding the volume of business and selling activities is currently being accorded greater significance than increasing profitability.

After taxes and minority interests, the net profit for the period totalled EUR 1.0 million (previous year: EUR 1.3 million). Earnings per share fell to EUR 0.518 in the reporting year, having been EUR 0.68 in 2007. The Group balance sheet profit for the financial year 2008 came to EUR 2.6 million (previous year: EUR 2.4 million). The Group intends to use its balance sheet profit to further increase its financial strength and finance its international course of growth in order to open up new sales and profit potential.

1.8. Assets and financial position

The Nanogate Group's balance sheet total increased to EUR 32.6 million (previous year: EUR 23.8 million), thanks primarily to the consolidation of Holmenkol AG and investments in the new premises. Intangible assets increased to EUR 10.8 million (previous year: EUR 5.2 million), mainly due to the full consolidation of Holmenkol AG and the development of technology. Increased investment in tangible fixed assets, primarily at the new premises, pushed this balance sheet item up to EUR 5.1 million (previous year: EUR 2.1 million).

Trade receivables increased to EUR 2.9 million (previous year: EUR 0.6 million) due to factors relating to the balance sheet date. This increase resulted primarily from the consolidation of Holmenkol AG and from longer payment periods – with the latter being attributable on the one hand to a

higher proportion of industrial customers with structurally longer payment periods, and on the other to the doubling of foreign sales. Furthermore, the difficult economic situation made itself felt towards year-end in late payments by specific customers. Trade payables amounted to EUR 1.7 million (previous year: EUR 0.6 million) as of the balance sheet date. Inventories totalled EUR 2.2 million (previous year: EUR 1.6 million).

Cash flow from ongoing operating activities amounted to EUR 0.6 million in the reporting year (previous year: EUR 1.6 million). This decrease is caused mainly by factors relating to the balance sheet date. These include the significant increase in working capital and, in particular, the pronounced increase in receivables towards the end of the year. Cash flow from financing activities increased slightly to EUR 0.1 million. The cash flow from investment amounting to EUR -5.0 million (previous year: EUR -2.0 million) is influenced by the Group's international growth strategy, substantial investment in the new corporate premises and the increases in its equity holdings in the subsidiaries.

The equity ratio declined to some 69.3 % (previous year: 84 %) as a result of the Group's increases in its equity holdings, as Holmenkol AG in particular also uses borrowed capital to finance its corporate activities.

Despite its substantial investments, the Group had liquid funds amounting to EUR 8.5 million (previous year: EUR 12.4 million) as of the balance sheet date. This means that Nanogate is financially well positioned to continue with its investment programme and finance its growth strategy.

1.9. Employees

One of the crucial factors for the successful realisation of a growth strategy is a qualified, skilled and motivated workforce. An average of 68 staff (previous year: 58) was employed by the Nanogate Group in 2008. The Group hired new employees first and foremost in the sales and development areas, while the management team was strengthened by the introduction of a corporate development function. Part of the increase also resulted from the consolidation of Holmenkol AG. Sales per employee amounted to some EUR 178,700 in the reporting year (previous year: EUR 179,400). As of year-end, the company was training six young people in recognised trades. Individual goals have been agreed with nearly all the staff. These serve as the basis for performance-related pay and are an important component of internal company management.

2. Opportunities and risks of 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-oriented 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 yet to be 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 in their collective entirety. The market and financing risks described here are limited and manageable. From a current point of view there are no discernible risks which could threaten the company's continued existence in the future. Nanogate naturally has no influence over external factors which result primarily from the current financial and economic crisis.

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 is appealing to competitors with a variety of core competencies, such as particle manufacturers, special chemicals firms and producers of end products. This may lead to an intensification of competition. It is possible that the Nanogate Group might not succeed in convincing customers of the value and benefits of its solutions and that this might have a negative effect on its 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 attractive for particular suppliers to produce individual source materials. If the Nanogate Group were then unable to find alternative solutions, this could have adverse effects on the company's success and particular products could no longer be manufactured. 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 the procurement and selling markets. At the same time, there is a risk that the general acceptance level for nanotechnology as a whole might be insufficient.

Reliance risks: The Group's customer structure is not yet sufficiently diversified, which generally means that it may be excessively reliant on specific sector trends or on individual customers. The company's strong growth should continue to improve its diversification in respect of customers and regions. In the financial year 2008, Nanogate generated about 70 % of its sales with its ten largest customers.

Joint venture risks: Nanogate generates a considerable proportion of its sales from its existing customer base and from joint ventures. If existing customers or joint venture partners decide not to extend their contracts or to reduce the contractual terms or volumes, the Group's operating result could be impaired. At the same time, there is a risk of cooperation partners not achieving the agreed sales figures.

Product risks: Nanogate has been meeting the strict requirements of ISO DIN 14001:2004 since January 2007. 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, Nanogate has been engaging in active environmental management and has substantially

increased its commitment to the sustainability principle. All of its products are examined and approved by renowned institutions. In addition, measures aimed at contributing to a further clarification of the risk potential and to the improved transparency of nanotechnology are welcomed, supported and actively accompanied by Nanogate (e.g. Nanosafe, an EU project for the risk analysis of nanomaterials). 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 customers or business partners in connection with this can therefore not be excluded entirely from the Group's considerations, particularly since in certain cases, Nanogate also launches, promotes and sells the product 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 as a whole by implementing strict receivables management.

Employee risks: The availability of highly qualified employees with high levels of technical competence is an important success factor for Nanogate. Nanogate strives to uphold its reputation as an attractive employer so that these factors are safeguarded and strengthened. By committing itself to recognising technical and managerial potential, Nanogate is seeking 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 the penetration of markets. Resources are deployed only if adequate marketing opportunities are evident. The possibility that developments might not reach their target figures in respect 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.

2.1.3. Opportunities of future development

Notwithstanding the current financial and economic crisis, the market for nanotechnology is an attractive growth market that promises substantial sales and earnings potential in the long term. The market research company Lux Research estimates that by 2015, the market volume will increase from its current level to more than USD 3 trillion. It adds that Europe's high growth rates in this area are likely to make its market as large as that in the USA. Electronic applications are expected to generate particularly high growth rates.

Nanogate is well equipped to enhance its position as a leading European nanotechnology company and achieve new dimensions in sales and earnings. The Group is aiming its efforts at four attractive sectors and is developing new technology platforms for additional applications and solutions. As well as other developments, Nanogate's ongoing endeavours in the field of Dotfarm® Optics have a great deal of potential. The markets for flat panel displays and LED production are both growing dynamically. The LED market alone is expected to grow to some USD 12.3 billion by 2012, in other words by an average of 15 per cent per year. As well as complex applications, especially for industry, the Group has an impressive product range containing well-known brands for end customers.

3. Supplementary report

In March 2009, Nanogate launched an extensive innovation offensive. It began with the market launch of new, high-quality textile refinements which protect even light-coloured materials in a way that was hardly possible before. In the current financial year, these are scheduled to be followed by new system solutions for improved energy efficiency and lower CO₂ emissions in the automotive and mechanical engineering areas on the basis of the nano-Plating® technology platform, improved air filtration results thanks to the Permastatic® product family, and surface treatment for buildings which reduces the build-up of dirt residues and lengthens both the buildings' useful lives and the intervals between cleaning operations.

The first application in mass production for the innovative textile sealant will be in the Opel Insignia: The seat covers in the "Car of the Year 2009" are coated in such a way that they do not get dirty. In the medium term, Nanogate would like to generate at least a mid-six-figure euro sales volume with this new technology. Its approval for mass worldwide use means that further General Motors vehicles and brands can also be enhanced with the technology.

In April, Nanogate won the REWE Group as a customer, thereby opening up the retail sector in Austria. Several textile care products bearing the Feldten brand name will in future be available in the REWE Group's Austrian supermarket chains. Their annual sales volume will be a mid-six-figure euro amount.

4. Forecast

According to an OECD forecast from 31 March 2009, the financial and economic crisis will seriously impair general economic developments this year. German gross domestic product (GDP) is expected to fall by 5.3 %. The euro zone and the USA, with forecasts of -4.1 % and -4.0 % respectively, should be less badly affected. The global forecast is for a decline of 4.3 % in gross domestic product.

In view of the general economic conditions, the extent and duration of the global economic downturn cannot be foreseen at present, and Nanogate, too, will be unable to escape this worldwide trend. Despite this, however, Nanogate should be able to continue growing on the whole in the years to come. From today's standpoint, demand for Nanogate®-Technologie will continue to increase in the medium to long term provided that the investment and consumption climate does not deteriorate any further. Nanogate's broad market position with its focus on four different sectors also enables the Group to compensate for any sluggish trends in individual projects with growth in other areas. Its extensive product range and large number of existing customers make us confident that sales will continue to grow in the medium and long term. In the past, the volume of business already achieved has served as a stabilising factor: as a rule, Nanogate has been able to build upon its existing sales.

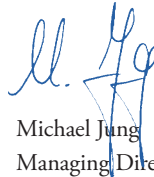
Furthermore, Nanogate has launched an innovation offensive in the current financial year and intends to present numerous new products and applications. Precisely in these challenging times, the Group will press ahead with its investment programme. For that reason, pre-tax earnings will continue to be shaped significantly by substantial investments and by development and selling expenses in the current financial year. The ongoing development of technology and the penetration of international markets will, however, open up substantial sales and profit potential for Nanogate AG in the medium to long term.

At present, the main pillar of sales is the core business segment Multifunctional Surfaces; the future-oriented Advanced Applications segment is not expected to generate any noteworthy sales until 2010. The Group expects to increase its number of customers, sales partners and collaborations still further in the current financial year. In addition, Nanogate is planning to exploit external growth opportunities selectively and to acquire further equity holdings. In view of the prevailing general economic situation and the innovation offensive which it has begun, it is difficult to predict how business will develop in the coming months. It is still possible for Nanogate to grow and post a positive result, especially if the economy begins to recover towards year-end. However, it is also possible that the weak economic environment will affect sales to such an extent that it will be impossible to generate profits. Nanogate will therefore refrain from issuing a precise forecast for the financial year 2009 with regard to sales, pre-tax earnings and cash flow until the year is well under way. With its financial and innovative strength, its extensive product portfolio and its long-term business with mass production, the Group is robustly positioned and will emerge strengthened from the economic crisis.

Göttelborn, 30 March 2009



Ralf Zastrau
Chairman of the Management Board/CEO



Michael Jung
Managing Director/COO

Consolidated income statement of Nanogate AG

for the period from 1 January to 31 December 2008

	Note	2008	2007
		EUR ,000	EUR ,000
Sales	3	12,152	10,404
Decrease (previous year: increase) in finished goods and work in progress		-644	174
Other internally produced and capitalised assets	4	2,340	755
Other operating income	5	2,231	1,020
Financial revenue	6	371	472
Cost of raw materials and supplies	7	-4,505	-3,498
Personnel expenses	8	-4,545	-3,478
Other operating expenses	9	-5,595	-3,881
EBITDA		1,805	1,968
Amortisation of intangible assets and depreciation of tangible fixed assets	10	-534	-340
EBIT		1,271	1,628
Interest expenses	11	-201	-80
Earnings before taxes on income		1,070	1,548
Taxes on income	12	-391	-424
Consolidated result before minority interests		679	1,124
Allocation of losses to minority interests	13	-	74
Pro rata earnings of minority interests	14	305	98
Minority interests		984	1,296
Profit carried over from previous year		2,375	1,079
Transferred to retained earnings		-750	
Consolidated balance sheet profit		2,609	2,375
Earnings per share (EUR)	15		
Earnings per share, basic (EUR)		0.52	0.68
Earnings per share, diluted (EUR)		0.52	0.68
Weighted average no-par-value bearer shares			
Basic		1,900,000	1,900,000
Diluted		1,900,000	1,900,000

Consolidated balance sheet of Nanogate AG

as per 31 December 2008

Assets	Note	31.12.2008	31.12.2007
		EUR ,000	EUR ,000
Non-current assets			
Intangible assets	16	10,763	5,162
Tangible fixed assets	17	5,076	2,114
Financial assets	18	598	355
Other assets		17	-
Deferred taxes	19	1,918	901
		18,372	8,532
Current assets			
Raw materials and supplies	20	2,166	1,631
Trade receivables	21	2,868	627
Other financial assets	22	58	55
Other assets	23	382	383
Income tax receivables		242	147
Cash and cash equivalents	24	8,477	12,378
		14,193	15,221
		32,565	23,753

Equity and liabilities	Note	31.12.2008	31.12.2007
		EUR ,000	EUR ,000
Equity			
Subscribed capital	25	1,900	1,900
Capital reserves		14,594	13,829
Retained earnings		1,331	581
Consolidated balance sheet result		2,609	2,375
Minority interests		2,136	1,300
		22,570	19,985
Non-current liabilities			
Financial liabilities	26	1,450	244
Trade liabilities	27	76	-
Other financial liabilities	28	1,960	540
Provisions	29	23	-
Other liabilities	30	293	80
Deferred tax liabilities	31	2,650	743
		6,452	1,607
Current liabilities			
Financial liabilities	26	725	437
Trade liabilities	27	1,623	595
Other financial liabilities	28	349	37
Provisions	29	251	414
Other liabilities	30	595	678
		3,543	2,161
		32,565	23,753

Consolidated cash flow statement of Nanogate AG

for the period from 1 January to 31 December 2008

	Note	1.1.-31.12.2008	1.1.-31.12.2007
		EUR ,000	EUR ,000
Result before taxes on income		1,070	1,548
Depreciation of fixed assets		534	340
Decrease/increase in provisions		-252	89
Profit/loss from asset disposals		-28	5
Other income and expenses not affecting earnings		-1,523	67
Decrease in inventories and trade receivables and other assets that cannot be allocated to investment or financing activities		-79	-231
Increase/decrease in trade payable and other liabilities that cannot be allocated to investment or financing activities		972	-267
Subtotal		694	1,551
Income tax payments		-112	-
Cash flow from operating activities		582	1,551
Proceeds from disposal of fixed assets		1	104
Payments for investments in tangible fixed assets		-1,887	-895
Payments for investments in intangible assets		-2,859	-1,091
Payments for investments in financial assets		-269	-280
Proceeds from the disposal of consolidated companies	35	2,137	-
Payments (previous year: proceeds) from the acquisition of consolidated companies	35	-2,074	141
Cash flow from investment activities		-4,951	-2,021
Proceeds from capital increase		-	-
Payments to equity		-	222
Proceeds from the raising of loans		1,375	437
Payments from the redemption of loans		-1,306	-669
Cash flow from financing activities		69	-10
Changes in cash and cash equivalents with effect on payments		-4,300	-480
Changes in cash and cash equivalents caused by changes in the consolidated entity		399	-
Cash and cash equivalents at the beginning of the period		12,378	12,858
Cash and cash equivalents at the end of the period	24	8,477	12,378
Interest income received	6	355	402
Interest expenses paid	11	188	68
Dividends paid/received		-	-

Consolidated statement of changes in equity of Nanogate AG

for the period from 1 January to 31 December 2008

	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
Position 1.1.2006	25	1,467	581	-92	1,981	1,139	3,120
Initial capital payments (entered on 6.1.2006)	25				25		25
Capital increase from corporate funds (entered on 22.6.2006)	1,450				1,450		1,450
Transfers from capital reserves		-1,450			-1,450		-1,450
Payments into equity		2,350			2,350		2,350
Capital increase by issuance of new shares (entered on 17.10.06)	400				400		400
Premium (agio)		12,400			12,400		12,400
Equity procurement costs		-1,004			-1,004		-1,004
Share options granted		22			22		22
Earnings share of equity providers for the period 1.1-31.12.2006				1,171	1,171	37	1,208
Position 31.12.2006	1,900	13,785	581	1,079	17,345	1,176	18,521
Payment into equity						222	222
Share options granted		44			44		44
Earnings share of equity providers for the period 1.1-31.12.2007				1,296	1,296	-98	1,198
Position 31.12.2007	1,900	13,829	581	2,375	18,685	1,300	19,985
Transfer to capital reserve due to acquisition of minority interests		743			743		743
Acquisition of shares from minority shareholders						-1,274	-1,274
Minority interests from company mergers						2,414	2,414
Share options granted		22			22		22
Transfer to retained earnings (resolution by the shareholders' meeting on 24 June 2008)			750	-750			
Earnings share of equity providers for the period 1.1-31.12.2008				984	984	-304	680
Position 31.12.2008	1,900	14,594	1,331	2,609	20,434	2,136	22,570

Consolidated statement of assets 2008 of Nanogate AG

(appendix to the notes)

Consolidated statement of assets 2008		Purchase and production costs				
	Position 1.1.2008	Change in the consoli- dated group	Additions	Transfers	Disposals	Position 31.12.2008
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
I. Intangible assets						
1. Software	75	62	40	-	-	177
2. Licences, brands and patents	987	65	99	-846	-	305
3. Development costs	755	229	2,498	-	-	3,482
4. Goodwill	5,077	3,219	293	846	806	8,629
5. Payments on account	-	-	76	-	-	76
	6,894	3,575	3,006	-	806	12,669
II. Tangible fixed assets						
1. Outside facilities, factory and commercial buildings	3	-	-	-	-	3
2. Buildings on third-party land	159	379	474	-	-	1,012
3. Technical equipment and machinery	543	78	645	-	14	1,252
4. Other equipment, factory and office equipment	1,647	328	644	-	54	2,565
5. Leased items	448	-	1,044	-	-	1,492
6. Payments on account	6	-	135	-	-	141
	2,806	785	2,942	-	68	6,465
III. Financial assets						
1. Participations	62	267	269	-	-	598
2. Loans to associated companies	293	-293	-	-	-	-
	355	-26	269	-	-	598
	10,055	4,334	6,217	-	874	19,732

Consolidated statement of assets 2007		Purchase and production costs				
	Position 1.1.2007	Change in the consoli- dated group	Additions	Transfers	Disposals	Position 31.12.2007
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
I. Intangible assets						
1. Software	50	11	14	-	-	75
2. Licences, brands and patents	101	660	18	208	-	987
3. Development costs	-	-	755	-	-	755
4. Goodwill	4,887	208	190	-208	-	5,077
	5,038	879	977	-	-	6,894
II. Tangible fixed assets						
1. Outside facilities	-	3	-	-	-	3
2. Buildings on third-party land	-	77	82	-	-	159
3. Technical equipment and machinery	355	14	174	2	2	543
4. Other equipment, factory and office equipment	1,027	35	622	-	37	1,647
5. Leased items	-	-	448	-	-	448
6. Payments on account	7	65	2	-2	66	6
	1,389	194	1,328	-	105	2,806
III. Financial assets						
1. Participations	1,032	55	-	-	1,025	62
2. Loans	-	-	293	-	-	293
	1,032	55	293	-	1,025	355
	7,459	1,128	2,598	-	1,130	10,055

Depreciation and amortisation					Book value	Book value
Position 1.1.2008	Change in the consolidated group	Depreciation and amortisation in the financial year	Disposals	Position 31.12.2008	31.12.2008	31.12.2007
EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
40	29	46	-	115	62	35
86	9	15	-	110	195	901
-	-	-	-	-	3,482	755
1,606	75	-	-	1,681	6,948	3,471
-	-	-	-	-	76	-
1,732	113	61	-	1,906	10,763	5,162
-	-	-	-	-	3	3
4	8	23	-	35	977	155
184	48	87	8	311	941	359
489	150	339	53	925	1,640	1,158
15	36	67	-	118	1,374	433
-	-	-	-	-	141	6
692	242	516	61	1,389	5,076	2,114
-	-	-	-	-	598	62
-	-	-	-	-	-	293
-	-	-	-	-	598	355
2,424	355	577	61	3,295	16,437	7,631

Depreciation and amortisation					Book value	Book value
Position 1.1.2007	Change in the consolidated group	Depreciation and amortisation in the financial year	Disposals	Position 31.12.2007	31.12.2007	31.12.2006
EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
16	-	24	-	40	35	34
72	-	14	-	86	901	29
-	-	-	-	-	755	-
1,606	-	-	-	1,606	3,471	3,281
1,694	-	38	-	1,732	5,162	3,344
-	-	-	-	-	3	-
-	-	4	-	4	155	-
132	-	52	-	184	359	223
295	-	231	37	489	1,158	732
-	-	15	-	15	433	-
-	-	-	-	-	6	7
427	-	302	37	692	2,114	962
-	-	-	-	-	62	1,032
-	-	-	-	-	293	-
-	-	-	-	-	355	1,032
2,121	-	340	37	2,424	7,631	5,338

Notes to the consolidated financial statements for the financial year 2008

A. Basic principles of the consolidated financial statements

Company information

The parent company, Nanogate AG, is a listed corporation in the legal form of a public limited company and has its headquarters in Quierschied-Göttelborn, Germany. Since 18 October 2006, Nanogate AG's shares have been 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 know-how.

The consolidated financial statements for the financial year up to 31 December 2008, prepared in accordance with IFRS, are intended solely to inform the public. They were approved for publication by a resolution of the Management Board on 30 March 2009.

1. Legal principles of the presentation

Nanogate AG's listing in the Entry Standard segment of the German Stock Exchange in Frankfurt obliges the company to publish certified consolidated financial statements, including a management report, in accordance with either the prevailing national accounting standards or the 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 the International Financial Reporting Standards.

All of the standards which were valid and mandatory as per 31 December 2008 were applied. The consolidated financial statements are therefore in conformity with the IFRS standards which have to be applied in the European Union.

The following interpretations and amendments to published standards were mandatory for the first time in the reporting year 2008:

IFRS 7 (amendment):	Financial Instruments: Disclosures
IFRIC 11:	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12:	Service Concession Arrangements
IFRIC 14:	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction

The following standards and interpretations which had already been published by the IASB but did not become mandatory until after 31 December 2008 were not applied prematurely by the company on a voluntary basis:

IFRS 8:	Operating Segments (mandatory for financial years beginning on or after 1 January 2009)
IAS 23:	Borrowing Costs (mandatory as of 1 January 2009)
IFRS 2 (amendment):	(Share-Based Payment) (mandatory for financial years beginning on or after 1 January 2009)
IFRS 3 (amendment):	Business Combinations (mandatory for financial years beginning on or after 1 July 2009)
IAS 27:	Consolidated and Separate Financial Statements

(mandatory for financial years beginning on or after 1 July 2009)

IAS 32 (amendment):	Financial Instruments: Presentation (mandatory for financial years beginning on or after 1 January 2009)
IAS 1 (amendment):	Presentation of Financial Statements (mandatory for financial years beginning on or after 1 January 2009)
IFRIC 13:	Customer Loyalty Programmes (mandatory for financial years beginning on or after 1 July 2008)
IFRIC 15:	Agreements for the Construction of Real Estate (mandatory for financial years beginning on or after 1 January 2009)
IFRIC 16:	Hedges of a Net Investment in a Foreign Operation (mandatory for financial years beginning on or after 1 October 2008)
IFRIC 17:	Distributions of Non-Cash Assets to Owners (mandatory for financial years beginning on or after 1 January 2009)
IFRIC 18:	Transfers of Assets from Customers (mandatory for financial years beginning on or after 1 July 2009)

Nanogate AG is not voluntarily exercising the option of applying these standards and interpretations prematurely. The Management Board does not expect the application of these standards to have any impact on the consolidated financial statements in future reporting periods – with the following exceptions:

IFRS 8: This standard prescribes the identification of segments in accordance with the management approach. This means the segments must be presented on the basis of the information used internally by the management. The management information must be assessed on the basis of the information at the disposal of the decision-makers. Primary and secondary reporting formats as determined pursuant to IAS 14 do not apply.

IAS 23: The revised standard requires the capitalisation of borrowing costs which can be attributed directly to the acquisition, construction or production of a qualified asset. Until now, Nanogate AG has posted borrowing costs to profit and loss in the period in which they were incurred.

IFRS 3: The revised standard prescribes the balance sheet reporting of business combinations and, in connection with these, the reporting and valuation of the individual assets and liabilities, in particular goodwill. The impact on the presentation of the assets, financial and earnings position depends on the magnitude of future business combinations and share disposals.

2. Accounting and valuation principles

General principles

Basically, the same accounting and valuation principles as those used to ascertain the comparable figures for the previous year in the consolidated financial statements as per 31 December 2007 were used for the preparation of the consolidated financial statements as per 31 December 2008. The individual financial statements of Nanogate AG and those of the domestic subsidiaries have been prepared on the basis of uniform accounting and valuation 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 cost summary 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.

The consolidated financial statements are presented in euros.

The consolidated financial statements – except for the revaluation of particular non-current assets as part of the purchase price allocation resulting from the acquisition of equity holdings in companies – were prepared on the basis of the historical acquisition and production costs. The most important accounting and valuation 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 either directly or indirectly if their influence on the assets, financial and earnings position of the Group is of material significance.

The balance sheet date for Nanogate AG and the subsidiaries included in the consolidated financial statements is 31 December 2008. The financial year of HOLMENKOL AG begins on 1 April 2008 and ends on 31 March 2009. For consolidation purposes, interim financial statements were prepared for 31 December 2007 and 31 December 2008.

If required, the annual financial statements of the subsidiaries are adapted to the accounting and valuation 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, debts 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 its acquisition costs at the time of addition and subjected to an annual impairment test; any remaining negative difference is recorded immediately as an expense in the consolidated financial statements after the value estimates have again been checked.

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

Intercompany profits from transactions between the consolidated companies HOLMENKOL Austria Ges. mbH and HOLMENKOL AG amounting to EUR 38,000 were eliminated as per 31 December 2008. There were no other intercompany 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.

In the event of direct activities within the scope of a joint venture agreement, the Group's participating interest in the jointly controlled assets and liabilities that were entered into jointly with the other investors must be stated in the financial statements of the company in question and classified

by type. The liabilities and expenses in relation to the assets under joint control must be reported in accordance with the matching principle. Income from the sale or use of the Group's participating interest in the performance rendered by the joint venture and the proportion of the expenses incurred by the joint venture must be reported if it is probable that the economic benefit connected with these business transactions will flow into or out of the Group and if this amount can be ascertained reliably.

Joint venture agreements that provide for the foundation of a single company in which each partner holds a stake are designated as being under joint management. The Group reports on its participating interests in companies under joint management using proportional consolidation. The Group's participating interest in assets, liabilities, income and expenses of companies under joint management is allocated to the appropriate item in the consolidated financial statements.

Any goodwill that results from the acquisition of a participating interest held by the Group in a company under joint management must be reported in compliance with the Group's accounting and valuation methods for goodwill which arises from the acquisition of a subsidiary.

If the Group enters into business relationships with a company under joint management, profits and losses must be eliminated to the extent of the Group's participating interest in the joint venture.

There was no joint venture agreement as per 31 December 2008. The company which originally came into being under joint management became a subsidiary in 2008 as a result of an additional acquisition of shares. It was accordingly included in the consolidated financial statements by way of full consolidation as from the time when the additional tranche was acquired.

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 2008:

	Share in capital	Equity	Annual result	Consolidation
	in %	EUR ,000	EUR ,000	
Nanogate Advanced Materials GmbH, Quierschied-Göttelborn	100.00	5,345	-112	full
HOLMENKOL AG, Ditzingen ¹⁾	50.01	5,158	-1,324	full
HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria ⁴⁾	50.01	39	-89	full
FNP GmbH, Quierschied-Göttelborn ²⁾	100.00	25	-	./.
HOLMENKOL Japan Co. Ltd., Osaka, Japan ^{3) 4)}	42.51	793	./.	./.

1) Information from the interim financial statements to 31 December 2008.

2) Established in November 2008; no active business operations in 2008.

3) No current annual result was available as per 31 December 2008.

Equity stated in line with national accounting standards.

Equity is based on preliminary figures as per 31 December 2008.

4) Indirect equity holding.

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

Companies included in the consolidated financial statements

The consolidated financial statements of Nanogate AG, Quierschied-Göttelborn, as per 31 December 2008 include, in addition to the parent company, Nanogate Advanced Materials GmbH, Quierschied-Göttelborn, HOLMENKOL AG, Ditzingen, and HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria, by way of full consolidation. Nanogate AG, Quierschied-Göttelborn, holds 100 % of the voting rights in Nanogate Advanced Materials GmbH. Nanogate AG has a 50.01 % equity holding in HOLMENKOL AG and, indirectly, in HOLMENKOL Austria Ges.m.b.H..

FNP GmbH, Quierschied-Göttelborn, was established in November 2008. HOLMENKOL Japan Co. Ltd., Osaka, Japan, was also established during the course of the financial year 2008. In view of the fact that HOLMENKOL Japan Co. Ltd. commenced its business operations in the second half of the financial year 2008 and FNP GmbH only started operating at the beginning of 2009, both companies were excluded from the consolidated financial statements on grounds of materiality.

Nanogate Advanced Materials GmbH, Quierschied-Göttelborn, was consolidated for the first time as per the balance sheet date 31 December 2006. The date for the offsetting of the capital when the subsidiary was included for the first time was 1 January 2006. The offsetting of the capital resulted in an asset-side difference. Since the capital consolidation was preceded by a general revaluation of the subsidiary's assets and liabilities, the difference is posted entirely to goodwill. The equity holding in Nanogate Advanced Materials GmbH was increased from 55.5 % to 100.0 % in the course of the financial year 2008.

HOLMENKOL Sport-Technologies GmbH & Co. KG (the predecessor of HOLMENKOL AG) was consolidated for the first time as per 31 December 2007 by way of proportional consolidation. The date for the proportional offsetting of the capital when the company under joint management was included for the first time was 1 January 2007. As per 1 January 2008 the equity holding in HOLMENKOL Sport-Technologies GmbH & Co. KG was increased from 30.0 % to 100.0 %. As the company thereby became a subsidiary, it was then fully rather than proportionately consolidated. The date of the proportionate offsetting of capital when the subsidiary was included for the first time was 1 January 2008. The offsetting of capital for the newly acquired shares resulted in a negative difference of EUR 1,403,000, which was recognised immediately as an expense following an additional check.

Following the transformation of the limited liability company as general partner into a stock corporation and the incorporation of the entire assets and liabilities of HOLMENKOL Sport-Technologies GmbH & Co. KG into HOLMENKOL AG, the equity holdings of Nanogate AG in HOLMENKOL AG decreased to 50.0 % effective from 1 April 2008 due to individual financial transactions.

Effective from 1 September 2008, Nanogate AG exercises a controlling influence over HOLMENKOL AG by means of a contractually agreed control call option and the appropriate purchase of shares. The subsidiary, in turn, was thereby included in the consolidated financial statements by way of full consolidation as from 1 September 2008. The offsetting of capital for the newly acquired shares as of 1 September 2008 resulted in a positive difference of EUR 10,000, which is attributed entirely to goodwill.

HOLMENKOL Austria Ges.m.b.H., Lauterach, Austria, was included in the consolidated financial statements by way of full consolidation for the first time as per 31 December 2008 as a wholly owned subsidiary of HOLMENKOL AG. The date for offsetting the capital for the first-time inclusion was 1

January 2008. The offsetting of capital resulted in a positive difference of EUR 17,000, which is attributed entirely to goodwill.

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 presented in euros.

Intangible assets

Intangible assets essentially comprise software, licences, trademark rights, capitalised development costs and goodwill.

Intangible assets acquired individually are valued 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, the 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. Financing costs are not capitalised. 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 2008, development costs eligible for capitalisation amounting to TEUR 3,482 were reported. The capitalised development costs were reduced by the EUR 26,000 received in the form of expense grants. At the same time, there is a proportion of projects that did not fulfil the criteria for development costs in 2008. Research expenses and development costs not eligible for capitalisation are posted to expenses in the period in which they are incurred. In the process, those development costs for which there is a lack of certainty regarding technical realisation and no estimate of a future economic benefit accruing from the resultant intangible asset are posted to expenses.

The goodwill that arises when a subsidiary is acquired corresponds to the surplus of the acquisition costs incurred in the acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingencies at the time of acquisition. Goodwill arising from company acquisitions is reported at acquisition cost at the time of its addition and, in accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, is not subjected to regular amortisation. Instead, the recoverable value of the goodwill is subjected to an annual impairment test in which the discounted payment flows anticipated in the medium-term plans are set against the book value of the goodwill. If the Group's share of the fair value of the identified assets, liabilities and contingencies of the acquired entity exceeds the acquisition costs of the business combination after a further assessment, the surplus is posted to earnings immediately.

The revaluation of assets and liabilities that was carried out during the consolidation of HOLMENKOL Sport-Technologies GmbH & Co. KG as per 1 January 2008 resulted in an increase in value, which in turn gave rise to deferred taxes amounting to EUR 502,000, which are also reported in this amount as additional goodwill.

Tangible fixed assets

Tangible fixed assets, in accordance with IAS 16, are capitalised at acquisition or production cost and depreciated regularly using the straight-line method over their likely economic useful lives. The regular depreciation of tangible fixed assets 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 book values of the tangible fixed assets are reviewed every year in order to guarantee that the depreciation methods and periods are in accord with the expected economic benefits of the assets.

Interest on borrowed capital which arose during the acquisition or production phase was not capitalised.

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 about the conditions being fulfilled and the grant being 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 income 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 income over the life of the asset in question on a systematic and rational basis.

Financial instruments

A financial instrument is a contract which, for one company, leads to a financial asset and, for the other, simultaneously to a financial liability. These include primary financial instruments such as cash and cash equivalents, trade receivables and payables, and other receivables and liabilities. However, they also include derivative financial instruments which are used to provide cover for risks within the framework of hedging transactions. No derivative financial instruments were held in the financial year 2008.

Financial assets are subdivided into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification, which depends on the purpose of the assets' acquisition, is made when they are reported for the first time and examined as per every balance sheet date.

In addition to the reporting of cash and cash equivalents, only the loans and receivables category was relevant in the reporting period in question.

Financial assets and liabilities are reported as per the date when Nanogate becomes a contracting party in respect of the financial instrument's contractual rules. Financial assets are removed from the accounts when the rights to payments have expired or been transferred and Nanogate has essentially transferred all the risks and rewards associated with their ownership. Financial liabilities are removed from the accounts when they have been redeemed, i.e. when the contractual obligations have been settled or cancelled or have expired.

Loans, receivables and financial liabilities are reported at net book value using the effective interest method. The net book value of a financial asset or a financial liability is the amount with which a financial asset or liability was valued when reported for the first time, less redemption payments, plus or minus the accumulated amortisation of any difference between the original amount and the amount repayable upon maturity (premium, discount, transaction costs) using the effective interest method, and less any reduction for impairment or irrecoverability.

As per every balance sheet date, it is examined whether there are any objective indications that a financial asset is impaired. Credit risks are taken account of by carrying out write-downs to the future level of payments that is expected from an objective viewpoint. The interest rates to be used in the event of impairments resulting from default on agreed payment dates are in line with the prevailing market conditions and depend on the due date of the financial instrument in question. The reported book values of the financial assets and financial liabilities accord with their respective fair values.

Financial assets

The non-current financial assets concern equity holdings.

The equity holding in HOLMENKOL NORGE A/S is classified as an available-for-sale financial asset in accordance with IAS 39.45.

Generally, equity holdings are capitalised at acquisition cost on the date of performance, i.e. when the asset was transferred. Equity holdings are measured at fair value as per the acquisition date.

Raw materials and supplies

Raw materials and supplies 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.

Financing costs are not included in the acquisition and/or production costs.

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

Receivables and other financial assets

In accordance with IAS 39.45, other financial assets and trade receivables are classified under loans and receivables.

They are valued on their date of addition at fair value (usually acquisition cost). Subsequently the net book values are stated taking account of the effective interest method. An impairment is recorded if there are any

objective indications that the receivable amounts due cannot be recovered in full.

There are no non-interest-bearing or low-interest receivables with terms of more than one year.

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

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. Liquid funds are reported at face value.

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

Deferred taxes

Deferred tax assets and liabilities are reported in accordance with IAS 12 in the expected amount of their payment by or to the tax authorities.

Deferred taxes are set up for all temporary differences between the estimated values 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 amounts for which tax is payable or deductible. Temporary differences which are liable to tax result in the reporting of a deferred tax liability, while temporary differences which are tax-deductible result in the reporting of deferred tax assets. In addition, deferred tax assets must in principle be reported as loss carryforwards when it is likely that their utilisation will be possible. The deferrals are carried out in 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 book value 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 taken into account with effect on income.

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

Current and deferred taxes

Current and deferred taxes are posted to expenses or income, unless they have arisen in connection with items that were recognised directly under equity. In this case, the tax must also be recognised under equity. On the other hand, there is no recognition when tax effects result from the first-time balance sheet reporting of a business combination. In the case of a business combination, the tax effect must be taken into account in the calculation of goodwill.

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 per the balance sheet date. Provisions which do not result in an outflow of resources as early as the following year are reported at their performance amount discounted to the balance sheet date, taking account of expected cost increases. Market interest rates are used to ascertain the present value. Provisions are not set off against rights of recourse. The provisions for guarantees are formed on the basis of empirical values.

Financial liabilities

Upon their addition, financial liabilities are reported in the balance sheet at fair value, including transaction costs, and consequently at net book values. Interest-bearing bank loans and other interest-bearing loans are reported at the payout amount less retention when valued for the first time. Upon their next valuation, the financing costs as per the contract are recognised on an accrual basis using the effective interest method.

Trade payables and other financial obligations

The trade payables are reported at net book value, which essentially accords with their present values. They are due mainly within one year. Other financial liabilities are reported at their repayment amounts. They encompass a variety of individual items. There are no significant deviations between the balance sheet basis and the present values.

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

Accounting of leases

The classification of leases is based on IAS 17, 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 within the framework of 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 obligation to the lessor must be shown in the balance sheet as an obligation from finance leases. In 2008, assets of EUR 1,374,000 arising from finance lease agreements were posted (previous year: EUR 433,000). Scheduled depreciation is conducted 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 commercial ownership of the leased item remains with the lessor must be regarded as operating leases. With these, rental or lease payments are recognised with effect on income using the straight-line method over the term of the respective lease.

Expense and income recognition

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

Sales and other operating earnings are recognised as soon as they are delivered and the risks have passed to the customer. Operating expenses affect income at the time when the performance is 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 necessitates assumptions and estimates that influence the assets and liabilities reported in the balance sheet, the indication of contingent liabilities and other financial obligations as per the balance sheet date, and the reporting of expenses and income during the reporting period. The assumptions and estimates essentially relate to the determination of economic useful lives and to the accounting and valuation principles used for intangible assets, receivables, provisions and financial obligations.

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 from the tax item.

The amounts which actually arise in future periods can therefore diverge from the estimates.

Furthermore, an estimate was made within the framework of segment reporting: the assets and depreciation/amortisation were assigned during the primary segmentation process on the basis of an estimate regarding their pro rata utilisation.

Changes in presentation

Due to the separate reporting of the income tax receivables in the reporting year, an adjustment amounting to EUR 147,000 was made in respect of the previous year's presentation. This item was originally reported under other current assets in the previous year.

For reasons of appropriate presentation, the financial income and interest expenses were reported separately from one another in the reporting year. In relation to the previous year, the reporting of the financial income was adjusted by EUR 472,000 and that of the interest expenses by EUR -80,000 in the form of separate reporting.

Significant acquisitions in the financial year 2008 – company acquisitions

Business combination HOLMENKOL Sport-Technologies GmbH & Co. KG

Effective from 1 January 2008, Nanogate AG increased its shareholding in HOLMENKOL Sport-Technologies GmbH & Co. KG (henceforth HOLMENKOL AG) from 30.0 % to 100.0 %. Nanogate AG thereby gained control of the company.

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 per 1 January 2008. The fair values of the identifiable assets and liabilities of HOLMENKOL Sport-Technologies GmbH & Co. KG in the amount of the acquired 70.0 % are as follows as per their first-time inclusion (IFRS 3.67):

Assets and liabilities	Book values	Adjustment to fair values	Fair values at time of acquisition
	EUR	EUR	EUR
Goodwill	542,010.70	2,166,974.25	2,708,984.95
Development costs	229,243.87	-	229,243.87
Trademarks and patents	35,301.00	-	35,301.00
Other intangible assets	55,874.70	-	55,874.70
Tangible fixed assets	1,580,054.70	-	1,580,054.70
Equity holdings	126,316.98	-	126,316.98
Other non-current assets	3,500.00	-	3,500.00
Raw materials and supplies	1,472,615.20	-	1,472,615.20
Other current assets	1,105,799.65	-	1,105,799.65
Assets	5,150,716.80	2,166,974.25	7,317,691.05
Long-term capital provided by silent partners	490,000.00	-	490,000.00
Provisions for deferred taxes	-	502,311.87	502,311.87
Other provisions	700.00	-	700.00
Other current liabilities	3,174,679.18	-	3,174,679.18
Borrowed capital	3,665,379.18	502,311.87	4,167,691.05
Net assets / purchase price	1,485,337.62	1,664,662.38	3,150,000.00

Goodwill of EUR 1,665,000 comprises the value of expected synergies arising from the company acquisition and from the utilisation potential of the customer base, the existing patents and the "HOLMENKOL" brand. Within the scope of the company acquisition the customer base, the patents and the "HOLMENKOL" brand are not separable and therefore do not fulfil the reporting criteria for intangible assets in accordance with IAS 38.

The higher fair values resulted in a deferred tax liability, which in turn influences the value of the goodwill.

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

	EUR
Accumulated fair values at time of acquisition	3,150,000.00
Actual purchase price	-1,747,500.00
Negative difference *)	1,402,500.00

*) Reported with effect on income/earnings from the revaluation.

The amount paid for the transfer and acquisition of 100.0 % of the shares was EUR 1,748,000. The acquisition also involved the assumption of pro rata cash and cash equivalents amounting to EUR 210,000. Since its acquisition, HOLMENKOL Sport-Technologies GmbH & Co. KG has contributed a pro rata EBIT of EUR -25,000 to the Nanogate Group's assets.

Acquisition of the minority shareholding in Nanogate Advanced Materials GmbH

The Group acquired a further 44.5 % in Nanogate Advanced Materials GmbH, Quierschied-Göttelborn, in the financial year 2008, with the result that as per 31 December 2008, Nanogate AG held 100.0 % of the shares in this company.

The shares were acquired partly within the framework of a capital increase (February 2008) in which the minority shareholder was not a co-subscriber, and partly by way of direct share acquisition (May 2008). As these were

changes in shareholdings without a change of status, the procedures in question were recognised directly in equity.

B. Notes to the consolidated income statement

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.34 “Segment reporting”.

4. Other own work capitalised

The internal work expended in connection with the development costs capitalised under intangible assets in 2008 is reported under this item.

5. Other operating income

Other operating income consists of the following:

	2008	2007
	EUR ,000	EUR ,000
Further cost calculations	30	1
Subsidies	285	415
Income from accrual of grants	255	134
Non-cash payment for use of vehicles	91	62
Income from release of impairment on receivables	7	45
Income from revaluation from purchase price allocation	1,403	326
Other income	160	37
	2,231	1,020

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

With regard to the income from the revaluation as part of the purchase price allocation, please refer to section A “Significant acquisitions in the financial year 2008 – company acquisitions”.

6. Financial income

The reported financial income refers solely to interest income. Of this interest income, EUR 355,000 (previous year: EUR 402,000) impacted on cash flow.

7. Cost of materials

The cost of materials is as follows:

	2008	2007
	EUR ,000	EUR ,000
Cost of raw materials and supplies	2,862	1,717
Cost of outside services purchased	1,643	1,781
	4,505	3,498

8. Personnel expenses

The personnel expenses are as follows:

	2008	2007
	EUR ,000	EUR ,000
Wages and salaries	3,750	2,980
Social security	695	426
Pensions	78	28
Non-cash remuneration costs for share options	22	44
	4,545	3,478

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, 45,676 stock options had been subscribed for by 31 December 2008. The stock option model influenced earnings in the amount of EUR 22,000 in the financial year 2008. More information about the stock option programme can be found in section C.25 of the Notes.

9. Other operating expenses

Other operating expenses are classified as follows:

	2008	2007
	EUR ,000	EUR ,000
Operating expenses	2,019	1,611
Administrative expenses	1,320	1,245
Sales expenses	2,052	947
Receivables losses	46	62
Loss from asset disposals	7	-
Other expenses	151	16
	5,595	3,881

10. Amortisation of intangible assets and depreciation of tangible fixed assets

A detailed breakdown of the amortisation of intangible assets and depreciation of tangible fixed assets can be found in the statement of assets which is presented in the Annex to the Notes.

11. Interest expenses

EUR 188,000 (previous year: EUR 68,000) of the interest expenses posted had an impact on cash flow in the financial year 2008.

12. Taxes on income

The expenses and income arising from income taxes relate solely – with the exception of EUR 2,000 – to deferred taxes in the financial year 2008. In the financial year 2007, the reported taxes on income relate solely to deferred taxes.

The table below shows a reconciliation statement of the expected and reported tax expenses in the respective financial years. To determine the expected tax expenses, the overall tax rate of 30.175 % valid as from 2008 is multiplied by the earnings before tax.

This tax rate is a combined income tax rate comprising the uniform corporation income 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	2008	2007
	EUR ,000	EUR ,000
Earnings before taxes	1,070	1,548
Tax rate to be used	30.175 %	30.805 %
Expected tax expenditure	323	477
Difference in tax due to		
foreign tax rates	7	-
Tax increase due to non-tax-deductible costs	16	99
Difference from acquisition of company shares	-	-100
Non-capitalised tax deferrals on losses; realisable losses carried over on which no deferred taxes were calculated	35	-32
Tax rate changes	-3	-
Other tax effects	13	-20
Income tax expenditure recorded in the income statement	391	424

Deferred tax assets and liabilities are determined for future effects that arise from the difference between the basic figures for assets and liabilities in the balance sheet according to IFRS and the value estimate for tax purposes. The determination of deferred taxes was geared to the likely income tax rates in the future tax period.

The rate of corporate income 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 per 31 December 2008, an effective corporate income tax rate of 15.825 % was used as the basis for calculating deferred taxes. The deferred taxes were calculated using the aggregate tax rate ascertained for the parent company. The rate of assessment for determining trade income tax was 410.0 % (previous year: 428.0 %). This rate was lower than in the previous year because of Nanogate AG's relocation from Saarbrücken to Quierschied-Göttelborn. All in all, 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:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Fixed assets	-	-
Raw materials and supplies	11	-
Other provisions	-	45
Other liabilities	407	97
Loss carryforwards	1,069	319
Deferred tax assets	1,487	461
Fixed assets	-2,613	-663
Raw materials and supplies	-29	-73
Trade receivables	-4	-1
Other provisions	-	-6
Other liabilities	-4	-
Deferred tax liabilities	-2,650	-743
Deferred taxes, recorded directly in equity	431	440
tax liability deferral		
(prev. yr: tax asset deferral)	-732	158

The deferred taxes recognised directly in equity arose in connection with the costs of the IPO from 2006. In addition, the deferred tax liabilities include deferred taxes of EUR 692,000 which arose as a consequence of the acquisition of the shares in HOLMENKOL Sport-Technologies GmbH & Co. KG and was not recognisable as an expense.

The tax loss carryforwards which are likely to be realisable were estimated at EUR 3,543,000 (previous year: EUR 1,036,000) on condition that the foreseeable realisation period applies. As a result, deferred tax assets on loss carryforwards amounting to EUR 1,069,000 (previous year: EUR 319,000) are reported in the consolidated financial statements as per 31 December 2008.

The sum of the tax losses not reported in the financial year 2008 amounts to EUR 4,524,000 (previous year: EUR 4,950,000). This corresponds to a non-capitalised deferred tax asset of EUR 1,365,000 (previous year: EUR 1,525,000).

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 balancing current deferred tax assets against deferred tax liabilities) is shown in the following table:

	31.12.2008		31.12.2007	
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
	Total	> 1 year	Total	> 1 year
Deferred tax assets	1,918	1,500	901	759
Deferred tax liabilities	-2,650	-	-743	-
Net deferred taxes	-732	1,500	158	759

13. Allocation of losses to shareholders

The allocation of losses to minority shareholders reported in the previous year refers to the pro rata annual result of HOLMENKOL Sport-Technologies GmbH & Co. KG, Ditzingen, from 2007 which is attributable to Nanogate AG.

14. Pro rata earnings of minority interests

The reported pro rata earnings of minority interests relate to the proportional annual result of the minority shareholder in HOLMENKOL AG, Ditzingen, and HOLMENKOL Austria Ges. mbH, Lauterach, Austria.

15. Earnings per share

The basic earnings per share are determined in accordance with IAS 33 by dividing the consolidated earnings for the year (after minority interests and earnings allocation to minority shareholders) by the average number of shares in circulation during the year. The key figures for earnings per share are as follows:

	2008	2007
Consolidated annual result including allocation of earnings to shareholders by pro rata earnings of minority interests (app. EUR)	983,573	1,296,332
Weighted average number of shares issued		
Basic	1,900,000	1,900,000
Diluted	1,900,000	1,900,000
Basic earnings per share (in EUR)	0.52	0.68
Diluted earnings per share (in EUR)	0.52	0.68

With regard to the stock option programme, the value of the shares to be granted is well below the exercise price of the options granted. This means there are no rights as per the balance sheet date that can be used to influence earnings or the number of shares, and diluted earnings per share are therefore identical to basic earnings per share.

C. Notes to the consolidated balance sheet

The development of the individual items under fixed assets is shown in the statement of assets (cf. Annex 1 to the Notes).

16. Intangible assets

Intangible assets, compared with the previous year, are as follows:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Software	62	35
Licences, trademarks and patents	195	901
Development costs	3,482	755
Goodwill	6,948	3,471
Payments on account	76	-
	10,763	5,162

The reported software and the licences, brands and trademark rights are intangible assets acquired against payment which are amortised using the straight-line method over their likely economic useful lives of three to ten years.

The self-generated intangible assets reported in the balance sheet (IAS 38.57) relate entirely to development costs; these are accounted for by five development projects.

In the financial year 2008, total research and development expenses of EUR 3,718,000 (previous year: EUR 2,357,000) were incurred.

The reported goodwill results from the acquisition of Nanogate Advanced Materials GmbH as per 1 January 2006 and from the acquisition of the shares in HOLMENKOL Sport-Technologies GmbH & Co. KG (now HOLMENKOL AG) in the financial years 2007 and 2008. The acquisition of Nanogate Advanced Materials GmbH resulted in, firstly, goodwill of EUR 2,350,000 that was acquired as an asset due to the acquisition of the subsidiary and, secondly, goodwill of EUR 930,000 that resulted from the first-time consolidation. In addition to the existing goodwill that was taken on as an asset due to the acquisition of the subsidiary, the acquisition of HOLMENKOL Sport-Technologies GmbH & Co. KG resulted in goodwill from the various tranches that made up the acquisition of HOLMENKOL Sport-Technologies GmbH & Co. KG and its legal successor HOLMENKOL AG amounting to EUR 2,291,000.

The acquisitions of shares in Nanogate Advanced Materials GmbH and HOLMENKOL Sport-Technologies GmbH & Co. KG led to further goodwill of EUR 976,000 which resulted from the deferred tax liability which had an impact on the goodwill's value.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, goodwill resulting from company acquisitions does not undergo scheduled amortisation; instead, it is subjected to an annual impairment test. As per the balance sheet date there were no indications of any impairment of goodwill.

17. Tangible fixed assets

Compared with the previous year, tangible fixed assets are as follows:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Buildings on third-party land, outside equipment	980	158
Technical equipment and machinery	941	359
Other equipment, office and plant equipment	1,640	1,158
Leasing objects	1,374	433
Payments on account	141	6
	5,076	2,114

The increase from 31 December 2007 to 31 December 2008 results firstly from the ongoing investments in tangible fixed assets in 2008 (additions totalling EUR 2,942,000 in 2008) and secondly from the first-time full consolidation of the subsidiaries HOLMENKOL AG and HOLMENKOL Austria Ges. mbH (net additions as per the acquisition date amounting to EUR 507,000). A contrary trend was shown by ongoing depreciations in the financial year 2008 which totalled EUR 480,000.

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

	Years
Outside equipment	13
Plant facilities and leasehold improvements	13 - 15
Buildings on third-party land	33
Technical equipment and machinery	4 - 10
Other equipment, office and plant equipment	2 - 15
Equipment from finance leases	13 - 40

18. Financial assets

The financial assets reported as per 31 December 2008 include the equity holdings in FNP GmbH and the indirect holdings in HOLMENKOL Japan Ltd., Osaka, Japan, and HOLMENKOL NORGE A/S, Hokksund, Norway.

19. Deferred tax assets

The deferred tax assets essentially comprise the tax loss carryforwards of EUR 1,069,000 (previous year: EUR 319,000) that are likely to be realisable. Further deferred tax assets of EUR 431,000 result from the costs of the IPO that were incurred in the financial year 2006. The development and composition of the deferred taxes are explained in section B.12 "Taxes on income".

20. Raw materials and supplies

Raw materials and supplies as per 31 December 2008 and 31 December 2007 consisted of the following:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Raw materials and supplies	528	145
Work in progress	144	163
Finished goods and merchandise	1,494	1,323
	2,166	1,631

The inventories relate almost entirely to Nanogate AG (EUR 588,000) and HOLMENKOL AG (EUR 1,542,000). Unscheduled impairments as per the respective balance sheet dates were not necessary.

21. Trade receivables

The trade receivables are all financial instruments which are assigned to the loans and receivables category in accordance with IAS 39.45. They are reported at acquisition cost less impairment. All of the receivables are current by nature. The acquisition costs in question are derived from the agreed purchase price for the delivery or service less price reductions or discounts. They correspond to the fair value when the receivables are reported for the first time (valuation upon addition).

As part of the subsequent valuation, any impairments that may be necessary are taken into account (net book value). The valuation allowances take account of the possible default risk. There are no significant overdue receivables which have not been adjusted. There are no other noteworthy credit risks, interest rate or currency risks.

The trade receivables were as follows on the respective balance sheet dates:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Domestic receivables	935	210
Foreign receivables	2,006	444
	2,941	654
Adjustments for at-risk receivables	-73	-27
	2,868	627

Changes in impairments

	2008	2007
	EUR ,000	EUR ,000
Position at the start of the year	27	63
Amounts depreciated during the financial year	-	-43
Increase/decrease in impairments through profit and loss	46	7
Position at the end of the year	73	27

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 beyond the impairments already recorded is necessary.

22. Other financial assets

The other financial assets consist of financial instruments (receivables on a contractual basis such as suppliers with debit balances, interest claims).

In the financial year 2008, no material impairments as defined by IFRS 7.20 were sustained under other operating expenses. No discounting of the current receivables was required. The receivables on a contractual basis reported as per the balance sheet date have been valued at their net book values (IAS 39.46). The valuation of the other non-contractual receivables is based on the incoming payments expected in each case. If there are any discernible indications of credit risks, these are taken into account in the reporting of net book values. There were no interest rate or currency risks as

per the balance sheet date. The company is therefore of the opinion that the book value of the financial assets approximately corresponds to their fair value.

23. Other assets

The other assets reported as per 31 December 2008 and 31 December 2007 consist of the following:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Outstanding subsidies	176	182
Prepayments / payments on account	94	32
Sales tax	88	47
Receivables from non-consolidated subsidiaries and equity holdings	-	91
Other	23	31
	382	383

24. Cash and cash equivalents

Cash and cash equivalents amounting to EUR 8,477,000 (previous year: EUR 12,378,000) were reported as per the balance sheet date. These consist solely of cash in hand and permanent 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 customary market rates based on the three-month Euribor rate. The fixed-term deposits' terms end within 60 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 subordinate 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 2008 is reported under other short-term financial assets. In the financial year 2008, the attributable interest income from these financial instruments in the loans and receivables category amounted to EUR 367,000. The liquid funds are reported in the balance sheet at net book value, which corresponds to their fair value.

The development of the cash and cash equivalents in accordance with IAS 7 is shown in the cash flow statement.

25. Equity

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

Subscribed capital

The subscribed capital was fixed at EUR 1,900,000 as per 31 December 2008. It is divided up into 1,900,000 no-par-value bearer shares with an arithmetical share of the company's subscribed capital EUR 1.00 per share.

Conditional capital

By a resolution of the shareholders' meeting on 26/28 June 2006 and in accordance with Section 192 (2) (3) AktG, conditional capital of up to EUR 150,000 was established. This capital increase can be effected by issuing up to 150,000 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 on 26/28 June 2006 and which may be issued up to 25 June 2011. 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. The new shares entitle their holders to dividends from the beginning of the financial year for which no resolution by the shareholders' meeting has decided on the appropriation of profits at the time of issuance.

Authorised capital

The Management Board, with the agreement of the Supervisory Board, is authorised by the shareholders' meeting of 16 June 2006 to increase the company's share capital in one or more stages by 15 June 2011 up to a total of EUR 750,000 by issuing up to 750,000 new no-par-value bearer shares with a proportional share of EUR 1.00 in the share capital against contributions in cash or kind. Furthermore, the Management Board, with the agreement of the Supervisory Board, is empowered to preclude the right of shareholders to subscribe for shares. Shareholder subscription rights may be precluded only under the following circumstances, however:

- if the shares are issued to acquire companies or equity holdings in companies or parts of companies;
- for residual amounts;
- if the shares are issued at a price which does not significantly undercut the share list price and the preclusion of share subscription rights applied only to new shares whose arithmetical par value is less than 10 % of the share capital, i.e. no more than EUR 150,000; the utilisation of the 10.0 % limit and the preclusion of subscription rights must take account of other authorisations under Section 186 (3) (4) AktG.

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 reserve

The reported capital reserve is a capital reserve in accordance with Section 272 (2) (1), German Commercial Code (HGB) amounting to EUR 12,139,000 and a capital reserve in accordance with Section 272 (2) HGB of EUR 2,367,000.

In order to increase the company's capital from its own resources, a resolution by the shareholders' meeting on 16 June 2006 authorised a withdrawal of EUR 1,450,000 from the capital reserve.

As a result of the capital increase resolved on 16 June 2006, the premium from the issuance of up to 400,000 new, no-par-value bearer shares, each with an arithmetical share of EUR 1.00 in the share capital, was allocated to the capital reserve in accordance with Section 272 (2) (1) HGB in the amount of EUR 12,400,000. At the same time, the costs of the IPO were deducted from the capital reserve as capital-raising costs in the amount of EUR 1,004,000.

By a resolution of the shareholders' meeting of nanogate technologies GmbH, the shares in Nanogate Advanced Materials GmbH, Saarbrücken, were incorporated into Nanogate AG. The incorporation in the amount of EUR 2,350,000 was made as other payments into equity in accordance with Section 272 (2) (4) HGB. The shares were transferred with contractual and commercial effect as per 1 January 2006.

The capital reserve also includes the book value of the obligations (EUR 88,000) that arise within the framework of the stock option programme launched by Nanogate AG (cf. the explanations in "Share-based payment").

Retained earnings

Retained earnings consist of the effects from Nanogate AG's switch from HGB accounting to accounting in accordance with IFRS amounting to EUR 581,000 as per 1 January 2005. Furthermore, by resolution of the shareholders' meeting on 24 June 2008, a payment of EUR 750,000 was made into the retained earnings from Nanogate AG's balance sheet profit reported as of 31 December 2007.

Share-based payment

Based on the resolution of the extraordinary shareholders' meeting of Nanogate AG held on 26/28 June 2006, the Management Board is authorised, with the approval of the Supervisory Board, to grant entitled shareholders subscription rights (stock options) for up to 150,000 no-par-value shares in one or more tranches up to 25 June 2011 (see also "Conditional capital"). 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 for a basic price of EUR 32.00. The option may be exercised only if the value of the company's share before the exercise period is at least 120.0 % of the basic price (adjusted if necessary to take account of effects from capital measures carried out in the meantime). The subscription rights can be exercised for the first time in the first full exercise period on expiration of two years (vesting period) after the date of issue.

All in all, 70,444 options had been subscribed for within the framework of the stock option programme by 31 December 2008.

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 in principle be valued at the fair value of the goods or services received (direct valuation). As this cannot be determined reliably, resort must be had to the fair value of the equity instruments granted at the time they were granted (indirect valuation method using the option pricing model).

The option pricing model applied was the Black-Scholes valuation model. Its central parameters are a basic price of EUR 32.00, a volatility of 28.0 % determined using a peer group analysis, a term of 24 months, and a risk-free interest rate of 3.83 %. With the fair value of an option at EUR 4.78, the fair value of the options granted in the period amounts to EUR 88,000 for the overall term of 24 months, and thereby EUR 22,000 for the reporting period (previous year: EUR 44,000). In the accounts, this fair value is expensed in accordance with IFRS 2 as personnel expenses in the capital reserve, generally in identical instalments over the vesting period.

Minority interests

The balancing item amounting to EUR 2,136,000 (previous year: EUR 1,300,000) contains minority interests in the equity of the fully consolidated company HOLMENKOL AG, Ditzingen. The previous year's reporting concerned third-party interests in the equity of Nanogate Advanced Materials GmbH.

26. Financial liabilities

The financial liabilities reported are liabilities to banks amounting to EUR 2,175,000 (previous year: EUR 681,000). These include liabilities falling due within one year amounting to EUR 725,000 (previous year: EUR 437,000).

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

27. Trade payables

Of the reported trade payables amounting to EUR 1,699,000 (previous year: EUR 595,000), EUR 1,623,000 (previous year: 595,000) fall due within one year.

28. Other financial liabilities

As per 31 December 2008 there were other financial liabilities amounting to EUR 2,309,000 (previous year: EUR 577,000).

Of the above sum, EUR 1,345,000 (previous year: EUR 1,585,000) is accounted for by obligations arising from finance leases, EUR 1,260,000 of which (previous year: EUR 1,495,000) fall due in more than one year. This item additionally includes a liability within the framework of a dormant equity holding amounting to EUR 700,000).

EUR 349,000 (previous year: EUR 37,000) of the other financial obligations reported fall due in less than one year.

29. Provisions

The only provisions reported are "other provisions". The current other provisions consist of the following:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Shareholders' meeting costs and annual report costs	119	100
Provision for warranties and accommodation	18	54
Reconversion obligations	-	150
Archiving expenses	-	6
Other	114	104
	251	414

30. Other liabilities

As of 31 December 2008 there were other liabilities amounting to EUR 888,000 (previous year: EUR 758,000), of which EUR 595,000 (previous year: EUR 678,000) fall due within one year. These current liabilities consist of the following:

	31.12.2008	31.12.2007
	EUR ,000	EUR ,000
Liabilities from sales tax and other taxes	102	77
Liabilities due to social security	37	25
Liabilities from wages and salaries	253	273
Other personnel liabilities from holidays and overtime	170	126
Payments and prepayments received	4	62
Other	29	115
	595	678

Liabilities in respect of wages and salaries essentially comprise obligations to employees arising from holidays not taken, overtime, premiums due to the employers' liability insurance association, and profit-sharing and bonuses for executive staff and Board members.

31. Deferred tax liabilities

The deferred tax liabilities are accounted for solely by divergences between the IFRS balance sheet and the balance sheet prepared for tax purposes. The development and composition of the deferred taxes is presented in section B.12 "Taxes on income".

32. Obligations from finance leases

In respect of the tangible fixed assets, finance leases are reported for a company building and for 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 5.94 % p.a. They are reported under other financial liabilities.

Obligations from finance leases (present value):

	2008	2007
	EUR ,000	EUR ,000
With a remaining term of less than one year	85	90
With a remaining term of between one and five years	371	360
With a remaining term of more than five years	889	1,135
	1,345	1,585

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

	2008	2007
	EUR ,000	EUR ,000
With a remaining term of less than one year	159	159
With a remaining term of between one and five years	605	597
With a remaining term of more than five years	1,191	1,331
	1,955	2,087
Less as yet unrealized interest expenses	-640	-532
Plus remaining lease liability	30	30
Present value of the minimum lease payments to be made	1,345	1,585

D. Other notes

33. Risk analysis for financial instruments

Default risk

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

The amount of the financial assets indicates the maximum default risk. If default risks are recognisable in financial assets, these risks are recorded by means of valuation allowances.

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. All of the Nanogate Group's interest-bearing obligations involve this risk. As per 31 December 2008 there is no material interest rate risk in the Group, as the financial liabilities of EUR 2,175,000 (previous year: EUR 681,000) reported as per the balance sheet date are largely fixed-interest and have short terms to maturity. Interest rate hedges are not necessary.

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.

Liquidity risk

The IPO of Nanogate AG in October 2006 put the company in a position to press ahead further with its planned growth within the Nanogate Group, not only with organic growth as before, but also through acquisitions. There is no material liquidity risk as per 31 December 2008.

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 2008.

Collateral

No collateral of any significance was provided for obligations entered into as per 31 December 2008.

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 will be 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 associated companies, and will continue to be adjusted constantly to the changing underlying conditions.

34. Segment reporting

For the purposes of reporting, Nanogate AG has implemented the disclosure obligations stipulated in IAS 14 with regard to segment reporting in its consolidated financial statements. As per the balance sheet date 31 December 2008, the Group is divided internally into the segments called "Multifunctional Surfaces" and "Advanced Applications". Between these two individual segments there were intersegment sales of just EUR 58,000.

Multifunctional Surfaces

The Multifunctional Surfaces segment mainly comprises the enhancement of products by means of surface functionalisation in order to develop new properties. This segment combines 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 these areas, the Nanogate Group concentrated primarily on buildings/interiors, automotive/mechanical engineering and sport/leisure applications.

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 nanostructured optics for the display industry and nanostructured surfaces in the safety technology sector.

2008	Advanced Applications	Multifunctional Surfaces	Total of segments	Reconciliation	Values as per consolidated fin. statements
Segment information	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Segment sales (external)	535	11,559	12,094	58	12,152
Segment sales (internal)	-	58	58	-58	-
Segment result	-781	1,960	1,179	-500	679
Segment assets	2,377	11,605	13,982	18,583	32,565
Segment liabilities	226	3,324	3,550	6,445	9,995
Segment investments	1,142	3,466	4,608	1,340	5,948
Amortisation/depreciation	130	355	485	49	534
Other material non-cash expenses	64	442	506	-	506

2007	Advanced Applications	Multifunctional Surfaces	Total of segments	Reconciliation	Values as per consolidated fin. statements
Segment information	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Segment sales (external)	1,171	9,233	10,404	34	10,438
Segment sales (internal)	-	34	34	-34	-
Segment result	-61	2,017	1,956	-832	1,124
Segment assets	1,224	6,657	7,881	15,872	23,753
Segment liabilities	653	1,592	2,245	1,523	3,768
Segment investments	713	1,505	2,218	87	2,305
Amortisation/depreciation	55	255	310	30	340
Other material non-cash expenses	152	342	494	-	494

Assets and amortisation/depreciation are allocated to the segments based on an estimate of their proportional utilisation. If liabilities and expenses cannot be allocated directly, they are allocated to the segments using an allocation method that takes account of their causes.

Segmentation by region within the framework of the secondary reporting format results in the following breakdown:

		2008	2007
		EUR ,000	EUR ,000
Gross sales:	Germany	7,263	8,013
	European Union	3,091	1,773
	Other countries	1,993	795
		12,347	10,581
less:	Sales deductions	-195	-177
		12,152	10,404

It was decided not to provide a regional breakdown of the assets because no serviceable allocation can be made in this area, which in turn means that no reliable information can be derived from it.

35. Notes to the consolidated 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 payment flows resulting from business operations and those from investing and financing operations. 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 cash outflow from the acquisition of consolidated companies amounting to EUR 2,074,000 included in the cash flow from investing activities results from the acquisition of shares in HOLMENKOL Sport-Technologies GmbH & Co. KG and HOLMENKOL Sport-Technologies Verwaltung GmbH amounting to EUR 1,544,000 and from the acquisition of shares in Nanogate Advanced Materials GmbH amounting to EUR 530,000. The cash inflows from the company acquisitions are as follows:

HOLMENKOL Sport-Technologies GmbH & Co. KG	EUR ,000
Total purchase price/equity holding book value	2,832
Adjustment for non-cash acquisitions	-25
Adjustment for cash outflows from previous years	-1,032
Cash outflow from company acquisition	1,775
Adjustment for cash and cash equivalents acquired	-231
Cash outflow from company acquisition	1,544

Nanogate Advanced Materials GmbH	EUR ,000
Total purchase price/equity holding book value	5,693
Adjustment for non-cash acquisitions	-2,536
Adjustment for cash outflows from previous years	-2,627
Cash outflow from company acquisition	530
Adjustment for cash and cash equivalents acquired	-
Cash outflow from company acquisition	530

The cash outflow from the sale of consolidated companies amounting to EUR 2,137,000 contained in the cash flow from investing activities consists of the following:

	EUR ,000
Cash inflow from company sale	2,275
Adjustment for cash and cash equivalents transferred	-138
Cash outflow from company sale	2,137

36. Contingent liabilities and other financial liabilities

Contingent liabilities

Nanogate AG has issued a guarantee vis-à-vis third parties for the subsidiary HOLMENKOL AG. As per the balance sheet date, the guarantee had a value of EUR 75,000. There were no other contingent liabilities of any significance as per 31 December 2008.

Other financial liabilities

The Nanogate Group's contractual obligations to third parties as per 31 December 2008 are as follows:

	Due			
	< 1 year	2-5 years	> 5 years	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Building rental agreement	313	1,253	2,505	4,071
Other rental/lease agreements	175	238	-	413
	488	1,491	2,505	4,484

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

37. Significant events after the balance sheet date 31 December 2008

At the beginning of the new financial year 2009, HOLMENKOL AG increased its equity holding in HOLMENKOL NORGE A/S, Hokksund, Norway to 49.0 %.

There were no other events after the balance sheet date that could have material significance for the Group's business or its financial, assets and earnings position.

38. Number of employees

Employees (average for the year):

	2008	2007
Blue-collar employees	26	22
White-collar employees	36	31
	62	53
Trainees	6	5
	68	58

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

The Nanogate Group employed 72 staff (previous year: 60) as per the balance sheet date; the number of trainees was twelve at the end of the year (previous year: two).

39. Related party disclosures

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. Business operations have not yet commenced, and neither does Nanogate AG maintain any business relationships with this company. 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 no business relationships with this indirect equity holding.

There were no other relationships with related parties or companies not included in the consolidated financial statements in the financial year 2008. Business transactions in 2008 and 2007 between Nanogate AG and its subsidiaries were eliminated in the course of consolidation and are not explained in these disclosures.

Shares and stock options held by the management bodies of Nanogate AG

As per the balance sheet date, the members of the management bodies held the following shares and stock options in Nanogate AG either directly or indirectly:

	31.12.2008		31.12.2007	
	No. of shares	No. of options	No. of shares	No. of options
Management Board				
Michael Jung	44,640	9,359	44,640	-
Ralf M. Zastrau	60,447	10,641	117,890	-
Supervisory Board				
Oliver Schumann	-	-	-	-
Dr Farsin Yadegardjam	-	-	-	-
Gerhard Asschenfeldt	-	-	-	-
Dr Clemens Doppler	-	-	-	-
Marc Faber	-	-	-	-
Hartmut Gottschild	-	-	-	-

The funds held by Dr Doppler, Mr Faber and Dr Yadegardjam increased their holdings by acquiring shares from nanogate technologies GmbH. As a result, the number of shares held indirectly by Mr Ralf Zastrau decreased by 57,443. The value of these indirectly held shares could only be attributed to Mr Zastrau's personal assets to a limited extent due to investor agreements, liquidity preferences and investor loans.

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 amounting to EUR 803,000 for 2008 during the financial year (previous year: EUR 805,000).

40. Management bodies of the company

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 (as from 24 June 2008).

Dr Clemens Doppler, Heidelberg, Managing Partner at HeidelbergCapital Private Equity Fund, Heidelberg (as from 24 June 2008).

Marc Faber, Luxembourg, Senior Investment Partner at BIP Investment Partner SA, Luxembourg, (as from 24 June 2008).

Hartmut Gottschild, Eltville/Rhein, management consultant.

Management Board

Ralf M. Zastrau, St. Ingbert, full-time Chairman of the Management Board of Nanogate AG, Quierschied-Göttelborn,


Michael Jung, Saarbrücken, full-time member of the Management Board of Nanogate AG, Quierschied-Göttelborn.

41. Information in accordance with Section 20 (1) AktG

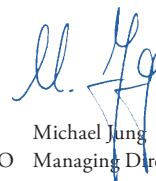
With a notice dated 18 June 2008 in accordance with Section 20 (1) AktG, HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Heidelberg, and BIP Investment Partners, Luxembourg, informed Nanogate AG about their equity holdings in the company amounting to 34.0 % and 25.0 % of the share capital respectively.

Göttelborn, 30 March 2009

Nanogate AG



Ralf M. Zastrau
Chairman of the Management Board/CEO



Michael Jung
Managing Director/COO

Independent auditor's report

To Nanogate AG, Quierschied-Göttelborn

We have audited the consolidated financial statements prepared by Nanogate AG, Quierschied-Göttelborn, Germany, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS are the responsibility of the Company's management. 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 § 317 HGB (German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with IFRS and in the group management report 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 assessing the accounting principles used and significant estimates made by management, as well as an evaluating 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 reservations.

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 net assets, financial position and results of operations of the Group in accordance with IFRS. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Regensburg, Germany, 9 April 2009

CM Treuhandgesellschaft Regensburg mbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Mehltretter
(German Public Auditor)

Contact:

Nanogate AG
Zum Schacht 3
D-66287 Göttelborn, Germany
Telephone: +49(0)6825-9591-0
Fax: +49(0)6825-9591-852
Email: info@nanogate.com
www.nanogate.com

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

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Nanogate AG
Zum Schacht 3, 66287 Göttelborn, Germany
Telephone +49(0)6825-9591-0, Fax: +49(0)6825-9591-852
Email: info@nanogate.com
www.nanogate.com