# Annual Report 2015
*New dimension*

nanogate

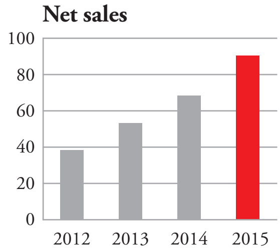
# Nanogate Group at a glance

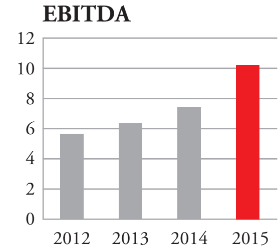
The following refers to the Nanogate Group
(in accordance with IFRS, figures in EUR ,000)

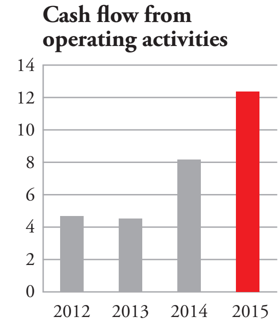
| | 2015 | 2014 |
|---|---|---|
| Sales | 90,894 | 68,556 |
| Overall performance | 94,787 | 71,114 |
| Gross profit margin (in % of overall performance) | 62,2 | 65.6 |
| EBITDA | 10,201 | 7,433 |
| EBIT | 3,003 | 2,458 |
| EBT | 616 | 813 |
| Consolidated net income/loss | 521 | 443 |
| Earnings per share (EUR, basic) | 0.16 | 0.15 |
| Balance sheet total | 123,849 | 108,499 |
| Equity | 51,286 | 42,307 |
| Equity ratio (%) | 41.4 | 39.0 |
| Cash and cash equivalents | 22,743 | 17,796 |
| Cash flow from operating activities | 12,344 | 8,175 |
| Cash flow from investing activities (without external growth) | -9,620 | -7,911 |
| Employees (average for the year) | 586 | 474 |
| Sales per employee | 156 | 145 |
| Market capitalisation at year-end* | 108,019 | 104,190 |
| Dividend** (in euros) | 0.11 | 0.11 |

** Source: Bloomberg, ** Proposal.*

Figures in EUR ,000,000




# Contents

A world of new surfaces

## NANOGATE AG – A WORLD OF NEW SURFACES®

Nanogate is a leading international integrated systems provider for high-performance surfaces. We give materials and surfaces new properties and improve our customers' competitiveness. Both businesses and consumers benefit from the advantages of multifunctional surfaces.

**With expertise and technology from Nanogate,**

- surfaces are given new functions.
- plastics are given additional properties.
- metals are enhanced.
- heating systems use less energy.
- production processes become more efficient.
- new designs are created.

With help from Nanogate, products become more cost-effective, more powerful and better for the environment. With a comprehensive technology portfolio, we open up a new world of surfaces for our customers based on new materials. As an innovation partner, Nanogate offers its customers unique systems expertise – materials development for surface systems, series coating of various different substrates as well as the production and enhancement of complete plastic components.

We add value. For our customers, our shareholders and our employees as well as for the environment and society.

# Letter to shareholders

Dear shareholders, ladies and gentlemen, and staff members,

International expansion and innovative technologies are essential cornerstones of our ongoing course of growth. Nanogate achieved important successes in expanding its market position both in the past financial year and at the beginning of the new year. The April 2016 majority acquisition of the plastics specialist Goletz was crucial to these achievements. Our current strategy programme is increasingly paying off. We are recording a strong performance and at the same time laying the foundations for further growth. With the aid of its Phase5 growth programme, Nanogate is navigating into a new dimension. Since the launch of the programme in 2014, we have seen pleasing results, with sales having increased by more than 70 % between 2013 and 2015. Despite considerable investment in the expansion strategy, our operating result also improved very strongly over the same period. At the same time, we significantly increased our international sales potential.

Our ongoing story of growth and the repeated improvement in our market position was also noticed by others last year, when auditing firm Ernst&Young (EY) named Nanogate AG “Entrepreneur of the Year” in October. The jury especially acknowledged the company’s strength of innovation and social commitment. This prestigious award inspires us to continue on our chosen path.

As a leading international integrated systems provider for high-performance surfaces, Nanogate is firmly established among numerous companies as a long-standing innovation partner for global corporate groups in industries such as automotive/transport, mechanical/plant engineering and buildings/interiors. Our solutions add new properties to surfaces, thereby providing them with significant added value. Glazing components, in particular, are making a significant contribution to sales growth. Nanogate’s innovative enhancements, particularly for plastics and metals, are used by renowned luxury car manufacturers and suppliers of domestic electronics and furniture, for example. Even companies such as aircraft manufacturer Airbus rely on our expertise. Nanogate is already active in more than thirty countries around the world and will be continually expanding its international business – it currently has a new subsidiary in Turkey, for example. Alongside strong sales in Asia, the Group is also expecting significant growth in US business. At the same time, we are continuously increasing our sales potential with new technologies and by expanding our value chain. Based on previous successes resulting from our Phase5 strategy programme, we are now creating the conditions for further growth. That is why we have entitled this annual report for 2015 “New Dimension”.

In operational terms, the Group again scored top marks: Thanks to strong demand, sales rose in the 2015 financial year by almost a third to EUR 90.9 million, and the Group benefited both from a strong performance and consolidation effects. We also recorded an especially high level of demand in the final quarter. Despite the expenses associated with the expansion, the operating result (EBITDA) even improved by around 37 % to EUR 10.2 million, meaning that the international business is growing ever more important. Significant funds continue to flow into expanding our market position, capacities and the technology portfolio. In spite of these expenses, consolidated EBIT rose to some EUR 3 million, while consolidated net income improved to EUR 0.5 million. Despite the high level of expenditure in the expansion, we would like to share the company’s success with our shareholders once again and propose to the shareholders’ meeting the payment of a dividend of EUR 0.11 per share, as in the previous year. With its prudent dividend policy, the company intends to meet the wishes of its shareholders, on the one hand,

and to secure financial latitude for its ongoing growth strategy, on the other. The Group's good performance and strong financial position are also reflected in cash and cash equivalents, which have now grown to EUR 22.7 million, and cash flow from operating activities, which significantly improved to EUR 12.3 million. Staff numbers also rose again with the growing business activity – Nanogate now has around 600 employees across the Group.

In addition to the strong operating performance, the Group reached important milestones in the reporting year and in the first months of the new financial year. As part of its Phase5 growth programme, Nanogate can significantly broaden its long-term sales base:

- The most important steps of 2015 include the launch of the new technology platform, marketed under the N-Metals® Chrome brand (see also page 12). The expansion of the new technology creates an economically attractive and at the same time environmentally friendly alternative to electroplating processes. We are therefore addressing an attractive market and are currently in promising talks with numerous interested parties towards implementation. Production is scheduled to begin this year and represents the core of our new centre of excellence for high-quality metal applications.
- We have also acquired the outstanding shares in GfO AG. As a result of the good collaboration and strong economic development since Nanogate's participation, we decided to acquire the remaining stake of almost 25 %.
- In parallel, Nanogate expanded its range of applications, which primarily includes entering the market for safety engineering. The N-Glaze Security division encompasses the supply of enhanced, fracture-resistant plastic panes, which can be used in buses, for example. Protective devices with the highest level of fracture-resistance and perfect optical quality are in greater demand in many applications. In the medium term, we therefore expect sales potential in the double-digit million range. In addition, we have opened up another class of application, equipping touchpads with an innovative coating for a luxury car manufacturer.

2016 will be a year of major expansion with international projects and innovative technologies. For example, our new Turkish subsidiary has commenced operations. We are also looking at establishing further international locations. Moreover, production will start within the framework of the new N-Metals® Chrome technology platform. External growth also remains one of our options for developing the Group. In parallel with this, Nanogate is committed to supplementing its value chain and intends to further open up the lucrative component business. On the basis of our existing expertise and many years of experience in series production, we are planning to expand our range of services. Our objective is to assume more responsibility for complete components as an innovation partner acting on behalf of international groups, having already produced components in some cases. As a systems provider, we have the necessary expertise for development and design, the manufacture of the component as well as the multifunctional coating of the surface. In the medium and long term, we expect this to provide a substantial boost for Nanogate AG's business, whereby we shall concentrate primarily on high-tech components with high-performance surfaces. The progressive move into the component business (see also the Strategy chapter, page 10) is part of the ongoing programme of investment and growth. With the acquisition of 75 % of the plastics specialist Walter Goletz GmbH, we are expanding our system expertise.

We are optimistic about the current 2016 financial year. The Group should exceed its sales target of EUR 100 million in the 2016 financial year, reaching an important milestone in its Phase 5 growth strategy,

Ralf Zastrau (CEO)

Michael Jung (COO)

Daniel Seibert (CFO)

having generated sales of EUR 53 million in 2013. Group sales should rise to more than EUR 105 million on the basis of existing projects as well as the majority acquisition of plastics specialist Goletz (see “Events after the balance sheet date”). Despite the continued expenses associated with the expansion strategy as well as the one-off transaction and integration costs, the operating result (EBITDA) is likewise expected to increase further in 2016 and exceed the EUR 12 million mark. Substantial funds will continue to flow into the ongoing investment programme and international expansion. In view of the growth strategy, consolidated net income will continue to be shaped by depreciation and amortisation as well as financing costs.

Nanogate will thereby continue the growth strategy of the previous years and profit from the growing demand for multifunctional high-performance surfaces. The long-term, sustained increase in company value remains the focus of all decisions. We would therefore like to thank our shareholders for their confidence in the company and in the share. At the same time, we wish to express our thanks to all our staff for their continued, great dedication, as well as to our customers and business partners for their loyalty and good co-operation. As part of our growth strategy, we have defined central corporate values for the Group for the first time in 2015 (see page 15).

With the aid of the Phase5 strategy programme, we are taking Nanogate into a new dimension – in terms of expertise, the range of services and the volume of business. We are well prepared for the challenges ahead. With our growth target for the current year, the Group should double its sales since the start of Phase5. Nanogate will further develop its position as a leading international, integrated systems provider for high-performance surfaces and as an innovation partner for numerous corporate groups in 2016.

Yours,

Ralf Zastrau (CEO)

Michael Jung (COO)

Daniel Seibert (CFO)

# ALSO SUITABLE **FOR KITTY CATS**

## A WORLD OF NEW SURFACES

Nanogate enhances your products and increases their value with coatings that are resistant to scratches – in cars, on furniture or in industry.

# Highlights 2015: Expansion of the technology portfolio

MAY 2015

### *Major order for Nanogate*

*The Vogler GmbH subsidiary begins supplying optically high-quality components to a German luxury car manufacturer. The annual sales volume runs into the mid single-digit million range.*

APRIL 2015

### *New technology platform*

*Nanogate contributes to the transformation of the surfaces market and develops a new technology platform: the Group's N-Metals® Chrome offers the alternative, urgently demanded by the market, to electroplating processes that are both polluting and limited in application. The new coating process also allows for new design and functional possibilities.*

MARCH 2015

### *Expanding the glazing business*

*Nanogate benefits from its strategy of internationalisation and expands its Asia business with another major order for glazing components. The new agreement, with a total order volume in the double-digit million range, supplements the existing business with a leading German car manufacturer begun in 2014.*

FEBRUARY 2015

### *Nanogate integrates Vogler successfully*

*The Group completes the integration of its Vogler GmbH subsidiary – acquired in 2014 – more quickly than planned. The focus was on expanding expertise in the area of high-quality metal coatings.*

JANUARY 2015

### *Touchpads as new applications*

*Nanogate is to equip touchpads with a multifunctional and optically high-quality coating for a luxury car manufacturer based in southern Germany. An N-Glaze® enhancement is used for the touch-sensitive surface.*

JUNE 2015

### *N-Glaze® Security as new line of business*

*Nanogate opens up the safety engineering line of business as part of its ongoing strategy programme. The sales potential for multifunctional and fracture-resistant plastic glazing runs into the double-digit million range.*


JULY 2015

### *Full takeover of GfO AG*

*The Group acquires the outstanding shares of almost 25 % in its GfO AG subsidiary, after the corresponding majority option had been exercised at the beginning of the year. GfO's sales and earnings improved significantly after Nanogate's initial participation in the summer of 2010.*

AUGUST 2015

### *Order worth several million euros*

*Nanogate subsidiary, GfO, receives a multi-year order for the enhancement of navigation devices. The project also ensures a high degree of utilisation at our facilities after GfO expanded capacities for its unique inkjet technology.*

OCTOBER 2015

### *Award for "Entrepreneur Of The Year"*

*Auditors Ernst & Young awards Nanogate the prestigious "Entrepreneur Of The Year" business award. The jury especially acknowledges its strength of innovation and social commitment, further noting Nanogate's development from a start-up to an internationally recognised supplier, and its positioning as a market and innovation leader.*

DECEMBER 2015

### *New centre of excellence opened*

*Nanogate AG's growth offensive for innovative metal coatings proceeds on schedule and the Group puts its new centre of excellence for advanced metals into operation. In so doing, the Group also opens its new site in Neunkirchen.*

# Strategy

Continuous development is a central element of Nanogate. Since commencing operations in 1999, the Group has stood out through change and the expansion of its range of services. Thanks to our strategic focus, we are firmly established today as a leading international integrated systems provider for multi-functional high-performance surfaces and as a long-term innovation partner for leading corporate groups. True to our slogan, "A world of new surfaces", we use innovative surfaces to provide our customers with important competitive advantages. The component business is also increasing in importance. On the basis of our expertise in high-performance surfaces in the highest optical quality, we are able to manage and take responsibility for all of the processes, from the development to the production of component and surface.

**Pleasing results for Phase5**

Our Phase5 growth strategy acts as our guide. Based on the growth pillars it defines, we intend to exceed EUR 100 million in sales and to increase the Group's profitability. In doing so, we are focusing on five areas of action – so far with success: Since the launch of Phase5, the Group's sales have risen by more than 70 %, from EUR 53 million (2013) to almost EUR 91 million (2015). Despite expenses arising from the expansion strategy, the operating result (EBITDA) also improved very strongly to around EUR 10.2 million.

**Expansion of the value chain**

As a systems provider and innovation partner, Nanogate will also increasingly be producing complete components, thereby expanding its value chain. To do so, we will be utilising our existing expertise and experience from corresponding projects, since in some cases, we have already manufactured complete components in the past. The Group is currently laying further foundations for supplying its customers more and more with components in future. We assume responsibility here for design and development, as well as for the production of the components and the coating of the surface. Based on our expertise in innovative plastics with multifunctional properties, we are concentrating on high-quality components made of plastic, which are required with surfaces of the highest optical quality. Today, for example, we already produce complex plastic parts with multifunctional surfaces at our glazing centre of excellence in Bad Salzuflen. Using this as a starting point, we now intend to systematically open up the component business. We will benefit in this endeavour from the expertise of our new equity holding in plastics specialist Goletz. This company, founded in 1969, has a strong market position especially in smaller and midsize, design-oriented plastic components, while we have until now been specialised in larger components, for example, for the automotive industry, with our subsidiary Plastic-Design. We also significantly expanded our capacities in the past. Among other things, this included new and more efficient facilities for our unique inkjet technology. Both the larger portfolio of applications and the greater capacities are important elements that form the foundation of our organic growth.

**Expansion of the technology portfolio**

An important growth lever is the continuing expansion of our product and technology portfolio. It is particularly significant for the Group that the production of our new N-Metals® Chrome technology platform for the multifunctional metallisation of surfaces will start in the current year (see also page 12). Expenditure in the high single-digit million range is flowing into the technology and into the associated expansion of our centre of excellence for high-quality metal applications – this is our largest investment since our operational launch in 1999. In parallel, the Group is expanding its portfolio of applications in other areas, such as with a new generation of systems at our Vogler subsidiary, for example.

**Stronger international business**

Nanogate is positioning itself ever more internationally, for example with the current launch of our new Nanogate Teknoloji AS subsidiary in Istanbul. From Turkey, we intend to access the markets in the Middle East. In the current year, we already expect sales in the million range, after previously tapping into the market, primarily for our products in safety engineering (N-Glaze® Security). We are also continuing to see strong sales in Asia, where we have already been supplying glazing components to an international car manufacturer since 2013. In parallel, we are expecting a significant increase in US business. Nanogate is represented in more than thirty countries with its system solutions.

**Development of the Group**

Nanogate has previously proven several times over that additional equity holdings contribute to the Group's profitable growth. Acquisitions and equity holdings are also options to further develop the company in the future. We will be selective about this. Market position, technological expertise, integration potential and customer access are crucial criteria here. Our new subsidiary Walter Goletz GmbH meets these criteria well. With the acquisition of 75 % of the plastics specialist Walter Goletz GmbH, we are significantly expanding our range of services.

**Improved internal coordination**

At the same time, Nanogate is implementing numerous projects as part of its internal excellence programme in order to develop internal coordination and networking. We are focusing on development, production and sales. The company is thereby creating the necessary structures and processes for the further course of growth. We have also developed central corporate values at a Group-wide management conference.

**Touch us every day!**

Numerous companies today use Nanogate's technology in various applications, from cars to aeroplanes to the kitchen. With our Phase5 growth programme, the Group is progressing step by step towards its objective of becoming present in all areas of life. We are ensuring that customers and consumers can experience our vision to "Touch us every day".

*New Neunkirchen site*

# N-Metals® Chrome – Expansion of the technology portfolio

Seen on lustrous furniture or a perfectly designed steering wheel, surfaces with a high-quality chrome-look coating lend many products the finishing touch. New functions and design are often the crucial distinguishing feature influencing purchase decisions. Nanogate's new N-Metals® Chrome technology platform provides the alternatives to conventional chrome coating processes urgently demanded by the market. Our technology is more cost-effective, more environmentally friendly and allows for new application possibilities compared with previous applications. We are currently setting up the production facilities at our centre of excellence for high-quality metal applications, opened in 2015, at our new location in Neunkirchen. Both, the new technology and the centre of excellence, represent important steps in expanding the portfolio as part of our Phase5 strategy programme. Production for N-Metals® Chrome is scheduled to start in the current financial year.

Our new platform allows us to offer an innovative technology for an attractive market. Nanogate anticipates a market volume in the mid-three-figure million range for multifunctional metallisation of surfaces. The Group is already in promising talks with numerous interested parties and existing customers from various industries about possible orders. The new technology allows Nanogate to give various substrates – above all plastics – a chrome-like look in perfect optical quality.

N-Metals® Chrome supplements our range of products with additional system applications that also promise sales and margin potential over the medium term. We are thereby opening up new markets around our existing customer base and we see significant synergies with our existing solutions in both strategic growth areas of advanced metals and advanced polymers. Our new applications also represent Nanogate's new direction towards greater involvement in the component business.

The new coating method is based on the combination of environmentally friendly PVD thin-film technology and UV-based wet-chemical coatings. The technology does not use polluting materials such as chromium trioxide or nickel. The prohibition, set by environmental standards, on certain electroplating processes from 2017 will likely further drive demand for our technology. Because polluting substances are not used, enhanced components can also be completely recycled. This also means safety advantages in the case of breakage, since the coating does not split. The new technology allows many design and colour variants and can be used with a number of substrates. The surfaces also have anti-corrosion properties.



# The share

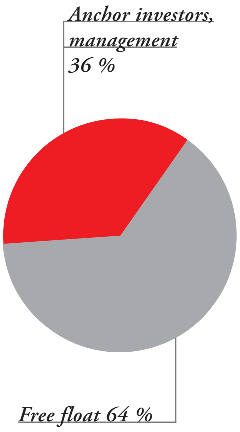
Nanogate achieved important operational and strategic successes in the reporting year. Despite the significant financial burdens associated with the programme of investment, the Group would like its shareholders to participate in the growing business activity. The Supervisory and Management Boards will propose another dividend payout of EUR 0.11 per share for the 2015 financial year at the shareholders' meeting in June. The Group is aware of its responsibility to its shareholders and is therefore continuing the dividend payout that was started three years ago. At the same time, the company would also like to ensure financial latitude for its ongoing growth strategy.

Interest in the Nanogate share remains strong. The average trading volume on all German stock markets within one year rose by almost two thirds to 8,836 daily traded shares. In a predominantly friendly stock market environment, the share increased over the course of the year to the record level of more than EUR 40. At the end of the year, the share was slightly lower, at EUR 31.98, than in January 2015, when it was EUR 34.65. Concern over the Chinese economy and the automotive industry adversely affected the share, which analysts still recommend as a "buy". In the first quarter of 2016, recommendations to buy came from Landesbank Baden-Württemberg, Hauck & Aufhäuser, SMC Research and Warburg Research. The analysts' share price target as at the beginning of March was up to EUR 54.50 – and thereby significantly higher than the share price at the time.

The company's free float rose to 64 % in the new financial year. The Luxempart S.A. investment trust now has approximately 10 % of the shares. Luxempart, the existing anchor investor, HeidelbergCapital Private Equity Fund, as well as the Group's management together hold around 36 % of the shares in Nanogate AG. The best known other institutional investors from Germany and abroad include the French investment trust, Alto Invest, for example.

In 2015, Nanogate broadened its dialogue with investors, meeting with them across Europe, for example in Frankfurt, London, Luxembourg and Paris, as well as in Helsinki and Copenhagen. In parallel, the Management Board presented the company several times at renowned capital market conferences, such as the German Equity Forum. Numerous press meetings also took place. The company strengthened its financial position during the year under review with a capital increase without subscription rights. At the time of the transaction in March 2015, gross proceeds of issue amounted to approximately EUR 11.6 million. The number of shares also increased as a result of exercising share options and making a capital increase against contributions in kind as part of the purchase price for the acquisition of the outstanding shares in GfO AG. Overall, Nanogate AG's share capital rose to EUR 3,377,716. As the shares newly issued for the 2014 financial year as part of the capital increase in March 2015 were not eligible for dividends, these new shares were listed under a different identification number until the shareholders' meeting and were subsequently amalgamated. The shareholders' meeting in June 2015 agreed to the proposal to pay a constant dividend. All other proposals were approved with large majorities, including the change in auditors proposed for reasons of corporate governance. The Group already voluntarily complies with the transparency obligations of the strictly regulated Prime Standard segment. Nanogate publishes all of its capital market information not only in German, but also in English, prepares its annual financial statements in accordance with the International Financial Reporting Standards (IFRS) and regularly organises analysts' conferences. As part of new transparency regulations, the Group is also subject to a duty to publish ad hoc announcements and directors' dealings from July 2016 onwards.

**Shareholder structure**




As at 10.3.2016, figures rounded

**Share details**

| Stock market segment | Entry Standard |
|---|---|
| WKN / ISIN | A0JKHC / DE000A0JKHC9 |
| Number of issued shares (as at 31.12.2015) | 3,377,716 |
| Designated sponsor | equinet Bank AG |
| Share price at start/end of year (Xetra) | EUR 34.66 / EUR 31.98 |
| Share price high/low for the year (Xetra, intraday) | EUR 43.58 / EUR 27.61 |
| Market capitalisation at year-end | EUR 108.0 million |

Source: Bloomberg

# Nanogate shows commitment and responsibility

For a responsible company such as Nanogate, business and ethics fundamentally go hand in hand. Resource efficiency, broad social commitment and trustworthy conduct in day-to-day business with all stakeholders are core elements of our company culture and are anchored in our company strategy. Since commencing operations in 1999, the Group has supported numerous projects and has got involved in a variety of ways. In doing so, we take a holistic approach and focus on establishing a network that is as broad as possible.

Based on this and its strategic activities, Nanogate intends to further professionalise its CSR commitment and to improve transparency. The Group is currently pushing forward preparations for applying the German Sustainability Code and intends to submit the required declaration of compliance in the medium term. We intend to use this to officially record our comprehensive and long-term commitment and to make our work understandable, because sustainability at Nanogate primarily encompasses the areas of product range and production, as well as responsibility for society.

As far as the product range is concerned, we employ applications that contribute to the efficient use of resources. Glazing components for the automotive industry, for example, ensure that cars are lighter and therefore require less fuel, which reduces $CO_2$ emissions. In our production, we also focus on low-level consumption of raw materials and energy. At our Vogler subsidiary, for example, all of the lamps in the production hall have been replaced with energy-saving LEDs. With their large production facilities, our GfO, Plastic-Design and Vogler subsidiaries have also already introduced energy management systems pursuant to ISO DIN 50001.

Significant and, in some cases, already long-standing activities include, for example, CEO Ralph Zastrau's commitment to the *Unternehmen für die Region* ("Companies for the Region") and *Verantwortungspartner Saarland* ("Saarland – a responsible partner") initiatives, as well as to the *DV Nano* industry association, in which COO Michael Jung is active. We also sponsored several new projects in 2015. In collaboration with Saarland University, a workshop with primary school children on the topic of understanding technology took place as part of the *Märchenakademie* programme. In Schwäbisch Gmünd, our GfO AG subsidiary is involved in introducing children and young people to the sciences as part of the *eule Wissenswerkstatt* knowledge workshop project. A new project also involves supporting young sporting talent. Here, our Nanogate Textile & Care Systems subsidiary has launched a collaboration with the athletes of the *Saar-Triathleten* triathlon club, which is an important local sponsorship at the Group's headquarters.

Our broad commitment has also drawn notable attention from outside. In addition to the Group's strength of innovation, the jury of the prestigious Entrepreneur of the Year award also acknowledged its CSR work. Nanogate also took first place in the "Holistic CSR Strategy" category in the "Companies in Saarland: Active and Committed" competition. The project was initiated by, among others, the Saarland Ministry for Business, Employment, Energy and Transport, as well as the Saarland Chamber of Commerce and Industry.

# NANOGATE VALUES

## Commitment, to ourselves and others

As a leading international integrated systems provider, Nanogate focuses on long-term, profitable growth and demonstrates accountability to all its stakeholders. As part of Phase5, we have therefore defined common, company-wide, binding values for our business and our relationship with customers and business partners, as well as within our Group. They are the foundation upon which we will achieve our vision: Touch us every day!

**Change** – Reliability

**Performance** – Sustainability

**Target-oriented** – Creativity

**Quality** – Personal responsibility

**Openness** – Respect

# Report of the Supervisory Board

Dear shareholders,

In the 2015 financial year, Nanogate benefited significantly from its Phase5 growth programme, both strategically as well as operationally. At EUR 90.9 million, sales again reached a record high, thereby increasing by more than 70 % against the 2013 financial year, shortly before the launch of our Phase5 strategy programme. In the same period, the operating result (EBITDA) also increased substantially despite the financial burden in connection with opening up new, international markets, and came to EUR 10.2 million in the previous year.

The Group initiated important projects in the 2015 financial year to allow it to further increase its volume of business and profitability over the medium and long term. This primarily included setting up the new N-Metals® Chrome technology platform, whose market launch is planned for the current financial year. In parallel, Nanogate expanded its business activities, opening up new sales markets with touchpads and safety applications. As part of its ongoing Phase5 strategy programme, the Group continues to pursue its target of exceeding EUR 100 million in sales and increasing profitability. The good work on the part of the Management Board was also confirmed by the award of the "Entrepreneur of the Year" prize to Ralf Zastrau and Michael Jung. The prestigious prize is awarded every year by the auditing and consulting company EY (Ernst & Young).

The Supervisory Board monitored the company intensively during the 2015 financial year. Its meetings focused on business developments, liquidity and Group financing, as well as on medium and long-term corporate planning. The Board also dealt with developments at the subsidiaries and with the shareholders meeting in June 2015.

In the previous financial year, there were five Supervisory Board meetings in total: in Frankfurt am Main on 11 February, in Göttelborn on 22 April, in Göttelborn on 18 June, in Frankfurt on 28 September, and in Eltville on 1 December. All of the Supervisory Board members were present at each meeting. The members of the Management Board were always invited to the meetings. The Board also held meetings via telephone conference. The Supervisory Board also made further decisions by circular resolution.

The Supervisory Board was given comprehensive information regarding business development, risk management and planning by means of close, continual dialogue and ongoing written communication, such as monthly reports. This ensured that we were able to meet our responsibilities in accordance with the law and the articles of association and to fulfil our role as a supervisory body. In addition to the Management Board's policy of providing information comprehensively and transparently, in individual cases the Supervisory Board makes use of the statutory possibility of inspecting the company's documents and accounts. However, the Supervisory Board saw no need to appoint any experts to perform special tasks (pursuant to Section 111 [2] of the German Stock Corporation Act [AktG]). The Supervisory Board's Audit Committee deals specifically with the annual and consolidated financial statements.

Ralf Zastrau remains on the Management Board (appointed until March 2017). As co-founder of the company and CEO, he is responsible for strategic alignment and the profitable growth strategy. Michael Jung (COO, appointed until June 2020) and Daniel Seibert (CFO, appointed until April 2018) make up the rest of the Management Board. The Management Board continues to be complemented by the Executive Committee as an internal management and steering committee. In addition to the three members of the Management Board, the Committee also includes the Managing Directors of the following subsidiaries: Gerd Leichner (GfO AG), Anthony Lucassen (Eurogard B.V.), Holger Zytur (Nanogate Textile & Care Systems GmbH), and recently Johannes Hof (Vogler GmbH). Its purpose is to continually improve internal coordination, particularly in the areas of production, technology and market cultivation.

The Supervisory Board and Management Board consider the Entry Standard of the Frankfurt Stock Exchange to be currently the most suitable stock exchange segment for the company, as measured by its size and the expense involved. However, the company regularly monitors whether and when a change of segment might be prudent. In addition, issuers in the Entry Standard must also publish ad hoc announcements and director dealings in future. Independently of this, Nanogate already voluntarily complies with the more comprehensive reporting obligations of the Prime Standard segment. These include publishing the annual report within four months of the balance sheet date, preparing the annual financial statements in accordance with the international accounting standards of the IFRS, organising analysts' conferences and publishing important information in English. Issuers in the Entry Standard are exempt from the regulations of the German Corporate Governance Code.

In view of the Corporate Governance recommendations, the Supervisory Board last year proposed to the shareholders that the auditors be changed. With the agreement of the shareholders' meeting, the switch was made to auditing and consulting company EY (Ernst & Young). It issued an unqualified audit certificate for the 2015 financial year following its audit of the consolidated financial statements, the Group management report and the individual financial statements. The members of the Supervisory Board received the auditors' reports in good time for their meeting on 26 April 2016. The auditors were present in order to answer questions and to present certain findings of the audit in detail. All of the necessary documents were examined, namely the consolidated financial statements including the Group management report and the individual financial statements including the management reports. No objections were raised. The Supervisory Board concurs with the Management Board's proposal for the appropriation of profits: in view of the good operating performance, it shall be proposed to the shareholders' meeting to again distribute a dividend of EUR 0.11 per share. Despite the ongoing programme of growth and investment, we intend to use our prudent dividend policy to focus on the long-term company strategy oriented to profitable growth, particularly with regard to private investors. A cautious dividend policy is also necessary to provide Nanogate with the financial latitude for its planned growth. At the Supervisory Board meeting on 26 April 2016, the Supervisory Board approved the consolidated financial statements including the Group management report and the individual financial statements including the management reports.

The basis for our continuing corporate success is the Group's workforce, which now numbers around 600 across its six locations. We would like to thank all our staff for their continued great effort and their commitment. We would also like to thank the members of the Management Board for their dedication over the past financial year. And we would like to express our sincere gratitude to our shareholders, customers and business partners for the trust they have placed in us.

In 2016, Nanogate will continue its course of growth and should exceed its target of more than EUR 100 million in sales. The Group addresses attractive, growing target markets and has a mastery of the design, development and manufacture of multifunctional high-performance surfaces of the highest optical quality across the entire value chain. Above all, we see significant sales potential internationally.

Quierschied-Göttelborn, 26 April 2016

Oliver Schumann
Chairman of the Supervisory Board

# NEW **HORIZONS**

## A WORLD OF NEW SURFACES

Across every continent, companies are using multifunctional surfaces to offer customers and users product worlds with new features and unusual designs. As a partner in innovation to world-leading corporate groups, Nanogate AG is therefore accelerating its international expansion.

# Group management report 2015 for Nanogate AG, Quierschied-Göttelborn

## 1 Fundamental principles of the Group

The Nanogate Group (Nanogate) is a leading international integrated systems provider for high-performance surfaces and, according to the US market research institute Markets and Markets, is one of the leading suppliers around the world. The Group opens up the diverse possibilities of multifunctional surfaces based on new materials for companies in a wide range of industries. With its slogan, "A world of new surfaces", the Nanogate Group reinforces its aspiration of using intelligent surfaces to give products a competitive edge and help companies generate additional value. It stands for the Group's promise to be a reliable partner for its customers and to bring them cutting-edge technology, rapid implementation and high-quality mass production.

### 1.1 Business model

Nanogate provides its customers with technologically and visually high-quality systems, equipping plastic, metal and other surfaces and components with new functions and properties (for example, making them non-stick, anti-corrosive, scratchproof, chemically stable or protected from exposure to the elements, with hygienic properties). To do so, the Group uses its extensive knowledge of innovative materials as well as its many years of experience in the mass production of enhanced multifunctional surfaces for two- and three-dimensional components. The aim is to improve products and processes by means of multifunctional high-performance surfaces. New materials, designs and functions are intended to increase the competitiveness and profitability of Nanogate's customers and to reap environmental benefits. With solutions and knowledge from Nanogate, companies can gain a technological advantage over their competitors – and to this end, the Group adopts the approach of serving its customers as a long-term innovation partner.

As an integrated systems provider, Nanogate can draw on vast experience and a diverse array of skills in materials development as well as in process integration and mass production. It covers the entire value chain, from the purchase of raw materials, to the synthesis and formulation of the material systems, right through to the enhancement and production of the finished surfaces. Nanogate can draw on a comprehensive portfolio of technology platforms and processes when developing new applications for various substrates that then go into mass production. The company is also continuing to develop its component business. With this step, Nanogate will expand its value chain, assuming overall responsibility for selected complete components, known as high-tech components, as a partner to major corporate groups. As a systems provider, Nanogate will manage and take responsibility for all of the stages, from development and design to the production of the components and the coating of the surface. The Group will primarily focus on components with high-performance surfaces, thereby providing its customers with a broader range of services. As a result, Nanogate is also benefiting from its majority acquisition of plastics specialist Goletz, which was agreed in April 2016 (see "Events after the balance sheet date"). Its enhancement of multifunctional surfaces and manufacture of sophisticated components is founded on its extensive expertise in the area of new materials. Since it began operations in 1999, Nanogate has formed the central interface between the manufacturers of source materials and the suppliers of innovative industrial products, thereby enabling the efficient use of high-performance surfaces. Here, the Group uses its own as well as external processes.

The company primarily targets attractive sectors such as automotive/transport, mechanical/plant engineering, buildings/interiors and sport/leisure sectors. Nanogate sees significant volume and margin potential in the two strategic growth areas of advanced metals and advanced polymers. Advanced metals serves as a platform for high-quality metal coatings, for example on aluminium and stainless steel, as well as for metallisation applications. Nanogate sells solutions in the advanced metals growth area under the N-Metals® brand. In 2015, the Group put a new centre of excellence for metal applications into operation at its additional Neunkirchen site as part of the planned expansion. The segment also includes the applications on the new N-Metals® Chrome technology platform. Advanced polymers encompasses applications with innovative plastics sold mainly under the N-Glaze® brand. In the area of advanced polymers, the Group has its own production capacities for manufacturing surface systems, enhancing and coating surfaces, and producing coloured or transparent, glazed plastic components with glass-like properties. This includes the glazing centre of excellence at the Bad Salzuflen site, for example.

The Group is divided into two segments, namely Base Technologies and Advanced Technologies. Base Technologies comprises much of the Group's existing portfolio of conventional applications, such as those in the areas of sport/leisure and buildings/interiors. The Advanced Technologies segment brings together all of the systems in the areas boasting especially strong growth. The Group believes there is strong growth and earnings potential in this segment, after having made considerable efforts to develop new systems in recent years as part of a broad innovation drive. This includes the two strategic growth areas of advanced metals and advanced polymers. A large proportion of the Group's investments have been poured into these areas in recent years, albeit without neglecting the competitiveness of the Base Technologies segment. Nanogate continually adds to its technology portfolio so as to build on its market position with additional applications. This primarily includes the creation, begun in 2015, of a new technology platform for the multifunctional metallisation of surfaces, which will be sold under the N-Metals® Chrome brand and which is scheduled to go into production in the course of 2016.

### 1.2 Group structure and operating subsidiaries

The Nanogate Group consists of the parent company Nanogate AG, Quierschied-Göttelborn, and the consolidated portfolio companies Nanogate Industrial Solutions GmbH (NIS), Quierschied-Göttelborn, GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd, Nanogate Textile & Care Systems GmbH (NTCS), Quierschied-Göttelborn, and Plastic-Design GmbH, Bad Salzuflen. The shares in Eurogard B.V., Geldrop, the Netherlands, and Nanogate Glazing Systems B.V., Geldrop, the Netherlands, are pooled in the intermediate holding company Nanogate Nederland B.V., Geldrop, the Netherlands. In July 2014, the Nanogate Group acquired all of the shares in surface specialist, Vogler, which now trades under the name Vogler GmbH, Lüdenscheid. At the end of 2015, Nanogate AG transferred all of the shares in Vogler GmbH to Nanogate Industrial Solutions GmbH. Following the end of the reporting period, the Group also acquired a 75 % stake in plastics specialist Walter Goletz GmbH (see "Events after the balance sheet date").

#### 1.2.1 Nanogate AG

As a holding company, the parent company Nanogate AG concentrates on the strategic and operational management of the Group and its operating equity holdings. Central material development and production as well as central functions such as finance, controlling and services for all Group companies are also pooled in the management and technology holding company.

#### 1.2.2 Nanogate Industrial Solutions GmbH

Nanogate Industrial Solutions GmbH concentrates on the industrial implementation of various high-performance surfaces, in particular on the market for metal surfaces, for example made of aluminium or stainless steel, as well as metallisation, especially of plastics. The focus here, for example, is on energy efficiency applications marketed under the

N-Ergy Plus® brand, in addition to other growing applications such as coatings for products using stainless steel. The company also specialises in process integration. In the autumn of 2015, the subsidiary put its newly constructed centre of excellence for advanced metals into operation at the new facility in Neunkirchen (Saarland). Production for the new N-Metals® Chrome technology platform will also be based here.

### 1.2.3 Eurogard B.V.

Eurogard B.V. specialises in enhancing surfaces on two-dimensional components and is the global market leader in the lucrative specialist sector of coating transparent plastics. Eurogard B.V. concentrates on the buildings/interiors, aviation and automotive/mechanical engineering sectors. The total shareholdings in Eurogard B.V. have been pooled in the Dutch holding company Nanogate Nederland B.V. since 2014.

### 1.2.4 Nanogate Textile & Care Systems GmbH

Nanogate Textile & Care Systems GmbH targets markets including the sport/leisure market, involving do-it-yourself (DIY) systems for improved cleaning, care and protection of textiles, which also feature hygienic properties, for example. Some of the solutions are also sold under their own brands, such as feldten, for example. Applications for functional textiles, such as those employed in air filters, are also used here.

### 1.2.5 GfO Gesellschaft für Oberflächentechnik AG

GfO specialises in the technical and optical enhancement of complex plastic and metal surface geometries. In addition, the company has an inkjet technology unique in Europe, whose capacities were expanded in 2015 by adding another production plant as a result of the strong demand. Since the Group's investment in 2010, sales and earnings of the subsidiary have increased significantly. In the summer of 2015, Nanogate acquired the outstanding stake of almost 25 % in view of the good prospects offered and its planned growth course. As a result, it is now the full owner of the company.

### 1.2.6 Plastic-Design GmbH

The equity holding is one of Europe's leading plastics processors and has a proprietary technology portfolio for optically sophisticated components. It is also considered to be a trailblazer in the growth market of glazing. The Group operates a centre of excellence for N-Glaze® applications at Plastic-Design GmbH's headquarters in Bad Salzuflen. Capacity at the centre of excellence was expanded due to the strong demand and the good performance in 2014 and 2015. This centre of excellence will enable Nanogate to offer the integrated development, production and subsequent enhancement of transparent and coloured N-Glaze® components in one location. The equity holding, which was acquired in 2012, is also specialised in the development and production of complex plastic components, which has enabled the Group to expand its value chain.

### 1.2.7 Nanogate Glazing Systems B.V.

Nanogate Glazing Systems B.V., established in June 2013, focuses on the production, enhancement and moulding of flat glazing components. These components are used in special-purpose forestry vehicles, for instance. Since 2015, the company has been opening up its new safety applications line of business under the N-Glaze® Security brand. The subsidiary supplements the existing expertise within the Nanogate Group. The portfolio expansion means that Nanogate AG is well positioned to benefit from the growing demand for N-Glaze® components. The shares in the company have been pooled in the holding company Nanogate Nederland B.V. since 2014.

### 1.2.8 Vogler GmbH

In July 2014, Nanogate acquired surface specialist Vogler GmbH & Co. KG ("Vogler", then Vogler GmbH for short). The company is based in Lüdenscheid (North Rhine-Westphalia) and was established in 1990. The company's customers include major international companies, for example from the automotive industry and building services, as well as leading domestic appliance manufacturers. Vogler specialises in technically advanced coatings for decorative and transparent, multifunctional surfaces. In acquiring Vogler, Nanogate significantly expanded its range of services. In the future, Vogler intends to focus more on the components business as part of the Group's overall strategy, thereby covering the entire value chain from development to production and coating.

The integration into the Nanogate Group was completed in February 2015. In addition to plastic applications, Vogler can now also enhance high-quality flat and curved metal elements. The first joint project was started in March 2015, although in the first quarter of 2016, Vogler made preparations for the launch of a new coating facility that is more flexible and has a greater capacity than the previous model, thereby expanding the Group's range of technology. Further investment in the subsidiary is also planned for 2016.

## 1.3 Goals and strategies

Nanogate is pursuing a long-term growth strategy so that it can continue to improve its good market position in the production and marketing of multifunctional high-performance surfaces, both nationally and internationally. The main aim is to raise the company's value with a greater volume of business and higher profitability. This has so far been successfully implemented.

High-performance surfaces based on new materials are a fundamental component of many products. Innovative materials are established in many sectors and, as a cross-sectional technology, catalyse technical progress by means of better products or more efficient processes. Multifunctional surfaces and nanotechnology thereby equally contribute to improving companies' competitiveness.

Until now, sales of systems based on new technologies and of high-performance surfaces have been continuously increasing. The main customer industries are automotive/aviation, energy, medical/healthcare, household/hygiene, buildings/interiors and textiles/clothing. Particularly in demand are systems that maintain the value of surfaces (e.g. coatings that protect against corrosion or abrasion), reduce the need for cleaning ("easy-to-clean"), have an antimicrobial effect or improve energy efficiency.

Given the heterogeneous and dynamic nature of the market, market observers forecast continued strong growth. Analysts at Future Markets Inc., for example, believe that the market for nanosurfaces will grow to almost USD 10 billion by the year 2025. Markets and Markets is forecasting annual growth of more than 20 % and a market volume of USD 14.2 billion in 2019. The most important sales markets for surfaces based on new materials include the automotive industry. Nanogate itself sees an accessible, future global market worth more than a billion euros for its products and applications.

The Group's growth strategy concentrates on several particularly attractive target sectors and on the development of new technologies and solutions, primarily in the two strategic growth areas. The market for high-quality metal coatings, for example, will have a potential in the mid-three-figure million range in the future. Applications based on the new N-Metals® Chrome technology platform will also contribute to this. The Group also sees major growth potential in the market for glazing applications, particularly in the automotive sector, because innovative plastics can replace glass or metal as a material and offer greater scope for designing high-quality components. They also allow for a substantial reduction in weight, one of the benefits of which may be lower fuel consumption. In the medium term, Nanogate anticipates market potential in the three-figure million euro range for N-Glaze® applications. 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. Across all sectors, the Group attaches great importance to developing and distributing environmentally friendly systems and processes, whose share of total sales is set to rise significantly in the years ahead. Beyond this, Nanogate's focus is on further opening up international markets and new areas of application, including by means of new equity holdings and joint ventures.

### 1.4 Management system

Despite the financial burden associated with implementing the ongoing Phase5 growth programme – such as for capacity expansions – the Group intends to increase the operating result (EBITDA) over the long term. Nanogate strives to find a balance between investing in growth and optimising its cost structure. Nanogate manages the Group using the two important control variables sales and EBITDA. Further control variables such as gross profit margin, EBIT, cash flow, working capital, investments and equity ratio are also used for operational and strategic management. In a monthly reporting system for the Group as a whole, target-performance comparisons are made, and deviations and key performance indicators 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.

### 1.5 Research and development

Nanogate expanded its expertise and applications portfolio again in 2015. Applications for research and development therefore remain at a high level. The Group's R&D ratio has nevertheless declined slightly in view of the steep rise in sales. The company will continue this course in the current financial year. As a result, significant funds are currently flowing into the strategic growth areas of advanced metals and advanced polymers. With the expanded range, the Group is exploiting the opportunities offered by the growing demand for multifunctional high-performance surfaces. In doing so, the company is primarily concentrating on the further development of existing technologies and on customer projects. The Group is currently focusing on the set-up and market launch of the new N-Metals® Chrome technology platform, which is scheduled to commence operations in the course of 2016. In addition, significant funds are flowing into the Lüdenscheid site, for example in setting up a new coating facility with greater capacities, which is scheduled to go into operation in the second quarter of 2016. Capacities for inkjet applications (Schwäbisch Gmünd) and at the glazing centre of excellence (Bad Salzuflen) were already significantly expanded in 2015.

To improve efficiency, Nanogate collaborates on fundamental and applied research with accredited research institutes such as the Leibniz Institute for New Materials (INM) in Saarbrücken, the plastics technology department of the Kaiserslautern University of Applied Sciences, and Kunststoff-Institut Lüdenscheid plastics institute.

To secure its competitive edge and to protect its ongoing innovation partnerships, Nanogate regularly reviews its patent portfolio under consideration of costs and future benefit, and pursues a market-oriented patent strategy. For reasons of cost, the company allows patents that are no longer required to expire. From the Group's perspective, internal expertise, especially in procedures and processes, is becoming increasingly more important than individual property rights.

## 2 Business report

### 2.1 Macroeconomic environment in 2015

The global economy continued its upward trend in 2015, but failed to achieve the momentum of the previous year. The International Monetary Fund (IMF) reported in January 2016 that the global economy had probably grown by 3.1 % in the previous year. According to the IMF, Germany was also not quite able to continue its growth of previous years, with a growth rate of +1.5 %. By contrast, figures from the German government indicate that the German economy increased by 1.7 %. According to the IMF, the economy in the euro area grew by 1.5 %, in the US by 2.5 %, and in China by 6.9 %. The Chinese economy's weakest growth for a long time is cause for serious discussion about the future development of the country and, together with weak economic data from Brazil and Russia, has also had a considerable adverse effect on the financial markets.

Nanogate's industry environment is also challenging, as some of the relevant sectors showed only restrained growth. According to the VCI, the German chemical industry association, the German chemical industry did see a slight increase of 1 % in sales volumes in December 2015, but sales revenue stagnated due to falling prices. By contrast, the automotive industry saw record sales volumes for both important markets, the US and China, while the best results in five years were achieved in western Europe, according to the automotive industry association, with the number of new vehicles registered there rising by 9 %. The picture looks very different for German machinery and equipment manufacturers, however. In February 2016, the VDMA industry association reported only weak growth of 1 % that was achieved by them in 2015. Private consumption and retail sales rose moderately over the reporting period, according to market research institute GfK and the German Federal Statistical Office.

### 2.2 Course of business

Nanogate significantly expanded its business activities in the 2015 financial year, as well as further extending its international market position. The Group is thereby benefiting from its new Phase5 growth strategy, launched in 2014. Thanks to the strong demand, the Group reached another sales record in the reporting year at almost EUR 91 million, continuing its course of double-digit growth rates. Sales have increased by more than 70 % since 2013. The international business has again proven itself to be an important driver of sales. Nanogate also achieved a new record with its operating result (EBITDA), which increased to EUR 10.2 million despite the significant financial burden associated with the expansion strategy. The operating result improved significantly in comparison to 2013. The strong financial development is also reflected in cash flow from operating activities, which increased to EUR 12.3 million, and in cash and cash equivalents, which increased to EUR 22.7 million.

In addition to the strong operating business, the strategic development of the Group was also the focus during the reporting year. Alongside greater organic growth, Nanogate primarily intends to improve its international positioning and to broaden its application and technology portfolio as part of its new Phase5 strategy programme, launched in 2014. The focus will be on additional systems and solutions for the strategic application areas of advanced metals and advanced polymers. Nanogate launched the introductory phase of a new technology platform under the N-Metals® Chrome brand in April 2015. The aim is to give surfaces a high-quality metallic design combined with multifunctional properties. With the new N-Metals® Chrome technology platform, Nanogate is creating the alternatives, urgently demanded by the market, to electroplating processes that are polluting and limited in application, while offering new design and functional possibilities.

The new coating method is based on the combination of environmentally friendly PVD thin-film technology and UV-based wet-chemical coatings. The technology does not use polluting materials such as chromium trioxide or nickel. Because polluting substances are not used, enhanced components can also be completely recycled. This also means safety advantages in the case of breakage, since the coating does not split. The new technology allows many design and colour variants and can be used with a number of substrates. The surfaces, which are of the highest optical quality, also have anti-corrosion properties and meet stringent regulations. The Group anticipates a market potential in the mid-three-figure million range for the multifunctional metallisation of surfaces. Production is scheduled to begin in 2016.

The innovative technology platform is based in the new centre of excellence for advanced metals. Nanogate is investing in the high single-digit million range in establishing its new Neunkirchen site and in introducing its new technology platform for high-quality metallisation. The projects already begun encompass applications for stainless steel surfaces with multifunctional coatings that meet the highest design demands. In addition, the plant is so flexible that it is also suitable for manufacturing small production series economically for the market introduction of new applications.

The Group acquired the outstanding shares in GfO AG as part of its Phase5 strategy programme. Nanogate exercised the corresponding option at the beginning of the year, acquiring the remaining amount of almost 25 % in July. Since the Group's investment in the summer of 2010, the equity holding's sales and earnings have increased significantly. The positive performance is confirmed by another major order, which involves enhancing sensor-covering screens for navigation devices with a multifunctional coating. The devices are used in a popular, high-volume model. Nanogate has received a multi-year order, having successfully implemented a smaller-scale initial project in 2014. In parallel, GfO put a second inkjet coating facility into operation.

At the same time, Nanogate expanded its range of products and services to include the new safety engineering line of business, based at Dutch subsidiary, Nanogate Glazing Systems. For reference projects in forestry, for example, the Group had already been supplying extremely fracture-resistant panes that have been multifunctionally enhanced. Following successful market tests and the development of additional specialist areas, official vehicles – for example buses made by German manufacturers – will now be equipped with panes optimised for safety. In the medium term, Nanogate expects sales potential in the double-digit million range. Marketing will be carried out under the N-Glaze® Security brand. The plastic panes developed by Nanogate meet all high-level safety requirements whilst also offering excellent optical quality. They are impact-resistant, fracture-resistant and shatterproof, offering vehicle passengers protection against damage caused by vandalism, for example. Functions such as easy cleaning ("easy-to-clean"), UV-protection, chemical resistance and paint or flame retardancy can be integrated.

The Group is also increasing its sales potential with visually high-quality, multifunctional coatings for touchpads, which will be used in vehicles. Nanogate subsidiary GfO AG will in future be supplying touchpads with scratchproof enhancement to a German luxury car manufacturer. They will be located in the central console near the gear lever and will make it easier to operate the vehicle, especially the navigation device. The coating uses a multifunctional Sicralan® enhancement for the capacitive sensor surface. The new generation of vehicles was launched on the market in summer 2015.

In the operating business, the Group concluded the integration of subsidiary Vogler GmbH, acquired in 2014, more quickly than anticipated. The most important projects included the enhancement of expertise in the area of high-quality metal coatings, focusing on flat and curved applications. In addition, Nanogate is continuously optimising Vogler's existing product and order portfolio to increase the profitability of the equity holding over the medium term.

A new, major project for Vogler is one of the most important new orders in ongoing operations. The multi-year agreement encompasses the supply of visually high-quality components to a German automotive group in the premium segment based in the south of Germany. Within the scope of the multi-year order, Nanogate is acting as innovation partner to the automotive manufacturer, making its entire system available. The high-quality, decoratively enhanced and metallised components, which meet the highest quality requirements, are used on the exteriors of premium cars. The order is confirmation of the rising future demand, particularly in car manufacturing, for manufacturers of complete components and groups of components. In the area of energy efficiency, the Group recorded stable demand, and further expanded its customer base in collaboration with another international provider. At the same time, Nanogate further developed its technology.

Nanogate also strengthened its international sales potential by expanding its business in China with a new, million-euro project for a leading German car manufacturer. Nanogate has thereby added a further order to its existing contract, which will be processed in partnership with an international automotive supplier. The new order, which will run for several years, has a total volume in the significant double-digit million range and will increase the business that has been in place since 2014. Production capacities at the existing glazing centre of excellence in Bad Salzuflen will be increased once again for the new project, after volumes already more than doubled in 2014. The investment amount for the additional production and coating facilities runs to the mid-single-digit million range.

The Group recorded satisfactory demand in the traditional systems and solutions business. The sales volume has increased again in the area of end-user systems for sport/leisure applications. In the Base Technologies business segment, Nanogate is benefiting from its established and widely popular solutions.

Internally, Nanogate is committed to further professionalising its organisation and processes, while also creating the conditions for future growth. This includes introducing energy management systems (see chapter 2.5.2) as well as further auditing on the part of well-known manufacturers. The Phase5 strategy programme also includes an internal excellence programme to better integrate development, manufacturing and sales, and will involve the implementation of numerous projects geared towards even better internal cooperation within the group of companies.

The Group's good market position was also noticed by others in the reporting year, when auditing firm Ernst & Young (EY) awarded Nanogate the respected "Entrepreneur of the Year" prize, which was accepted by CEO, Ralf Zastrau, and COO, Michael Jung. In the jury's view, they expanded a start-up into an internationally recognised company that is always developing new technologies and positioning itself as a market and innovation leader in its industry.

## 2.3 Net assets, financial and earnings position

### 2.3.1 Earnings position

Nanogate again recorded strong performance in 2015. The Group increased its sales, partly through consolidation effects, by 32.5 % to EUR 90.9 million (previous year: EUR 68.6 million) – a new record for the Group. Compared with 2013 – i.e. before the launch of the

Phase5 strategy programme – sales have risen by more than 70 %. The company benefited from a high level of demand in the 2015 financial year in all target markets and from particularly strong year-end business. The two strategic growth areas of advanced metals and advanced polymers are important sales drivers. The export business grew by around a third to some EUR 42 million, and it remains an important sales market whose importance is continuously increasing. Significant contributions to sales that were generated with German customers who, in fact, also sell their end-products abroad, were not taken into account in export business. Changes in inventories came to EUR 0.3 million (previous year: EUR -0.7 million). Own work capitalised amounted to EUR 1.4 million (previous year: EUR 1.2 million), and other operating income rose slightly to EUR 2.2 million (previous year: EUR 2.0 million). The Group's overall performance therefore increased by 33.5 % to EUR 94.8 million (previous year: EUR 71.1 million).

The cost of materials rose to EUR 35.9 million (previous year: EUR 24.5 million), also due to consolidation effects, while the cost-of-materials ratio (in relation to overall performance) was 37.8 % (previous year: 34.4 %). As one of the central control variables, the gross profit margin (in relation to overall performance) fell, as expected, to 62.1 % (previous year: 65.6 %), and was the result of an ever stronger components business. Personnel expenses also rose to EUR 28.5 million (previous year: EUR 23.4 million) due to consolidation effects, however the personnel expenses ratio (in relation to overall performance) fell to 30.0 % (previous year: 33.0 %). Despite the greater volume of business, other operating expenses rose at a lower rate to EUR 20.2 million (previous year: EUR 15.8 million).

The operating result (EBITDA) improved disproportionately despite expenses arising from the expansion strategy, with consolidated EBITDA increasing by 37 % to EUR 10.2 million (previous year: EUR 7.4 million). The financial burden is the result of costs for projects and processes in connection with the expansion of the technology portfolio and capacities. This is in addition to one-off transaction and integration costs. Despite these expenses, the consolidated EBITDA margin increased to 11.2 % (previous year: 10.8 %). Without these one-off effects, the operating margin would have been correspondingly higher. In view of the significant investments made in technology and capacities, depreciation and amortisation went up as expected to EUR 7.2 million (previous year: EUR 5.0 million). Despite this higher depreciation and amortisation, consolidated EBIT increased to EUR 3.0 million (previous year: EUR 2.5 million). As a consequence of the expansion, the net financial result amounted to EUR -2.4 million (previous year: EUR -1.6 million). Tax expenses decreased to EUR 0.1 million (previous year: EUR 0.4 million). Consolidated net income totalled EUR 0.5 million (previous year: EUR 0.4 million). Earnings per share therefore amounted to EUR 0.16 based on an average number of shares in the reporting period of 3,273,988 (basic).

### 2.3.2 Segment reporting

**Overview of the segments**

| | Base Technologies | | Advanced Technologies | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Segment revenue | 34,675 | 26,373 | 56,219 | 42,183 |
| Segment earnings | 2,832 | 2,176 | 3,078 | 2,054 |

The Advanced Technologies segment, with the two strategic growth areas of advanced metals and advanced polymers, contributed almost two thirds to the Group's volume of business in the reporting year. Thanks to the strong demand, the segment sales increased by one third to EUR 56.2 million (previous year: EUR 42.2 million). Segment earnings rose to EUR 3.1 million (previous year: EUR 2.1 million) and were marked by the use of funds for the expansion strategy. Sales in the Base Technologies segment climbed to EUR 34.7 million (previous year: EUR 26.4 million), and segment earnings to EUR 2.8 million (previous year: EUR 2.2 million).

### 2.3.3 Financial position

The Group's financial position has improved despite the expenses associated with the expansion, for example with investments in technologies and capacities, as well as the financial burden resulting from opening up new, international markets. Cash and cash equivalents therefore rose to EUR 22.7 million as at the balance sheet date (previous year: EUR 17.8 million), primarily as a result of the strong performance and the successful capital increase.

The cash flow from operating activities rose to EUR 12.3 million (previous year: EUR 8.2 million). This rise is partly attributable to increased operating profitability and improved net working capital. Affected primarily by the cash inflow from a cash capital increase, cash flow from financing activities amounts to EUR 2.2 million (previous year: EUR 16.3 million). In March 2015, the Group generated gross proceeds of issue of EUR 11.3 million from a capital increase without subscription rights. 297,843 new shares were placed. In addition, the dividend payment as well as the repayment and raising of borrowed capital, for example, are also included in cash flow from financing activities. Cash flow from investing activities came to EUR -9.6 million in the reporting period (previous year: EUR -24.0 million), reflecting the implementation of the Phase5 growth strategy. The higher figure from the previous year is largely due to the acquisition of surface specialist, Vogler, in the summer of 2014.

### 2.3.4 Assets position

The consolidated balance sheet total increased in the previous financial year to EUR 123.8 million (previous year: EUR 108.5 million). The increase is primarily the result of a rise in property, plant and equipment as well as the increased cash and cash equivalents. As at the balance sheet date, the equity ratio had improved to 41.4 % (previous year: 39.0 %).

Non-current assets rose to EUR 85.1 million (previous year: EUR 75.2 million), largely due to the increase in property, plant and equipment to EUR 41.3 million (previous year: EUR 31.1 million). The rise in property, plant and equipment reflects the company's course of growth. As a result of the sharp increase in the volume of business, current assets grew to EUR 38.7 million (previous year: EUR 33.3 million), for example as a consequence of increased inventories amounting to EUR 7.5 million (previous year: EUR 6.6 million). Despite the sales increase, trade receivables fell to EUR 5.7 million (previous year: EUR 6.5) due to factors related to the balance sheet date. Cash and cash equivalents totalled EUR 22.7 million (previous year: EUR 17.8 million).

The company's share capital increased to EUR 3,377,716 in the reporting period (previous year: EUR 3,016,705). Contributing factors here were a cash capital increase without subscription rights in March 2015, a small capital increase against contributions in kind as part of the transaction to acquire the outstanding GfO shares, as well as new shares from share options exercised. At EUR 31.7 million, non-current financial liabilities were almost on a par with the previous year (EUR 31.8 million). Trade payables rose to EUR 5.2 million (previous year: EUR 4.5 million) as a result of the company's increased volume of business.

## 2.4 Appropriation of profits

The Group again recorded pleasing business development in the 2015 financial year, achieving new records in sales and operating result (EBITDA). Cash flow from operating activities and liquidity also improved. However, the expense involved in implementing the Phase5 growth strategy adversely affected Nanogate AG's earnings as parent company with its numerous holding and service functions. This includes, for example, costs for opening up new, international markets and for business development. For reasons of transparency, the parent company has borne all of these special costs itself and has therefore not included subsidiaries in individual cases. In addition, there were significant expenses on the part of the operating subsidiaries for new technologies and additional capacities, and which were ultimately borne by the parent company as part of the consolidation. The net result of the parent company under HGB therefore declined, as expected, to EUR -2.1 million (previous year: EUR +1.1 million). This development is also due to rising costs resulting from the additional tasks performed by the holding company, which has optimised its structures and processes in view of the sharp increase in the volume of business. Given the pleasing operating performance, the Group's continued good prospects and its financial strength, the Management Board and Supervisory Board both continue to propose the payment of a dividend of EUR 0.11 per share, thereby enabling shareholders to continue participating in the success. The Group's financial latitude for the forthcoming phases of the expansion remains ensured despite the unchanged dividend payout. The Group will therefore continue to pursue its growth strategy. The good performance in 2015, coupled with a significant sales increase of almost one third within the Group, and the improved consolidated net result are confirmation of this strategy.

## 2.5 Financial and non-financial performance indicators

### 2.5.1 Financial performance indicators

The control variables are sales, gross profit margin, EBITDA, EBIT, cash flow, working capital, investments and the equity ratio. Our aim is to continuously increase sales and the operating result. In addition, the Group is careful to increase the cash flow from operating activities and to utilise net working capital as efficiently as possible.

### 2.5.2 Non-financial performance indicators, sustainability, and employees

As at 31.12.2015, the number of employees went up to 593 (previous year: 555). The annual average for the number of employees within the Group (FTE) was 582 (previous year: 470). Sales per employee came to around EUR 156,000 (previous year: around EUR 145,000). There were 17 trainees (previous year: 15).

Sustainable management has been integral to Nanogate's business activities since it began operations, comprising above all a correspondingly aligned production set-up and product range. The Group anticipates significant sales and earnings potential in environmentally friendly applications, systems and processes. In addition to the considerable design advantages they offer, particularly for the car manufacturing industry, the high level of interest in N-Glaze® applications can be attributed to the fact that they weigh less than glass or metal, resulting in lower fuel consumption and, in turn, lower $CO_2$ emissions. Solvent-based material systems have also been replaced by water-based solutions.

At Nanogate, responsible corporate governance also includes the Group's social commitment in addition to a portfolio focused on sustainability. As a trailblazer in the industry and as a leading international integrated systems provider, Nanogate is committed to meeting the many requirements of producers in this market. Part of the focus is on the safe use of technology for the customer, as well as in the manufacturing process (occupational health and safety). For example, Nanogate took part in the EU-wide NanoSustain research project, which was successfully concluded by a total of twelve partners from eight countries in April 2013. The project to develop energy-efficient fine-particle filters, sponsored by the German Federal Environmental Foundation (DBU), was also concluded. As part of its long-standing activities in NanoBioNet e.V., one of the largest and highest-performing nano- and biotechnology networks in Germany, Nanogate has been involved in the work of the ZIM network NanoPharm since 2014 (ZIM = Central Innovation Program SME). For this, Nanogate contributes its expertise regarding nanostructures, surface modifications and nanoparticle synthesis. The Group is also one of the founders of the Deutscher Verband Nanotechnologie e.V. industry association and is represented on the association's managing board by Michael Jung, COO of Nanogate, as vice president.

At the same time, Nanogate continues to be involved in several projects which aim to promote dialogue between society and business, focusing in particular on programmes with extensive networking of the partners involved. The company is involved with the *Verantwortungspartner Saarland* ("Saarland – a responsible partner") regional project, for example, which is supported by numerous institutions in Saarland and which has been very well received. The aim is to permanently anchor social responsibility in SMEs, to make it an integral part of professional practice and to increase its effectiveness. Nanogate CEO, Ralf Zastrau, is a member of the board at *Unternehmen für die Region e.V.* ("Companies for the Region"), Berlin, and chairman of the board at *Verantwortungspartner Saarland e.V.* ("Saarland – a responsible partner"), Saarbrücken – both projects are supported by the renowned Bertelsmann Foundation. In addition to numerous school projects, Nanogate, together with its GfO subsidiary, is promoting an EU beacon project that helps young people into careers, by way of example. The Group also supported the German Doctors e.V. aid organisation (formally "Doctors for the Third World") in 2015.

In order to further professionalise processes, projects, management and reporting as regards sustainability, the Group is preparing to apply the German Sustainability Code, and intends to submit the required declaration of compliance in the medium term. By taking this step, Nanogate wishes to fulfil its role as a responsible company to an even greater extent. In connection with this, the GfO, Plastic-Design and Vogler subsidiaries already introduced energy management systems pursuant to ISO DIN 50001 in the reporting year. The aim is to measure energy flows and to enable better assessment of energy efficiency. This will involve carrying out numerous projects towards reducing the Group's use of resources. The lighting in the Vogler production hall, for example, has been switched from conventional lighting to LEDs, thereby reducing the annual energy requirement by around 170,000 kWh.

### 2.6 Previous-year comparison

Nanogate significantly exceeded its targets in the reporting period. After initially forecasting a sales increase of more than EUR 80 million and an improvement in the operating result (EBITDA) with the publication of its annual report, the Group raised its expectations for the year as a whole, with the company benefiting from a high level of demand across the Group, especially in glazing applications. The targets for the 2015 financial year were therefore increased in the fourth quarter, and with EUR 90.9 million in sales and an operating result (EBITDA) of around EUR 10.2 million, Nanogate significantly exceeded even its raised forecast. By comparison, in 2014 the Group generated revenue of EUR 68.6 million, with an operating result (EBITDA) of EUR 7.4 million. Compared with 2013, sales even increased by more than 70 %. A particularly strong performance in the fourth quarter also contributed to the positive development over the reporting year as a whole. The good performance in 2015 is also reflected in the strong cash flow from operating activities and the increased liquidity.

### 2.7 Overall statement on business development

In the view of the Management Board, Nanogate is moving forward well with the continuous expansion of its market position and improvement in profitability. With its strategic growth areas of advanced metals and advanced polymers, the Group is targeting large, rapidly growing markets that should, over the coming years, facilitate the planned sales growth. With the ongoing Phase5 growth strategy, the Group achieved important successes in the reporting year and in the first months of the new 2016 financial year. This primarily entails the expansion of the product portfolio to include a new technology platform for the multifunctional metallisation of surfaces, whose market introduction is scheduled for sometime during 2016. At the same time, the Group further expanded its international market position, in part by taking on another major order from Asia in March 2015. Alongside strong sales in Asia, the company is also expecting significant growth in US business. Nanogate also opened a site in Turkey, and the establishment of further international locations is being reviewed. In addition to expanding the technology portfolio and the internationalisation, the Group is also planning stronger organic growth as a third pillar. With new orders, such as for touchpads or kitchen furniture, Nanogate has again expanded its order base in the high double-digit million range, and is also ensuring that its industry mix is better balanced. The Group also sees significant opportunities in the expansion of the components business, with which it intends to supplement its value chain. The Phase5 strategy programme also encompasses further acquisitions or equity holdings as strategic options, as well as an internal excellence programme towards better integrating development, production and sales. In the view of the Management Board, the Group is therefore well equipped to continue its course of growth.

## 3 Events after the balance sheet date

At the beginning of 2016, Nanogate Industrial Solutions GmbH and Vogler GmbH agreed a profit and loss transfer agreement.

In February 2016, Nanogate announced the start of operations at its new Turkish subsidiary, Nanogate Teknoloji, based in Istanbul. From its new location, the Group intends to access the markets in Turkey and the Middle East. Nanogate also sees additional potential for growth with other fields of application in the region. In light of the existing order base, Nanogate is expecting to achieve regional sales in the million range in the current 2016 financial year and intends to realise initial earnings contributions.

In April 2016, Nanogate agreed the acquisition of a 75 % stake in plastics specialist Walter Goletz GmbH, Kierspe. With this step, the Group is expanding its system expertise, and will cover all specialist areas regarding the development and production, as well as the multifunctional enhancement, of high-quality plastic components in future. The new equity holding has a strong market position especially in smaller and midsize, design-oriented components, while Nanogate has until now been specialised in larger components, for example, for the automotive industry, with its existing subsidiary Plastic-Design. Goletz also has expertise in metallisation and surface enhancement. The equity holding supplies customers in the automotive, electronics and domestic appliances industries. In parallel, Goletz is represented in medical technology applications via a subsidiary and has relevant certifications and manufacturing systems, for example, in clean room. The company was established in 1969 and currently has around 130 staff. Walter Goletz GmbH is striving to achieve sales of above EUR 15 million and turn a profit in the 2016 financial year. As with previous acquisitions, Nanogate will be further developing its new equity holding as part of the integration, gradually optimising the existing order and product mix at Goletz in order to generate synergies at Group level. The purchase price includes a performance-linked pricing structure and will be paid out in several tranches over the coming years. Nanogate can also acquire the outstanding shares as part of this graduated pricing model. Some of the purchase price will be paid in shares (from a capital increase by contribution in kind). Nanogate expects the transaction to conclude by this summer and for the company to be completely consolidated at this point.

# 4 Forecast, risk and opportunities report

## 4.1 Forecast

### 4.1.1 Future economic and industry development

Despite uncertainties regarding the development of individual countries and the turbulence on the financial markets, the global economy is expected to continue developing positively overall. The German government, for example, expects growth on a par with that of the previous year, at 1.7 %. The International Monetary Fund (IMF) also forecasts economic growth for Germany of 1.7 %, and has even raised is expectations slightly in January 2016. The same applies to the euro area. The IMF is, however, somewhat more cautious regarding the global economy, and expects growth of only 3.4 %, instead of 3.6 %. The US economy is expected to grow by 2.6 % (instead of 2.8 %), and the Chinese economy by 6.3 % (unchanged forecast). According to the IMF, the oil price will continue to decline.

The industries that Nanogate predominantly targets are likely to grow at a modest rate in 2016. According to its industry association, VCI, the German chemical industry has, in the meantime, slightly lowered its expectations and now anticipates a rise in production of just 1 %. With slightly falling prices, sales should therefore increase by 0.5 %. Following the weak growth of 2015, the association for the German engineering industry, VDMA, expects zero growth in the current year. Despite the challenges, the automotive industry appears to be fundamentally optimistic, according to industry association, VDA. It believes that the global car market will increase by 2 %, reaching 80 million vehicles for the first time. According to market research company, GfK, private consumption remains an important pillar of the economy, and is expected to grow at an even greater rate than GDP, with an effective rise of 2 %.

### 4.1.2 Future development of the Nanogate Group – forecast for 2016

The Group is benefiting from the good order base in the high double-digit million range, and is seeing strong demand, above all in both of its strategic growth fields of advanced metals and advanced polymers. Nanogate will therefore continue to pursue its multi-year course of growth in 2016.

The measures entailed in the Phase5 strategy programme, launched in 2014, are increasingly paying off, and, with new orders, the company is growing strongly in existing business, while at the same time, internationalisation has been strengthened by new projects and the launch of the new subsidiary in Turkey, announced in February 2016. In parallel, Nanogate is continuously expanding its product portfolio, such as with a new technology platform for the multifunctional metallisation of surfaces, which should go into operation in the current year. The Group also sees significant sales potential in the components business, which is to be expanded, thereby supplementing the company's value chain. External growth is also one of the strategic options for further extending market position. The strategy programme also includes an internal excellence programme to improve processes and to strengthen development, production and marketing within the Group companies. As a result, significant funds are flowing into investments, such as in technology and capacity expansion, and into opening up new, international markets as part of implementing the growth programme. Nanogate firmly believes that this strategy will pay off in the medium and long term, even if the Group's profitability is affected in the short term.

The Group should exceed its sales target of EUR 100 million in the 2016 financial year, reaching an important milestone in its Phase 5 growth strategy, having generated sales of EUR 53 million in 2013. On the basis of existing projects as well as the majority acquisition of plastics specialist Goletz (see "Events after the balance sheet date"), the Group expects to see a substantial increase in sales of more than EUR 105 million. Nanogate would thereby achieve average sales growth of approximately 25 % in an ongoing, three-year cycle between the beginning of 2014 and the end of 2016. Despite the continued expenses associated with the expansion strategy as well as the one-off transaction and integration costs, the Group also expects the operating result (EBITDA) to increase significantly in 2016 and exceed the EUR 12 million mark. Substantial funds will continue to flow into the ongoing investment programme and international expansion. In view of the growth strategy, consolidated net income will continue to be shaped by depreciation as well as financing costs. Thanks to its strong cash flow from operating activities and cash and cash equivalents of EUR 22.7 million as at the balance sheet date, the Group is financially well equipped for the forthcoming steps.

The start to 2016 confirms the Group's good strategic alignment. This includes the new equity holding, the operational start of the new subsidiary in Istanbul and, for example, stronger demand from the furniture industry. In the view of the Management Board, Nanogate will thereby continue the growth strategy of the previous years and profit from the growing demand for multifunctional high-performance surfaces. As a leading international integrated systems provider, the Group covers the entire value chain and is firmly established as an innovation partner for renowned corporate groups. In 2016, Nanogate will reach a new dimension in terms of expertise, its range of services and volume of business.

### 4.2 Risk report

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. Due to the central control of the company strategy and the strong interdependencies between the individual operating segments, differentiating the overall risk assessment by individual operating segments is not appropriate.

### 4.2.1 Risk management system

The Nanogate Group's risk management is an inseparable part of its value-based management philosophy and is integrated into the Group's management systems. The objective here is to create as much transparency and planning capability for the management as possible. In this way, the company identifies opportunities and risks for all material business transactions and processes within the Group, and strives to prevent risks in advance.

### 4.2.2 Overview of the risks

**Economy:** Demand for high-performance surfaces and services in Germany is to some extent dependent on the general economic conditions in the target markets. Companies' willingness to invest might be adversely affected by a slowdown in domestic demand. In light of this fact, the possibility of demand for multifunctional, high-performance surfaces based on new materials declining to a low level and of investment in new projects "drying up" or being postponed cannot be ruled out.

**Market:** The attractive growth market for high-performance surfaces could entice competitors with a variety of core expertise, such as nanotechnology material manufacturers, special chemicals companies or producers of end products and suppliers of large corporate groups, such as car manufacturers, to enter the market, which in turn could lead to greater competition. There is also the possibility for customers to make use of other substrates not currently offered by Nanogate. However, it is the Group's opinion that the barriers to market entry for new competitors are high, because customers are primarily interested in complete systems and expect their technology partners to have mastered both development and mass production. In addition, it is possible that the Nanogate Group may no longer succeed in convincing customers of the value and benefits of its solutions. This could have an effect on sales and earnings. Neither can it be ruled out that a tightening of regulatory requirements at European level might mean that it would no longer be economically attractive for particular suppliers to produce individual source materials. For example, REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) is an EU regulation governing chemical substances. It is designed to harmonise the previous chemicals legislation in the European Union and can have an impact on procurement or sales markets. In addition, suppliers' inability to continue supplying certain primary products in good time or at all cannot be ruled out. If the Nanogate Group is unable to find alternative solutions in the event of supply shortages or regulatory changes, this could have adverse effects on its business performance. Certain products could no longer be manufactured for example, or additional costs could be incurred in procuring alternatives. At the same time, there is a risk that acceptance of new materials in general will be insufficient.

**Customer structure:** The Group's customer structure is not yet sufficiently diversified, which means it is dependent on specific sector trends or on individual customers. The company's strong growth should continue to improve its diversification in terms of customers and regions. In the 2015 financial year, Nanogate generated around 44 % of sales with its ten largest customers. In 2014, the ten largest customers accounted for around 46 % of business. However, sales fluctuations relating to individual customers due to economic developments in individual markets cannot be ruled out. Up to now, Nanogate has been working with its customers over many years within the scope of innovation partnerships.

**Investments:** Nanogate is currently investing heavily in the development of new technology platforms, process technologies and additional products, in capacity expansion and mass production plants, in opening up new international markets and in new portfolio companies. Funds are only committed when the marketing opportunities are sufficient or when business plans of portfolio companies have been reviewed for the probability of their success and potential profitability. The possibility that product and technology developments or portfolio companies might not reach their target figures in terms of sales and earnings cannot be ruled out, however. Varying legal opinions on structuring or valuation may arise among third parties from transactions carried out in the past, which could result in subsequent claims. At the same time, it might prove necessary to increase investment to reach set targets, leading to temporary impairments of profitability as a result of the initial costs incurred. It also cannot be ruled out that capacity expansions progress more slowly than planned or that the start of production at new facilities involves more costs than expected.

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

**Products:** Since 2000, the parent company has been certified in quality management in accordance with ISO DIN 9001; the subsidiaries have followed gradually. Since 2007, active environmental management has been practised at Nanogate AG as the parent company in line with the high standards of ISO DIN 14001. The holding company's recertifications were again completed in February 2015. Following the end of the reporting period, Nanogate concluded a complete certification that is carried out only every three years. It is one of the first companies to do this, pursuant to the new regulations applicable since 2015. The GfO, Plastic-Design and Vogler subsidiaries have now also introduced an energy management system pursuant to ISO DIN 50001. Furthermore, the company has additional certifications and audits, such as from car manufacturers, some of which go well beyond ISO requirements. All products were tested and approved by well-known independent institutes such as Fraunhofer Gesellschaft and TÜV. Furthermore, the company welcomes, supports and actively assists in steps to further clarify potential risks and to improve transparency of new materials. The nanomaterials used at Nanogate are processed in liquid form, are always embedded in what is known as a binder matrix, and are primarily applied in practice as a hardened surface coating. All the investigations currently available worldwide confirm unequivocally that based on current findings, nanomaterials permanently embedded in a matrix (comparable to a paint or lacquer) throughout their life cycle do not constitute a danger to people or the environment. The NanoSustain EU project supports this assessment. 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 completely ruled out. Damages claims from end customers or business partners in connection with this cannot be excluded entirely from the Group's considerations, particularly since in certain cases, Nanogate also launches, promotes and sells the products on the market itself. The Group has appropriate product liability insurance for such cases.

**Financing:** The receivables portfolio can involve risks relating to the recoverability of receivables in individual regions or subsidiaries. Nanogate counters this risk across the Group by implementing strict receivables management, while at the same time practising factoring in selected divisions. The Group also has a very strong financial position.

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

#### 4.2.3 Assessment of the risk situation

The risk situation that can be influenced by the Group has not changed materially since the previous year. The risks presented which could negatively impact the forecasts are those that are identified today. Existing risks from pending legal proceedings are analysed with the involvement of specialised lawyers and qualified advisers, and are acknowledged in the accounting process with corresponding provisions. The existence of further risks which have not been identified by the Management Board, or the likelihood of whose occurrence is estimated to be negligible, cannot be ruled out. Nanogate's Management Board is confident that the following risks do not endanger the continued existence of the company either individually or collectively. The market and financing risks described here are limited and manageable. External factors, for instance the effects of the financial and economic crisis, or natural disasters, are naturally beyond Nanogate's control.

### 4.3 Opportunities report

Nanogate is pursuing a comprehensive growth strategy in order to increase the value of the company. The aim of the Phase5 programme, announced at the beginning of 2014, is to exceed the EUR 100 million sales mark and to increase profitability.

#### 4.3.1 Overview of opportunities

**Economy:** The demand for multifunctional high-performance surfaces, with which companies create added value, thus providing better applications and solutions compared with competition, is partly dependent on the general economic situation. A stronger than expected economic upturn could increase customers' readiness to invest in innovations.

**Market:** There is considerable market potential in high-performance surfaces. Nanogate primarily focuses on the particularly promising application areas of advanced metals and advanced polymers. In the rapidly expanding N-Glaze® market alone – innovative plastics with a glazed finish – Nanogate anticipates medium-term sales potential in the three-figure million euro range. In order to be able to benefit from these opportunities, Nanogate is constantly expanding its expertise and its market position on the basis of its own development work and through external growth. For instance, this includes the establishing of a new technology platform for the multifunctional metallisation of surfaces, which was announced April 2015. In connection with this, Nanogate can point to the good position of German surfaces technology. High-end materials from new sources enable numerous benefits for companies and for private and commercial users; existing products are enhanced, production is made more efficient and cheaper or the use of resources is reduced. Market observers therefore anticipate a substantial increase in the demand for solutions and systems based on new materials. In many cases, innovative high-performance surfaces, including those based on nanotechnology, should replace conventional coatings. According to past research conducted by the market researchers at Future Markets, Inc., around two thirds of the market as a whole relate to the sectors transport (including car manufacturing), mechanical engineering/engineering, buildings, household/leisure and textiles. With its product portfolio, Nanogate focuses on the attractive high-performance surfaces segment, and in particular on high-margin sub-markets such as multifunctional transparent coatings, as well as on sub-markets requiring special technological expertise, such as inkjet coatings or the new technology platform for multifunctional metallisation. The global market volume accessible to Nanogate in this area could exceed a billion euros in future. According to the market researchers at Future Markets Inc., the global market for nanosurfaces will reach a volume of almost USD 10 billion in 2025. In view of the industry's growing demand for complete systems and one-stop shopping, Nanogate sees considerable growth opportunities in the market for multifunctional high-performance surfaces and components.

**Customers:** Nanogate's primary aim is to acquire new international customers. The growing business from Asia confirms this strategic alignment. Sales and earnings can benefit considerably from this, depending on the success, type and scope of opening up new markets.

**Investments:** Nanogate is committed to broadening the sales base with new applications and solutions. Depending on the time to market, the extended portfolio can boost business. Additional equity holdings are also options that the Group can use to speed up growth.

**Collaborations:** In its efforts to open up new international markets, Nanogate is also focusing on partnerships with leading international groups. Depending on the sales strength of a partner, the agreed targets may be achieved sooner than planned.

**Products:** The Group is continuously expanding its range of products and systems. At the same time, existing applications are constantly being improved upon within the scope of the existing partnership with a customer. As there are usually no exclusivity agreements in place, Nanogate can significantly increase the sales potential for certain systems by marketing to several customers at the same time. This can result in an important boost for sales and earnings in the medium term.

**Financing:** Nanogate is in a strong financial position. The share of equity is an important control variable for the Group. At the end of 2015 and the beginning of 2016, the company has sufficient liquidity as well as unused credit lines to finance the ongoing business and the planned growth strategy. Nanogate also further strengthened its financial position in March 2015 with a capital increase without subscription rights, achieving gross proceeds of issue of EUR 11.6 million with this transaction.

**Employees:** Performance, level of training and motivation are important pillars for the economic success of the company. The Group continuously promotes further training. Using existing talent optimally and attracting additional specialists can improve innovative strength and – not least – market position.

## 5 Other reporting requirements

**Internal control system and risk management system related to Group accounting**

The company's Supervisory Board includes the Audit Committee, which is dedicated to the consolidated financial statements. Nanogate AG prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and pursuant to Section 315a (1) HGB. The parent company, Nanogate AG, supports the subsidiaries in preparing their separate financial statements and operates a software-based risk management system that encompasses all the subsidiaries. The risk situation is regularly reviewed. The Group also operates centralised risk reporting. This is based on a platform solution from a renowned German insurance company. The main portfolio companies regularly prepare a detailed analysis of their risk profile in this regard. An aggregated Group risk report is prepared from these reports where specifically required, at least twice a year, however, which serves to direct the management in the corporate strategy.

The dual-control principle is also followed strictly within the Group. Reports on each company, including deviation analyses, are prepared on a monthly basis as part of the internal control system. This enables the Group to ensure that there is the highest level of transparency possible at all times regarding all companies.

Quierschied-Göttelborn, 22 April 2016

| | | |
|---|---|---|
| Ralf Zastrau | Michael Jung | Daniel Seibert |
| Chief Executive Officer | Chief Operating Officer | Chief Financial Officer |

# Consolidated income statement of Nanogate AG

*for the financial year from 1 January to 31 December 2015*

| | Note | 2015<br>EUR ,000 | 2014<br>EUR ,000 |
|---|---|---|---|
| Sales | 3 | 90,894 | 68,556 |
| Change in inventories of finished goods and work in progress | | 309 | -719 |
| Other own work capitalised | 4 | 1,380 | 1,236 |
| Other operating income | 5 | 2,204 | 2,041 |
| Cost of materials | 6 | -35,869 | -24,478 |
| Personnel expenses | 7 | -28,480 | -23,433 |
| Other operating expenses | 8 | -20,237 | -15,770 |
| **EBITDA** | | **10,201** | **7,433** |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 9 | -7,198 | -4,975 |
| **EBIT** | | **3,003** | **2,458** |
| Financial income | 10 | 134 | 108 |
| Financial expenses | 11 | -2,521 | -1,753 |
| **Earnings before taxes (EBT)** | | **616** | **813** |
| Tax expenses | 12 | -92 | -369 |
| **Net result for the period** | | **524** | **444** |
| *of which attributable to non-controlling interests* | | 3 | 1 |
| *of which attributable to shareholders of Nanogate AG (consolidated net income/loss)* | | **521** | **443** |
| **Earnings per share (EUR)** | 13 | | |
| Earnings per share, basic (EUR) | | 0.16 | 0.15 |
| Earnings per share, diluted (EUR) | | 0.16 | 0.15 |

# Consolidated statement of comprehensive income of Nanogate AG

*for the financial year from 1 January to 31 December 2015*

| | Note | 2015<br>EUR ,000 | 2014<br>EUR ,000 |
|---|---|---|---|
| **Net result for the period** | | **524** | **444** |
| **Other comprehensive income/loss** | | | |
| **Items which will not be reclassified to P&L in the future** | | | |
| Revaluation of intangible assets and property, plant and equipment | 15 | 740 | - |
| Actuarial gains/losses from defined-benefit pension commitments and similar obligations | 24 | 81 | -223 |
| Income taxes on items which are not retrospectively reclassified to P&L | | -239 | 65 |
| **Other comprehensive income/loss** | | **582** | **-158** |
| **Total net income/loss** | | **1,106** | **286** |
| *of which attributable to non-controlling interests* | | 4 | -36 |
| *of which attributable to shareholders of Nanogate AG* | | 1,102 | 322 |

# Consolidated statement of financial position of Nanogate AG

as at 31 December 2015

| Assets | Note | 31.12.2015 EUR ,000 | 31.12.2014 EUR ,000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 14 | 38,501 | 39,032 |
| Property, plant and equipment | 15 | 41,298 | 31,147 |
| Trade receivables | | 0 | 68 |
| Other financial assets | 16 | 642 | 633 |
| Deferred tax assets | 17 | 4,021 | 3,596 |
| Other assets | | 690 | 752 |
| | | 85,152 | 75,228 |
| **Current assets** | | | |
| Inventories | 18 | 7,473 | 6,565 |
| Trade receivables | 19 | 5,726 | 6,475 |
| Other financial assets | 20 | 1,392 | 1,809 |
| Income tax receivables | | 189 | 32 |
| Other assets | 21 | 1,174 | 594 |
| Cash and cash equivalents | 22 | 22,743 | 17,796 |
| | | 38,697 | 33,271 |
| | | 123,849 | 108,499 |

| Equity and liabilities | Note | 31.12.2015 EUR ,000 | 31.12.2014 EUR ,000 |
|---|---|---|---|
| **Equity** | 23 | | |
| Subscribed capital | | 3,378 | 3,017 |
| Capital reserves | | 41,187 | 27,771 |
| Other reserves | | 1,149 | 11 |
| Retained earnings | | 5,572 | 10,207 |
| Equity attributable to the shareholders of Nanogate AG | | 51,286 | 41,006 |
| Non-controlling interests | | 0 | 1,301 |
| | | 51,286 | 42,307 |
| **Non-current liabilities** | | | |
| Pension provisions | 24 | 992 | 1,109 |
| Other provisions | 25 | 380 | 431 |
| Financial liabilities | 26 | 31,677 | 31,820 |
| Other financial liabilities | 28 | 10,193 | 8,507 |
| Deferred tax liabilities | 30 | 3,294 | 2,866 |
| Other liabilities | 29 | 1,163 | 308 |
| | | 47,699 | 45,041 |
| **Current liabilities** | | | |
| Other provisions | 25 | 3,861 | 2,937 |
| Financial liabilities | 26 | 6,589 | 7,095 |
| Trade payables | 27 | 5,192 | 4,455 |
| Other financial liabilities | 28 | 4,483 | 2,334 |
| Income tax liabilities | | 319 | 153 |
| Other liabilities | 29 | 4,420 | 4,177 |
| | | 24,864 | 21,151 |
| | | 123,849 | 108,499 |

# Consolidated statement of cash flows of Nanogate AG

*for the financial year from 1 January to 31 December 2015*

| | Note | 2015<br>EUR ,000 | 2014<br>EUR ,000 |
|---|---|---|---|
| Earnings before taxes | | 616 | 813 |
| Amortisation of intangible assets and depreciation of property, plant and equipment | | 7,198 | 4,975 |
| Increase/decrease in provisions | | 756 | -64 |
| Result from the disposal of non-current assets | | -489 | -27 |
| Other non-cash income and expenses | | 480 | 238 |
| Interest income | | -53 | -85 |
| Interest expenses | | 2,183 | 1,559 |
| Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities | | -676 | 2,764 |
| Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities | | 2,772 | -1,347 |
| **Cash flow from operations before taxes** | | 12,787 | 8,826 |
| Income tax payments | | -443 | -651 |
| **Cash flow from operating activities** | | 12,344 | 8,175 |
| Proceeds from the disposal of property, plant and equipment | | 583 | 38 |
| Payments for investments in intangible assets | | -1,033 | -1,372 |
| Payments for investments in property, plant and equipment | | -9,422 | -9,427 |
| Proceeds from investments in financial assets | | 304 | 46 |
| Payments for investments in financial assets | | -102 | -415 |
| Payments for the acquisition of consolidated companies | | - | -12,961 |
| Proceeds from investments in other assets | | - | 100 |
| Payments for investments in other assets | | -9 | -35 |
| Interest received | | 59 | 50 |
| **Cash flow from investing activities** | | -9,620 | -23,976 |
| Proceeds from capital increases | | 11,288 | 70 |
| Dividend payments | | -332 | -328 |
| Payments in connection with consolidated companies | | -3,314 | -100 |
| Proceeds from the raising of loans | | 8,479 | 23,889 |
| Payments for the redemption of loans | | -9,643 | -4,633 |
| Payments for the redemption of finance lease liabilities | | -2,326 | -1,206 |
| Interest payments | | -1,929 | -1,381 |
| **Cash flow from financing activities** | | 2,223 | 16,311 |
| Changes in cash and cash equivalents | | 4,947 | 510 |
| Cash and cash equivalents at the beginning of the period | | 17,796 | 17,286 |
| **Cash and cash equivalents at the end of the period** | 34 | 22,743 | 17,796 |

# Consolidated statement of changes in equity of Nanogate AG

*for the financial year from 1 January to 31 December 2015*

| | Note | Subscribed capital | Capital reserves | Other reserves | Retained earnings | Equity attributable to share-holders of Nanogate AG | Non-controlling interests | Group equity |
|---|---|---|---|---|---|---|---|---|
| | | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| **As at 1 January 2014** | | **2,978** | **26,639** | **150** | **10,074** | **39,841** | **1,337** | **41,178** |
| Capital increases by issuance of new shares | | 39 | 1,012 | - | - | 1,051 | - | 1,051 |
| Dividend distribution to shareholders | | - | - | - | -328 | -328 | - | -328 |
| Share-based payments | | - | 120 | - | - | 120 | - | 120 |
| Transfer to retained earnings, net | | - | - | -18 | 18 | - | - | - |
| Total net income/loss | | | | | | | | |
| Net result for the period 2014 | | - | - | - | 443 | 443 | 1 | 444 |
| Other comprehensive income/ loss 2014 | | - | - | -121 | - | -121 | -37 | -158 |
| **As at 31 December 2014** | | **3,017** | **27,771** | **11** | **10,207** | **41,006** | **1,301** | **42,307** |
| Capital increases by issuance of new shares | | 361 | 13,306 | - | - | 13,667 | - | 13,667 |
| Dividend distribution to shareholders | | - | - | - | -332 | -332 | - | -332 |
| Transaction with non-controlling interests | | - | - | 624 | -4,891 | -4,267 | -1,305 | -5,572 |
| Share-based payments | | - | 110 | - | - | 110 | - | 110 |
| Transfer to retained earnings, net | | - | - | -67 | 67 | - | - | - |
| Total net income/loss | | | | | | | | |
| Net result for the period 2015 | | - | - | - | 521 | 521 | 3 | 524 |
| Other comprehensive income/ loss 2015 | | - | - | 581 | - | 581 | 1 | 582 |
| **As at 31 December 2015** | 23 | **3,378** | **41,187** | **1,149** | **5,572** | **51,286** | **-** | **51,286** |

# AS IF **UNTOUCHED**

## A WORLD OF NEW SURFACES

Making metal surfaces more efficient and developing new design concepts. No matter whether it's providing protection from scratches, dirt or fingerprints – with a transparent, coloured or translucent coating: N-Metals!

# Table of contents – Notes to the consolidated financial statements of the Nanogate Group as at 31 December 2015

# Notes to the consolidated financial statements for the financial year 2015

## A. Principles of the consolidated financial statements

**General information**

The consolidated financial statements of Nanogate AG, Quierschied-Göttelborn (hereinafter also referred to as “Nanogate AG” or “the company”) for the financial year ending on 31 December 2015 were prepared in accordance with the International Financial Reporting Standards (IFRS) drawn up by the International Accounting Standards Board (IASB) as applicable in the EU. All International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations of the IFRS Interpretation Committee (IFRS IC) – formally the International Financial Reporting Interpretation Committee (IFRIC) or Standing Interpretations Committee (SIC) – that required mandatory application for the 2015 financial year were taken into account. In order to attain concurrence with consolidated financial statements prepared in accordance with German commercial law, all duties of disclosure and explanation required by the German Commercial Code (Section 315a HGB) that go beyond the regulations of the IASB, in particular the preparation of a management report, have been met.

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

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

The consolidated financial statements were approved for publication by a resolution of the Management Board on 4 April 2016, and subsequently passed on to the Supervisory Board for approval.

The consolidated financial statements have been drawn up in euros. Unless otherwise specified, all amounts are in thousands of euros (EUR ,000). For reasons related to the calculations, rounding differences of +/- one unit (euro, %, etc.) may occur in the information presented in these financial statements.

**1. Legal principles of presentation**

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

The accounting and measurement methods used in the consolidated financial statements comply with the mandatory standards and interpretations applicable as at 31 December 2015. The following new or amended standards and interpretations that are important from the viewpoint of Nanogate AG were applied for the first time during the 2015 financial year.

| Standard or interpretation | | Endorsement | Mandatory from financial years beginning |
|---|---|---|---|
| | Annual Improvements to IFRS – Cycle 2011–2013 | Yes | 1.1.2015 |
| IFRIC 21 | Levies | Yes | 17.6.2014 |

Based on: Endorsement Status Report dated 16 February 2016

The IASB is revising existing standards as part of the “Annual Improvements Process”. In December 2013, the IASB published a corresponding collective standard on changes to various International Financial Reporting Standards (Cycle 2011–2013). The IFRS 1, IFRS 3, IFRS 13 and IAS 40 standards are affected. The changes have been adopted by the EU into European law. They are subsequently applicable for the first time to financial periods beginning on or after 1 January 2015. The amendments do not result in any material changes to the consolidated financial statements of Nanogate AG.

IFRIC 21 governs the time at which liabilities arising from rates and taxes are reported in the balance sheet. Public levies governed by other standards, such as income taxes, are explicitly excluded from this. The new regulation is intended to eliminate balance sheet differences relating to the time of recognition of liabilities from rates and taxes, and stipulates that the liabilities or, where applicable, provisions are to be recognised only once the event giving rise to the liability has taken place. The interpretation has been adopted by the EU into European law. It is then bindingly applicable to financial periods beginning on or after 17 June 2014. The amendments do not result in any material changes to the consolidated financial statements of Nanogate AG.

The following standards and interpretations are instances that have already been published by the IASB, but which only became mandatory after 31 December 2015.

| Standard or interpretation | | Endorsement | Mandatory from financial years beginning |
|---|---|---|---|
| IAS 1 | Disclosures in the Notes | Yes | 1.1.2016 |
| IAS 7 | Disclosures in the Notes | Planned for Q4 2016 | 1.1.2017 |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses | Planned for Q4 2016 | 1.1.2017 |
| IAS 16, 38 | Amendments to: Clarification of Acceptable Methods of Depreciation and Amortisation | Yes | 1.1.2016 |
| IAS 16, 41 | Amendments to: Bearer Plants | Yes | 1.1.2016 |
| IAS 19 | Amendments to: Employee Contributions | Yes | 1.2.2015 |
| IAS 27 | Amendments to: Equity Method in Separate Financial Statements | Yes | 1.1.2016 |
| IFRS 9 | Financial Instruments | Planned for H2 2016 | 1.1.2018 |
| IFRS 10, 12; IAS 28 | Applying the Consolidation Exception | Planned for H2 2016 | 1.1.2016 |
| IFRS 10, IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred | Postponed indefinitely |
| IFRS 11 | Amendments to: Accounting for Acquisitions of Interests in Joint Operations | Yes | 1.1.2016 |
| IFRS 14 | Regulatory Deferral Accounts | No | 1.1.2016 |

| Standard or interpretation | | Endorsement | Mandatory from financial years beginning |
|---|---|---|---|
| IFRS 15 | Revenue from Contracts with Customers (including change to the date of first-time application) | Planned for H2 2016 | 1.1.2018 |
| IFRS 16 | Leases | To be decided | 1.1.2019 |
| | Annual Improvements to IFRS – Cycle | Yes | 1.2.2015 |
| | Annual Improvements to IFRS – Cycle 2012–2014 | Yes | 1.1.2016 |

*Based on: Endorsement Status Report dated 16 February 2016*

The IASB announced amendments to IAS 1 in December 2014. They primarily serve to clarify disclosures relating to material circumstances and to the presentation of items on the statement of financial position and the statement of comprehensive income. The amended standard also governs the presentation of the share of equity-accounted companies in other comprehensive income in the statement of comprehensive income. The amendments to IAS 1 are applicable to financial periods beginning on or after 1 January 2016. Early adoption is permitted. Nanogate AG does not expect any significant effects on the consolidated financial statements.

The IASB published amendments to IAS 7 in January 2016. The objective is to provide relevant information to the users of financial statements to enable better evaluation of changes in liabilities arising from financing activities. This encompasses both cash and non-cash items. The disclosure requirements focus on liabilities that generate current or future cash flows, which will be classified under a company's financing activity within the meaning of IAS 7. In this respect, changes in financial assets within the meaning of the new regulations are then also subject to disclosure if current or future cash flows result from these assets, which will be classified in the statement of cash flows as cash flow from financing activities (e.g. from hedging liabilities). The new regulations are applicable for the first time for financial periods beginning on or after 1 January 2017; early adoption is permitted. The EU has not yet adopted the standard into European law. No comparative information for prior-year periods included in the financial statements needs to be provided upon first-time application. Nanogate AG is currently analysing the effects on the company's assets, financial and earnings position.

In July 2014, the IASB published the final version of IFRS 9 "Financial Instruments", thereby replacing IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces a universal approach to the classification and measurement of financial assets and financial liabilities. This is based on cash flow characteristics and the business model according to which they are managed. Furthermore, IFRS 9 comprises a new impairment model based on the premise of providing for expected losses. It also includes new regulations about hedge accounting. IFRS 9 must be applied for periods beginning on or after 1 January 2018; early adoption is permitted. Based on current assessments, IFRS 9 is not expected to have a significant effect on the Group's net assets, financial and earnings position or on its presentation.

IFRS 15 "Revenue from Contracts with Customers" was issued in May 2014. It supersedes the previous provisions to recognise revenue, IAS 18 (Revenue), IAS 11 (Construction Contracts) and the respective interpretations (IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31) and provides a comprehensive framework as to whether revenue is realised and recognised, and if so, for which period and in what amount. In July 2015, the IASB decided to postpone the first-time application of the standard to financial periods beginning on or after 1 January 2018. Early adoption is permitted. The EU has not yet adopted the standard into European law. The investigation into the effects arising from the application of IFRS 15 on the consolidated financial statements has not yet been concluded. Effects may arise in particular with regard to the time of recognition of revenues relating to transactions with several partial performances. The disclosure provisions have also been extended. Nanogate AG is currently analysing the effects on the company's assets, financial and earnings position.

In January 2016, the IASB published the final standard IFRS 16 "Leases"; it replaces IAS 17 and the associated interpretations (IFRIC 4, SIC-15 and SIC-27). The resulting changes essentially concern the lessee and lead to an obligation to recognise all leases and associated contractual rights and obligations in the balance sheet of the lessee in the form of a right of use and a corresponding leasing liability in the amount of the present value of the leasing rates. As a consequence, the right of use must be depreciated over the lease term and the lease liability measured according to the effective interest method. The IASB provides for two exceptions to the basic principle of recognising all leases, which the lessee may optionally make use of: leases with a term of twelve months or less and leases of low-value assets may be treated as previous operating leases. Application of the standard is mandatory for the first time for financial periods beginning on or after 1 January 2019. Voluntary early implementation is possible, as long as IFRS 15 is already being applied at that point in time. IFRS 16 may optionally be applied either entirely retrospectively within the meaning of IAS 8, or retrospectively to a modified extent on the basis of the transitional rules defined in the standard. The EU has not yet adopted the standard into European law. Nanogate AG is currently analysing the effects on the company's assets, financial and earnings position; this recognition tends to lead to an increase in the balance sheet total, negatively affecting the equity ratio.

Based on current assessments, all the other new or amended IFRS standards shown in the table above have no relevance for the Nanogate Group. The Group has not voluntarily adopted any of the aforementioned new or amended standards ahead of time.

**2. Accounting and measurement principles**

**General principles**

The most important accounting and measurement methods applied in the preparation of these consolidated financial statements can be found below. Unless stated otherwise, the methods described were all applied to the reporting periods presented.

The separate financial statements of Nanogate AG and those of its domestic and foreign subsidiaries have been prepared on the basis of uniform accounting and measurement principles. IAS 1 stipulates that in balance sheet presentation, a distinction is made between non-current and current assets and between non-current and current liabilities. Assets, liabilities and provisions are regarded as current when they can be realised, or fall due, within one year. The income statement was prepared using the total cost method. In cases where the balance sheet and income statement items are combined to improve the clarity of presentation, they are reported separately in the Notes.

The standard financial measures were used within the framework of the income statement. The company defines these as follows:

- EBITDA: Earnings before financial income, financial expenses, tax expenses, amortisation of intangible assets and depreciation of property, plant and equipment
- EBIT: Earnings before financial income, financial expenses and tax expenses
- EBT: Earnings before tax expenses

The consolidated financial statements are strictly prepared using the historical cost principle, with the exception of derivative financial instruments and financial assets available for sale, which are always measured at fair value. In addition, land and buildings are measured using the revaluation method within the meaning of IAS 16.

The most important accounting and measurement methods are explained below.

**Consolidation principles**

In addition to the parent company, the consolidated financial statements include all portfolio companies controlled by Nanogate AG. Control exists when Nanogate AG has power of disposition over the company, when there are risks arising from or rights to variable returns as a result of the commitment in the company, and Nanogate AG has the capability to use its power of disposition over the company in such a way that the level of the variable returns of the portfolio company is affected. The possibility of control is based here on Nanogate AG's direct or indirect majority of voting rights. If the portfolio company has only a minor impact on the assets, financial and earnings position of the Nanogate Group, it is not consolidated. Instead it is measured at fair value as per IAS 39. Please refer to the explanations regarding financial assets in this chapter.

The reporting date for Nanogate AG and the subsidiaries included in the consolidated financial statements is 31 December 2015.

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

Acquisition-related costs are recognised as an expense. Receivables, liabilities and provisions, income and expenses, as well as intermediate intra-Group gains and losses are eliminated within the framework of debt consolidation, elimination of intra-Group profits, or expense and earnings consolidation.

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

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

**Group companies**

In addition to Nanogate AG as parent company, the following companies belong to the Group as at 31 December 2015 and pursuant to Section 313 (2) HGB (hereinafter also referred to as "Nanogate Group"):

| Name of the subsidiary and head office | Main business | Share of capital in % | Consolidation |
|---|---|---|---|
| Nanogate Industrial Solutions GmbH, Quierschied-Göttelborn | Energy efficiency and process integration | 100.00 | full |
| GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd 3) | Nglaze® surfaces 3D systems | 100.00 3) | full |
| Eurogard B.V., Geldrop, Netherlands | Nglaze® surfaces 2D systems | 100.00 | full |
| Nanogate Textile & Care Systems GmbH, Quierschied-Göttelborn | Multifunctional textiles & DIY systems | 100.00 | full |
| Plastic-Design GmbH, Bad Salzuflen | Nglaze® components 3D systems | 80.00 1) | full |
| Nanogate Glazing Systems B.V., Geldrop, Netherlands | Nglaze® components 2D systems | 100.00 | full |
| Nanogate Netherlands B.V., Geldrop, Netherlands | Holding | 100.00 | full |
| Vogler GmbH, Lüdenscheid | Decorative, multifunctional surfaces | 100.00 4) | full |
| Improof GmbH, Lüdenscheid | Marketing of care products | 100.00 | 2) |
| Vogler Vermögensverwaltungs-GmbH, Lüdenscheid | Asset management | 100.00 | 2) |
| Nanogate Teknoloji AS Istanbul, Turkey | Nglaze® components 2D systems | 100.00 | 2) |

*1) An amended list of shareholders for the commercial register has now been submitted; this will indicate that Nanogate AG increased its shareholding by 4.0 % in 2015 and thereby holds 80 % of the shares.*
*2) Not consolidated due to minor importance.*
*3) Pursuant to Section 264 (3) HGB, the publication of the consolidated financial statements has a discharging effect for GfO Gesellschaft für Oberflächentechnik AG.*
*4) Vogler GmbH is a wholly owned subsidiary of NIS GmbH.*

**Companies included in the consolidated financial statements**

The consolidated financial statements of Nanogate AG, Quierschied-Göttelborn, as at 31 December 2015 include, in addition to the parent company, Nanogate Industrial Solutions GmbH, Quierschied-Göttelborn, Nanogate Textile & Care Systems GmbH, Quierschied-Göttelborn, GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd, Eurogard B.V., Geldrop, the Netherlands, Plastic-Design GmbH, Bad Salzuflen, Nanogate Glazing Systems B.V., Geldrop, the Netherlands, Nanogate Nederland B.V., Geldrop, the Netherlands and Vogler GmbH, Lüdenscheid by way of full consolidation.

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

Nanogate AG acquired a 51.0 % stake in GfO Gesellschaft für Oberflächentechnik AG (GfO AG for short) in Schwäbisch Gmünd as part of a larger transaction. The purchase was completed in several stages. The final tranche of the entire transaction was completed in 2011 as part of an equity increase for subscription in kind, in connection with authorised capital. As from 1 September 2010, Nanogate AG had a controlling influence over GfO AG. The date on which capital was offset for the first-time consolidation of this subsidiary was therefore 1 September 2010. As part of the larger transaction, it was also agreed that Nanogate AG could acquire a further 49.0 % of the shares in GfO Gesellschaft für Oberflächentechnik AG, Schwäbisch Gmünd, via a call option. Conditions precedent were agreed for the purchase. Nanogate AG increased its shareholding during the year 2013 to 75.0 % plus one share. A profit and loss transfer agreement was also concluded between Nanogate AG and GfO AG in 2013. This transaction saw the existing shareholders waive their profit entitlement for the 2013 financial year. Nanogate AG acquired the remaining shares in July 2015 and now has a 100 % stake in GFO AG.

In June 2011, Nanogate AG acquired 100.0 % of the shares in Eurogard B.V., Geldrop, the Netherlands. The date on which capital was offset for the first-time consolidation of this subsidiary was 1 July 2011. The shares have been pooled in the Dutch holding company Nanogate Nederland B.V. since 2014.

Nanogate Textile & Care Systems GmbH, Quierschied-Göttelborn, also a wholly owned subsidiary of Nanogate AG, was founded in November 2008. This subsidiary was not originally included in the scope of consolidation as it is of minor overall significance for the assets, financial and earnings position of the Group. With a division of Nanogate AG having been incorporated into Nanogate Textile & Care Systems GmbH (NTCS) effective 1 January 2012, for reasons of materiality, NTCS became subject to mandatory consolidation as of this date.

Back in January 2013, Nanogate increased its equity holding in Plastic-Design GmbH in Bad Salzuflen from 35.0 % to 76.0 % and also has an option to gradually acquire the outstanding shares. This option was exercised by Nanogate in the intended form in 2014, increasing its equity holding further to 80.0 %. An amended list of shareholders for the commercial register has been submitted. This will indicate that Nanogate AG increased its shareholding by 4.0 % in 2014. Due to the contractual arrangement, the Management Board assumes that the full inclusion of Plastic Design GmbH in the consolidated financial statements is appropriate. A corresponding purchase price obligation for the shares, which have not yet been legally transferred, has been recognised as a liability.

Plastic-Design GmbH is one of Europe's leading plastics processors and has a proprietary technology portfolio for optically sophisticated components. It is also considered to be a trailblazer in the growth market of glazing. Among the biggest customers today are well-known car manufacturers, mostly from the premium segment. The Group operates an integrated centre of excellence for Nglaze applications at Plastic-Design GmbH's site in Bad Salzuflen.

In May 2013, the Group established the new Nanogate Glazing Systems B.V. subsidiary, which began operations in June 2013. The wholly owned subsidiary focuses on the production, enhancement and moulding of flat glazing components (2D). The new subsidiary thereby supplements the existing expertise within the Nanogate Group, which until now covered 3D glazing. The portfolio expansion means that the Group is well positioned to benefit from the growing demand for Nglaze components. The shares have been pooled in the Dutch holding company Nanogate Nederland B.V. since 2014.

Nanogate AG founded Nanogate Nederland B.V., based in Geldrop, on 24 December 2013. This company acts as a holding company for the two Dutch subsidiaries Eurogard B.V. and Nanogate Glazing Systems B.V.

In July 2014, Nanogate AG acquired surface specialist Vogler GmbH & Co. KG, subsequently Vogler GmbH. The company, based in Lüdenscheid (North Rhine-Westphalia), was established in 1990 and currently has around 140 staff. The company's customers include major international companies, for example from the automotive industry and building services, as well as leading domestic appliance manufacturers. Vogler is specialised in decorative multifunctional surfaces, thereby significantly expanding Nanogate's range of services. Both metal and plastic surfaces can be coated on the production lines, with a focus on system components. The surface specialist therefore augments Nanogate's current expertise and capacities in plastics and metals. Vogler has a total of four production lines for high-volume mass production as well as its own analytical laboratory for development and quality control. The company also has a fully automatic high-bay warehouse. In December 2015, Nanogate AG transferred its 100 % stake in Vogler GmbH to Nanogate Industrial Solutions GmbH.

**Foreign currency translation**

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

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

**Intangible assets**

Intangible assets essentially comprise software, licences, trademarks and patent rights, customer bases and unpatented expertise, capitalised development costs and goodwill.

Intangible assets acquired individually are measured at acquisition or production cost the first time they are reported (IAS 38). The acquisition costs of an intangible asset acquired through a business combination correspond to its fair value at the time of acquisition. After first-time recognition, the intangible assets are recognised at their acquisition or production costs, less accumulated amortisation and all accumulated impairment expenses. All intangible assets are amortised on a straight-line basis; useful lives are between 3 and 15 years, with the exception of brands acquired for payment, whose useful lives cannot be determined. Production costs in this case encompass all costs which are directly attributable to the production process and reasonable proportions of the production-related overheads. Capitalised development costs include financing costs. The basic prerequisites of capitalisation are that a future benefit is likely to accrue to the company and that the costs can be ascertained reliably. Intangible assets are amortised over their contractual or estimated useful lives.

Development costs are capitalised at production cost insofar as clear expense allocation is possible and both technical feasibility and the products' marketability and/or internal usability are secured. There must, moreover, be a sufficient degree of probability that the development activities will lead to corresponding cash inflows and/or cost reductions in the future. Only those cost components which can be attributed directly or indirectly to the development process can be capitalised. There were projects in the 2015 financial year that did not fulfil the aforementioned criteria for development costs. Research expenses and development costs not eligible for capitalisation are posted to expenses in the period in which they are incurred. Development costs are posted to expenses when their technical realisation is uncertain and when no estimate of a future economic benefit accruing from the resultant intangible asset can be made.

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

This asset item in the consolidated financial statements includes goodwill arising from the capital consolidation of subsidiaries. Goodwill acquired for a consideration is capitalised and subjected to impairment testing at least once a year or whenever there is an indication that the unit's value could be impaired, in accordance with IAS 36. The recoverable value of the goodwill is reviewed in a single-step process conducted at the level of the cash-generating units to which it is assigned.

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

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

As was the case in the previous year, annual impairment testing in the 2015 financial year revealed that no impairment of goodwill was necessary.

**Property, plant and equipment**

Property, plant and equipment is valued at historical acquisition or production less depreciation on straight-line basis. Acquisition or production costs include the expenses directly attributable to the acquisition.

Land and buildings are recognised at their fair value less accumulated depreciation for buildings. This valuation is reviewed by external experts at appropriate regular intervals in order to ensure that the carrying amount does not excessively diverge from the value that would be calculated on the basis of the fair value at the reporting date. Should divergent values occur in the case of such external reviews in relation to the assets reported in the balance sheet, the adjustment is made without effect on profit or loss as part of the revaluation reserve.

The acquisition costs of property, plant and equipment acquired as part of business combinations is equal to their fair value at the time of their acquisition.

Subsequent acquisition or production costs are only considered to be part of an asset's acquisition or production cost if it is likely that the Group will receive an economic benefit in the future as a result of said costs and if the asset's costs can be reliably determined.

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

| | Years |
|---|---|
| Outside facilities | 6-13 |
| Operating facilities | 5-21 |
| Buildings on own land | 10-50 |
| Buildings on third-party land | 5-13 |
| Technical equipment and machinery | 3-20 |
| Other equipment, office and plant equipment | 3-15 |
| Equipment from finance leases | 3-12 |

If the acquisition or production phase for property, plant and equipment continues for a longer period, the interest on borrowed capital until completion is capitalised as part of the acquisition and production costs in line with IAS 23 (Borrowing Costs).

In accordance with IAS 16, the costs of dismantling and removing an asset are included in the capitalised acquisition and production costs.

**Impairment of assets**

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

Property, plant and equipment and intangible assets are examined for impairment if facts or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised through profit and loss. The recoverable amount is either an asset's fair value less costs of disposal or its value in use, whichever is the higher. The fair value less costs of disposal is the amount that may be recovered by selling an asset in an arm's length transaction at market conditions between informed and willing parties following deduction of costs to sell.

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

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

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

**Government grants**

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

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

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

**Financial assets**

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

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

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

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

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

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

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

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

*Assets measured at fair value through profit or loss* include derivative financial assets held for trading which do not qualify as hedging instruments in a hedging relationship. These assets form part of the category of financial assets and are always held at fair value. Changes in value are recognised in profit or loss and presented in the financial result. Derivative financial instruments are measured at fair value based on quoted prices in an active market.

*Financial assets held to maturity* were not held as at 31 December 2015, as in the previous year.

**Inventories**

Inventories are carried at cost of acquisition calculated on the basis of the established first in, first out (FIFO) method, or at production cost. 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.

Inventories are measured as at the balance sheet date at the lower of cost of acquisition or production and net realisable value.

**Cash and cash equivalents**

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

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

**Income taxes**

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

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

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

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

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

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

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

**Pension obligations**

Pension provisions relate exclusively to defined-benefit pension plans. These involve determining the costs for performance using the projected unit credit method, making an actuarial measurement on every reporting date. Revaluations, consisting of actuarial gains and losses, the effects of the asset ceiling and the earnings from plan assets (excluding interest on net debt) are recorded directly in other comprehensive income and are thereby directly included in the balance sheet. The revaluations recorded in other comprehensive income are part of other reserves and are no longer reclassified to profit or loss. Past service cost is recorded as an expense when the plan amendment takes effect.

Net interest is determined by multiplying the discount rate by net debt (pension obligations less plan assets) or the net asset value that arises if the plan assets exceed the pension obligation. The defined-benefit costs include the following components:

- Service cost (including ongoing service cost, past service cost and any profit or loss from the plan amendment, curtailment or settlement)
- Net interest expense or earnings on net debt or net assets
- Revaluation of net debt or net assets

The Group reports service cost in the income statement under the personnel expenses item; net interest expense is presented in the financial result. Profit or loss from plan curtailments or settlements are recognised as past service cost.

Payments for defined-contribution pension plans are recognised as expenses once the employee has performed the work that entitles them to the contributions.

**Provisions**

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

The present value is calculated on the basis of pre-tax interest rates which take into account the current market expectations regarding the interest effect as well as the risks specific to the obligation.

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

**Financial liabilities**

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

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

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

**Other receivables and liabilities**

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

**Accounting for leases**

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

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

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

The corresponding liability to the lessor must be shown in the balance sheet as an obligation from finance leases. Assets arising from finance lease agreements were posted in 2015. They are depreciated over their useful lives.

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

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

**Expense and income recognition**

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

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

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

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

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

Assumptions and estimates mainly relate to defining useful lives, calculating discounted cash flows in the course of measuring intangible assets during purchase price allocation and when conducting annual impairment tests. The recoverable amounts of cash-generating units are calculated using assumptions made by company management. Forecasts are made on the basis of the financial planning approved by the management and these are also used for internal purposes.

When capitalising development costs, past experience forms the basis of the assumption that the developments will result in future revenue and earnings contributions.

The allowance for doubtful trade receivables and other receivables contains estimates about the credit rating of customers. The anticipated allowances may vary in case of a deterioration in the financial figures of customers.

Provisions for pension obligations are calculated in accordance with actuarial models that rely on key assumptions such as discount factors, mortality rates, and salary and pension trends.

The creation of provisions such as for litigation, taxes, rebates, and guarantees may be largely associated with assumptions. Nanogate AG regularly assesses the current status of any litigation with the help of external lawyers and refrains from reporting these if this is not expected to have a significant effect on the presentation of its assets, financial and earnings position.

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

**Changes in presentation**

No material changes in presentation were required in the 2015 financial year.

## B. Notes to the consolidated statement of income

### 3. Sales

The consideration paid by customers for deliveries made and services rendered – less sales reductions – is reported under sales. The classification of sales by market can be found in section D. 33 "Segment Reporting".

### 4. Other own work capitalised

This item comprises own work expended in 2015 in connection with the development costs capitalised under intangible assets and the production costs for machinery reported in property, plant and equipment.

### 5. Other operating income

Other operating income consists of the following:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Income from the reversal of provisions | 299 | 626 |
| Income from the sale of scrap | 374 | 470 |
| Non-cash benefits (for use of vehicles et al.) | 287 | 320 |
| Transfer of costs / reimbursements | 47 | 77 |
| Subsidies / accrual of grants | 1 | 59 |
| Income from write-backs of receivables and derecognised receivables | 3 | 38 |
| Income from disposal of assets | 530 | 36 |
| Miscellaneous other income | 663 | 415 |
| | 2,204 | 2,041 |

### 6. Cost of materials

The cost of materials is as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Cost of raw materials and supplies | -31,830 | -22,213 |
| Cost of external services | -4,039 | -2,265 |
| | -35,869 | -24,478 |

### 7. Personnel expenses

Personnel expenses are as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Wages and salaries | -23,998 | -19,651 |
| Social security | -3,994 | -3,291 |
| Pensions | -378 | -371 |
| Non-cash remuneration costs for stock options | -110 | -120 |
| | -28,480 | -23,433 |

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. As at 31 December 2015, there were a total of 77,425 (previous year: 83,989) stock options which had not yet expired or been exercised. The stock option models influenced earnings by EUR 110,000 in the financial year 2015 (previous year: EUR 120,000).

More information about the stock option programme can be found in section C. 23 of the Notes.

**8. Other operating expenses**

Other operating expenses are made up as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Operating expenses | -12,716 | -9,071 |
| Sales expenses | -3,050 | -2,394 |
| Administrative expenses | -3,001 | -2,481 |
| Losses on receivables and impairment | -189 | -62 |
| Miscellaneous other expenses | -1,281 | -1,762 |
| | -20,237 | -15,770 |

**9. Amortisation of intangible assets and depreciation of property, plant and equipment**

A detailed breakdown of the amortisation of intangible assets and depreciation of property, plant and equipment can be found in Notes 14 "Intangible assets" and 15 "Property, plant and equipment".

**10. Financial income**

The financial income shown largely consists of interest payments received on loans and earnings from an interest rate hedge transaction. Of the interest income, EUR 41,000 impacted on cash flow in the 2015 financial year (previous year: EUR 50,000).

**11. Financial expenses**

The financial expenses are mostly interest expenses for overdrafts and bank loans. Financial expenses also include amortisation of financial assets amounting to EUR 125,000 (previous year: EUR 71,000). EUR 1,934,000 of the financial expenses shown had an impact on cash flow in the 2015 financial year (previous year: EUR 1,464,000).

Net interest expense from pension obligations amounts to EUR 20,000 (previous year: EUR 40,000).

**12. Tax expenses**

Expenses and income arising from income taxes in the financial years 2015 and 2014 can be broken down as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Current taxes | | |
| Germany | -214 | 115 |
| Abroad | -365 | 573 |
| Taxes previous years | 23 | -41 |
| Deferred taxes | | |
| Germany | 488 | -208 |
| Abroad | -24 | -70 |
| (tax expense -; tax income +) | -92 | 369 |

The table below shows the reconciliation between expected and reported tax expenses in the respective financial years. To determine the expected tax expenses, the earnings before taxes are multiplied by the overall tax rate for 2015 of 30.525 %. This tax rate is a combined income tax rate comprising the uniform corporation tax rate of 15.0 %, plus the solidarity surcharge of 5.5 % and an effective trade tax rate of 14.7 %.

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

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Earnings before taxes | 616 | 813 |
| Applicable tax rate | 30.525 % | 30.525 % |
| Expected tax expense | -188 | -248 |
| Effects of changes in tax rates | -5 | - |
| Effects of different tax rates in foreign countries | 81 | 113 |
| Differences due to varying trade tax multipliers | -38 | -12 |
| Tax increase due to non-tax-deductible costs | -386 | -319 |
| Non-capitalised tax deferrals on losses; realisable loss carryforwards on which no deferred taxes were calculated | 416 | 57 |
| Impairment on loss carryforwards | -4 | - |
| Tax rebates for prior years | 23 | 51 |
| Other tax effects | 9 | -11 |
| Income tax expense recognised in the income statement | -92 | -369 |

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

The rate of corporation tax currently applicable in the Federal Republic of Germany is 15.0 %, while the index for trade tax is 3.5 %. For the domestic companies included in the consolidated financial statements as at 31 December 2015, an effective corporation tax rate of 15.825 % was used as the basis for calculating deferred taxes; the individual multiple was used for determining trade tax. For the foreign companies, the respective country-specific tax rates were used to calculate deferred taxes.

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

| | Consolidated statement of financial position | | Consolidated income statement | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 2015 | 2014 |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Intangible assets | - | 2 | -2 | -7 |
| Property, plant and equipment | - | - | - | -16 |
| Inventories | 27 | 25 | 2 | 10 |
| Other assets | 2 | 17 | -15 | -2 |
| Pension provisions | 191 | 218 | -3 | -65 |
| Other provisions | 140 | 206 | -66 | 38 |
| Other liabilities | 2,520 | 1,660 | 860 | 543 |
| Loss carryforwards | 5,517 | 4,837 | 932 | 455 |
| **Deferred tax assets** | 8,397 | 6,965 | 1,708 | 956 |
| Intangible assets | -3,403 | -3,200 | -203 | 87 |
| Property, plant and equipment | -4,222 | -2,979 | -1,028 | -726 |
| Trade receivables | -15 | -11 | -4 | -4 |
| Other assets | - | - | - | 1 |
| Pension provisions | - | - | - | - |
| Other provisions | -30 | -45 | 15 | -36 |
| Other liabilities | - | - | - | - |

| | Consolidated statement of financial position | | Consolidated income statement | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 2015 | 2014 |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Loss carryforwards | - | - | - | - |
| **Deferred tax liabilities** | -7,670 | -6,235 | -1,220 | -678 |
| **Net deferred taxes, deferred tax assets** | 727 | 730 | 488 | 278 |
| (tax expense -; tax income +) | | | | |
| Reported in the balance sheet as follows: | | | | |
| Deferred tax assets | 4,021 | 3,596 | | |
| Deferred tax liabilities | -3,294 | -2,866 | | |
| **Deferred tax assets, net** | 727 | 730 | | |

The change in deferred tax assets arises primarily from tax income of EUR 488,000 recognised in the income statement and from deferred taxes of EUR 119,000 recognised directly in equity, as well as from the revaluation of property, plant and equipment (EUR 215,000).

Based on past experience and the expected taxable income, the Group assumes that the corresponding benefits from the deferred tax assets may be realised. The tax loss carryforwards came to EUR 18,102,000 (previous year: EUR 16,467,000). As a result, deferred tax assets on loss carryforwards amounting to EUR 5,517,000 (previous year: EUR 4,837,000) are reported in the consolidated statement of financial position as at 31 December 2015.

The Group assumes that, based on future business activities, sufficient positive taxable income will be available to realise the deferred tax assets. No deferred taxes were formed on differences between carrying amounts of the IFRS individual statements and the tax carrying amounts of the outside basis differences amounting to EUR 26,000, since Nanogate AG is able to control the timing of the reversal of the temporary differences, and the disposal of equity holdings for an indefinite period is not provided for.

## 13. Earnings per share

The basic earnings per share are determined in accordance with IAS 33 by dividing the profit for the period attributable to the shareholders of Nanogate AG by the average number of shares in circulation during the year. The key figures for earnings per share are as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Net result for the period attributable to shareholders of Nanogate AG (in EUR) | 521,517 | 443,434 |
| Weighted average number of shares issued | | |
| Basic | 3,273,988 | 2,995,978 |
| Diluted | 3,279,899 | 2,998,881 |
| Basic earnings per share (in EUR) | 0.16 | 0.15 |
| Diluted earnings per share (in EUR) | 0.16 | 0.15 |

The diluted number of shares issued refers to 17,325 (previous year: 5,039) shares that can only be issued under certain circumstances. The dilution only refers to tranches of the employee stock option programme that can be utilised.

The value of the shares to be granted is in excess of the hurdle of options granted in all relevant tranches. One tranche (previous year: two tranches) has an effect on the diluted earnings per share. One tranche (previous year: two tranches) was not considered despite the hurdle of share options being reached as the vesting period has not yet expired.

# C. Notes to the consolidated statement of financial position

## 14. Intangible assets

| | Intangible assets | | | | | |
|---|---|---|---|---|---|---|
| | Software, licences, trademarks and patents | Client base | Development costs | Goodwill | Assets under construction | Total |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Acquisition and production costs | 6,710 | 3,057 | 7,669 | 10,504 | - | 27,940 |
| Depreciation/amortisation | -723 | -931 | -1,853 | -587 | - | -4,094 |
| **As at 1.1.2014** | **5,987** | **2,126** | **5,816** | **9,917** | **-** | **23,846** |
| Change in the companies included in the consolidated financial statements | 4,336 | - | 116 | 10,887 | - | 15,339 |
| Depreciation and amortisation in the financial year | -393 | -320 | -788 | - | - | -1,501 |
| Additions | 459 | - | 913 | - | - | 1,372 |
| Transfers | 3 | - | - | - | - | 3 |
| Disposals | - | - | -27 | - | - | -27 |
| **As at 31.12.2014** | **10,392** | **1,806** | **6,030** | **20,804** | **-** | **39,032** |
| Acquisition and production costs | 11,472 | 3,057 | 8,672 | 21,391 | - | 44,592 |
| Depreciation/amortisation | -1,080 | -1,251 | -2,642 | -587 | - | -5,560 |
| **As at 1.1.2015** | **10,392** | **1,806** | **6,030** | **20,804** | **-** | **39,032** |
| Change in the companies included in the consolidated financial statements | - | - | - | - | - | - |
| Depreciation and amortisation in the financial year | -460 | -316 | -807 | - | - | -1,583 |
| Additions | 83 | - | 909 | - | 41 | 1,033 |
| Transfers | - | - | 104 | - | - | 104 |
| Disposals | - | - | -85 | - | - | -85 |
| **As at 31.12.2015** | **10,015** | **1,490** | **6,151** | **20,804** | **41** | **38,501** |
| Acquisition and production costs | 11,549 | 3,056 | 9,610 | 21,391 | 41 | 45,647 |
| Depreciation/amortisation | -1,534 | -1,566 | -3,459 | -587 | - | -7,146 |

There was no impairment or write-backs under intangible assets either in the 2015 financial year or in the previous year.

The software and licences, trademarks and patents shown are intangible assets acquired for payment. Of these intangible assets, EUR 3,622,000 (previous year: EUR 3,622,000) have a limited useful life and are amortised on a straight-line basis or based on use. This item also includes the word marks ELAMET® and SICRALAN®, which have an indefinite useful life and are carried at EUR 2,329,000 (previous year: EUR 2,329,000) in connection with non-patented knowledge. In the course of the acquisition of Vogler GmbH, the Vogler brand was acquired with a fair value of EUR 4,250,000, which has an indefinite useful life.

The self-generated intangible assets reported in the balance sheet (IAS 38.57) relate entirely to development costs; these are accounted for by seven overall development projects. In 2015, development projects were amortised by EUR 807,000 (previous year: EUR 788,000).

Intangible assets include leased assets (finance lease) with a residual carrying amount of EUR 120,000 as at 31 December 2015 (previous year: EUR 191,000).

In the 2015 financial year, total research and development expenses of EUR 6,912,000 were incurred (previous year: EUR 6,948,000).

As in the previous year, all goodwill and intangible assets with an indefinite useful life were subject to regular impairment testing in accordance with IAS 36. The acquired word marks ELAMET® and SICRALAN®, in connection with non-patented knowledge and the Vogler brand, have an indefinite useful life due to their legal and economic significance. Because there is a significant valuation reserve due to previous calculations, and because economic conditions have largely remained unchanged, it can be assumed that the state of facts will remain unaltered.

Impairment testing was carried out at the level of the smallest cash-generating unit (CGU) or groups of cash-generating units on the basis of the value in use.

The goodwill recognised as at 31 December 2015 comprised EUR 8,255,000 in relation to the Advanced Technologies segment (previous year: EUR 8,255,000) and EUR 12,548,000 for the Base and Advanced Technologies segments (previous year: EUR 12,549,000). The NIS GmbH business unit, with goodwill of EUR 1,661,000 (previous year: EUR 1,662,000), and the Vogler GmbH business unit, with goodwill of EUR 10,887,000 (previous year: EUR 10,887,000), were allocated to the Base and Advanced Technologies segments. The Eurogard B.V. business unit, with goodwill of EUR 5,442,000 (previous year: EUR 5,442,000), and the Plastic-Design GmbH business unit, with goodwill of EUR 2,813,000 (previous year: EUR 2,813,000), were allocated to the Advanced Technologies segment.

The cash flow forecasts upon which the impairment tests are based are governed by the corporate planning approved by the management for a period of five years. Among other things, this planning is based on sources published externally. It also took into account the price agreements based on empirical values, anticipated efficiency increases and sales development derived from the company's strategic focus. The underlying discount rates are after-tax rates.

The following table provides an overview of the goodwill subject to impairment testing:

| Name of the CGU | NIS GmbH | Eurogard B.V. |
|---|---|---|
| Segment | Base/Advanced Technologies | Advanced Technologies |
| Goodwill carrying amount | 1,661 | 5,442 |
| Sales growth p.a. planning period | 7.9 - 19.3 % | 2.5 - 6.5 % |
| Duration of planning period | 5 years | 5 years |
| Sales growth p.a. at end of planning period | 1.0 % | 1.0 % |
| Discount rate | 6.2 % | 6.3 % |

| Name of the CGU | Plastic-Design GmbH | Vogler GmbH |
|---|---|---|
| Segment | Advanced Technologies | Base/Advanced Technologies |
| Goodwill carrying amount | 2,813 | 10,887 |
| Sales growth p.a. planning period | 1.6 - 5.0 % | 1.3 - 8.4 % |
| Duration of planning period | 5 years | 5 years |
| Sales growth p.a. at end of planning period | 1.0 % | 1.0 % |
| Discount rate | 6.3 % | 6.3 % |

The assumptions made in the previous year as a basis for the respective impairment tests can be seen in the table below:

| Name of the CGU | NIS GmbH | Eurogard B.V. |
|---|---|---|
| Segment | Base/Advanced Technologies | Advanced Technologies |
| Goodwill carrying amount | 1,662 | 5,442 |
| Sales growth p.a. planning period | 9.1 - 28.6 % | 2.9 - 11.9 % |
| Duration of planning period | 5 years | 5 years |
| Sales growth p.a. at end of planning period | 2.0 % | 2.0 % |
| Discount rate | 6.7 % | 6.6 % |

| Name of the CGU | Plastic-Design GmbH | Vogler GmbH |
|---|---|---|
| Segment | Advanced Technologies | Base/Advanced Technologies |
| Goodwill carrying amount | 2,813 | 10,887 |
| Sales growth p.a. planning period | 3.0 - 27.1 % | 3.6 - 12.3 % |
| Duration of planning period | 5 years | 5 years |
| Sales growth p.a. at end of planning period | 2.0 % | 2.0 % |
| Discount rate | 6.7 % | 6.7 % |

The impairment testing of the acquired word marks with a carrying amount of EUR 2,329,000 (previous year: EUR 2,329,000) was presented on the basis of the smallest cash-generating unit (CGU) in each case. The premises of the previous year for the ELAMET® and SICRALAN® CGUs tally with those of the impairment test for acquired goodwill. In addition, the following assumptions were made: sales growth over the planning period of -11.5 to +10.2 % p.a., a planning period of three years, sales growth after the planning period of 1.0 % p.a. and savings of hypothetical licence fees. The post-tax discount rate applied was 8.0 %.

The impairment testing of the goodwill and the word marks delivered the conclusion that no impairment was needed.

The sensitivity analysis of the WACC variation in the range of +2.0 % to -2.0 % again confirmed the recoverable value of goodwill.

The Group management is of the opinion that, based on reasonable judgement, no fundamentally possible change to a basic assumption upon which calculation of the value in use of the cash-generating units or groups of cash-generating units to which goodwill or intangible assets with an indefinite useful life is based, could result in the carrying amount exceeding its recoverable amount.

## 15. Property, plant and equipment

| | Property, plant and equipment | | | | |
|---|---|---|---|---|---|
| | Land and buildings | Technical equipment and machinery | Other equipment, office and plant equipment | Assets under construction | Total |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Acquisition and production costs | 9,996 | 15,893 | 2,664 | 476 | 29,029 |
| Depreciation/amortisation | -1,460 | -5,133 | -1,362 | -39 | -7,994 |
| **As at 1.1.2014** | **8,536** | **10,760** | **1,302** | **437** | **21,035** |
| Change in the companies included in the consolidated financial statements | 22 | 323 | 1,032 | - | 1,377 |
| Depreciation and amortisation in the financial year | -474 | -2,434 | -566 | - | -3,474 |
| Additions | 193 | 9,539 | 571 | 2,168 | 12,471 |
| Transfers | 77 | 1,129 | 205 | -1,414 | -3 |

| | Property, plant and equipment | | | | |
|---|---|---|---|---|---|
| | Land and buildings | Technical equipment and machinery | Other equipment, office and plant equipment | Assets under construction | Total |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Disposals | - | -259 | - | - | -259 |
| **As at 31.12.2014** | **8,354** | **19,058** | **2,544** | **1,191** | **31,147** |
| Acquisition and production costs | 10,290 | 26,152 | 4,471 | 1,230 | 42,143 |
| Depreciation/amortisation | -1,936 | -7,094 | -1,927 | -39 | -10,996 |
| **As at 1.1.2015** | **8,354** | **19,058** | **2,544** | **1,191** | **31,147** |
| Change in the companies included in the consolidated financial statements | - | - | - | - | - |
| Depreciation and amortisation in the financial year | -758 | -4,183 | -674 | - | -5,615 |
| Additions | 2,047 | 5,655 | 1,552 | 6,932 | 16,186 |
| Transfers | 819 | 1,923 | -699 | -2,043 | - |
| Disposals | -200 | -51 | -130 | -39 | -420 |
| **As at 31.12.2015** | **10,262** | **22,402** | **2,593** | **6,041** | **41,298** |
| Acquisition and production costs | 13,017 | 32,802 | 4,668 | 6,041 | 56,528 |
| Depreciation/amortisation | -2,755 | -10,400 | -2,075 | - | -15,230 |

The Group's land and buildings which are not leasehold improvements were evaluated by an independent expert in the 2015 financial year to determine their fair value. Net increases in value are recognised in the revaluation reserve in equity, taking deferred taxes into account. The fair values were calculated using the comparative method. They are therefore classed as level two valuations.

Were the land and buildings to be recognised at amortised acquisition or production cost, their residual carrying amount would be EUR 5,370,000 (previous year: EUR 5,598,000).

The additions to property, plant and equipment amounting to EUR 16,186,000 in total (previous year: EUR 12,471,000) stem from the revaluation of land and buildings of EUR 740,000 as well as from ongoing investing activities in 2015. There were also disposals amounting to EUR 420,000 (previous year: EUR 259,000), as well as current depreciation for the 2015 financial year of EUR 5,165,000 (previous year: EUR 3,474,000) and impairment of EUR 450,000 (previous year: EUR 0). There were no write-backs either in 2015 or 2014.

Property, plant and equipment includes leased assets (finance lease) with a residual carrying amount of EUR 10,497,000 as at 31 December 2015 (previous year: EUR 6,012,000).

The bank loans recognised under financial liabilities are secured to the amount of EUR 7,624,000 by machinery and equipment (previous year: EUR 8,451,000).

### 16. Other financial assets

The recognised non-current other financial assets as at 31 December 2015 consist mainly of loans of EUR 539,000 with a term to maturity of more than one year (previous year: EUR 543,000).

### 17. Deferred tax assets

The deferred tax assets essentially comprise the tax loss carryforwards that are likely to be realisable. The components of and changes in deferred tax assets are described in section B. 12 "Income taxes".

### 18. Inventories

As at 31 December 2015 and 31 December 2014, inventories were as follows:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Raw materials and supplies | 3,387 | 2,600 |
| Work in progress | 1,536 | 1,730 |
| Finished goods and merchandise | 2,550 | 2,235 |
| | 7,473 | 6,565 |

There are no impairments on inventories (previous year: EUR 40,000).

The bank loans recognised under financial liabilities are secured to the amount of EUR 969,000 by inventories (previous year: EUR 1,787,000).

### 19. Trade receivables

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Domestic receivables | 4,407 | 4,518 |
| Foreign receivables | 1,571 | 2,040 |
| | 5,978 | 6,558 |
| Impairments on at-risk receivables | -252 | -83 |
| | 5,726 | 6,475 |

As part of subsequent measurement, any impairments that may be necessary are taken into account (amortised cost). The impairments reflect the possible default risk. There are no other noteworthy credit risks, interest rate risks or currency risks.

Changes in impairments:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Position at the start of the year | 83 | 43 |
| Change in the companies included in the consolidated financial statements | - | - |
| Utilisation of impairments | -15 | -16 |
| Reversal of impairments | 0 | -5 |
| Allocation of impairments | 184 | 61 |
| Position at the end of the year | 252 | 83 |

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

Current trade receivables were overdue as follows:

| | Carrying amount | of which: neither impaired nor overdue on the reporting date | of which: not impaired but overdue on the reporting date | | | |
|---|---|---|---|---|---|---|
| | | | up to 3 months | 3–6 months | 6–12 months | more than 12 months |
| | in EUR ,000 | in EUR ,000 | in EUR ,000 | in EUR ,000 | in EUR ,000 | in EUR ,000 |
| 31.12.2015 | 5,725 | 3,350 | 1,819 | 214 | 6 | 19 |
| 31.12.2014 | 6,475 | 4,462 | 1,711 | 88 | 7 | 19 |

In the reporting year, the bank loans recognised under financial liabilities were secured to the amount of EUR 0 (previous year: EUR 1,965,000) by trade receivables.

### 20. Other financial assets

In the 2015 financial year, current other financial assets mainly include interim financing of a major order totalling EUR 350,000 (previous year: EUR 588,000) that will be concluded in part only as of 2016, the assignment of accounts receivable of EUR 602,000 (previous year: EUR 745,000) as part of factoring, as well as receivables from bonus agreements of EUR 247,000 (previous year: EUR 325,000).

The receivables on a contractual basis reported as per the balance sheet date have been measured at amortised cost (IAS 39.46). If there are any objective indications of credit risks, these are taken into account when calculating amortised cost.

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

Financial assets (current and non-current) were overdue as follows:

| | Carrying amount | of which: neither impaired nor overdue on the reporting date | of which: not impaired but overdue on the reporting date | | | |
|---|---|---|---|---|---|---|
| | | | up to 3 months | 3–6 months | 6–12 months | more than 12 months |
| | in EUR ,000 | in EUR ,000 | in EUR ,000 | in EUR ,000 | in EUR ,000 | in EUR ,000 |
| 31.12.2015 | 2,034 | 2,034 | - | - | - | - |
| 31.12.2014 | 2,442 | 2,442 | - | - | - | - |

### 21. Other assets

The other current assets reported as per 31 December 2015 and 31 December 2014 consist of the following:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Prepayments/payments on account/prepaid expenses | 606 | 271 |
| Sales tax and other taxes | 507 | 260 |
| Creditors with debit balances | 44 | 22 |
| Outstanding subsidies | 0 | 15 |
| Receivables from staff | 3 | 2 |
| Other | 14 | 24 |
| | 1,174 | 594 |

### 22. Cash and cash equivalents

Cash and cash equivalents amounting to EUR 22,743,000 were reported as at the balance sheet date (previous year: EUR 17,796,000). These consist solely of cash in hand and current credit balances at banks in the form of cash at call and fixed-term deposits. The fixed-term deposits held at financial institutions earn interest at standard market rates based on the three-month Euribor rate. The fixed-term deposits' terms end within 90 days of the balance sheet date.

In view of the short terms of the fixed-term deposits, i.e. the short fixed-interest periods, the market risk is of minor importance. In view of the banks' credit standing, there is no assumption of a default risk. The interest accrued but not yet settled up to 31 December 2015 is reported under other current financial assets. In the 2015 financial year, interest income from these financial instruments assigned to the loans and receivables category amounted to EUR 12,000 (previous year: EUR 16,000).

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

### 23. Equity

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

#### Subscribed capital

Following resolutions of the Management Board dated 23 and 24 March 2015, the approvals of the Supervisory Board on 23 and 24 March 2015 and entry into the commercial register on 26 March 2015, a capital increase from authorised capital was effected by issuing 297,843 new shares for cash. This increased share capital from EUR 3,016,705.00 to EUR 3,314,548.00. Following a resolution of the Management Board dated 2 July 2015, the approval of the Supervisory Board on 3 July 2015 and entry into the commercial register on 4 August 2015, a capital increase from EUR 3,314,548.00 to EUR 3,373,829.00 from authorised capital was also effected by issuing 59,281 new shares for subscription in kind.

At the same time, 3,887 new shares were issued in 2015 from conditional capital to holders of subscription rights. This increased share capital from EUR 3,373,829.00 to EUR 3,377,716.00. As at 31 December 2015, the capital increase from conditional capital had not yet been entered in the commercial register.

Subscribed capital was therefore set at EUR 3,377,716.00 as at 31 December 2015. It is divided into 3,377,716 no-par-value bearer shares with an arithmetical share of the company's subscribed capital of EUR 1.00 per share.

#### Conditional capital

The shareholders' meeting on 26 June 2014 revised Section 4 (4) of the articles of association, taking into account the exercised and expired stock options from the 2006 stock option plan. A conditional increase in share capital of up to EUR 23,137.00 was therefore effected (Conditional Capital I) by issuing a maximum of 23,137 new no-par-value bearer shares. The conditional capital increase is designed to satisfy share subscription rights held by members of the company's management, company employees and employees of affiliated companies granted in accordance with the resolution of the shareholders' meeting held on 26 June 2006.

The shareholders' meeting on 19 June 2012 revised Section 4 (5) of the articles of association, taking into account the exercised and expired stock options from the 2010 stock option plan. As a result, a conditional increase in share capital of up to EUR 24,850.00 was effected (Conditional Capital II) by issuing a maximum of 24,850 new no-par-value bearer shares. The conditional capital increase is designed to satisfy share subscription rights held by members of the company's management, company employees and employees of affiliated companies granted in accordance with the resolution of the shareholders' meeting held on 16 June 2010.

The shareholders' meeting on 26 June 2014 revised Section 4 (6) of the articles of association, taking into account the exercised and expired stock options from the 2012 stock option plan. A conditional increase in share capital of up to EUR 60,100.00 was then effected (Conditional Capital III) by issuing a maximum of 60,100 new no-par-value bearer shares. The conditional capital increase is designed to satisfy share subscription rights held by members of the company's management, company employees and employees of affiliated companies granted in accordance with the resolution of the shareholders' meeting held on 19 June 2012.

In accordance with a resolution of the shareholders' meeting on 26 June 2014, paragraph 7 was added to Section 4 of the articles of association. A conditional increase in share capital of up to EUR 189,756.00 was then effected (Conditional Capital IV) by issuing a maximum of 189,756 new no-par-value bearer shares. The conditional capital increase is designed to satisfy share subscription rights held by members of the company's management, company employees and employees of affiliated companies granted in accordance with the resolution of the shareholders' meeting held on 26 June 2014.

The conditional capital increases 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.

Following the exercise of stock options, 5,780 shares were issued in 2011, 6,256 shares in 2012, 11,241 shares in 2013, 5,289 shares in 2014, and 862 shares in 2015, from Conditional Capital I to members of the Management Board and employees of the Nanogate Group. In addition, the employees of the Nanogate Group declared a waiver of exercising stock options in 2013 as part of the Conditional Capital I for 36,647 share options. Additional stock options amounting to 18,420 in 2011, 12,609 in 2013, 12,200 in 2014, and 4,786 in 2015 have expired (subscription rights not having been exercised during the exercise period).

Following the exercise of stock options, 4,500 shares were issued in 2014 to members of the Management Board, and 3,025 shares in 2015 to members of the Management Board and employees of the Nanogate Group from Conditional Capital II.

As at 31 December 2015, conditional capital therefore totalled EUR 267,181.00 and was made up as follows:

- Conditional Capital I: EUR 0.00,
- Conditional Capital II: EUR 17,325.00,
- Conditional Capital III: EUR 60,100.00 and
- Conditional Capital IV: EUR 189,756.00.

**Authorised capital**

The authorisation contained in Section 4 (3) of the articles of association enabling the Management Board, with the Supervisory Board's approval, to increase the company's share capital by a maximum of EUR 1,162,895.00 in one or several stages up to 25 June 2019 was revoked by the resolution passed at the shareholders' meeting on 18 June 2015.

At the same time, with the agreement of the Supervisory Board, the company's Management Board was authorised by the shareholders' meeting held on 18 June 2015 to increase the company's share capital in one or more stages by 17 June 2020 by up to a total of EUR 1,657,274.00 by issuing a maximum of 1,657,274 new no-par-value bearer shares with a proportional share of EUR 1.00 in the share capital against contributions in cash or kind (Authorised Capital I). Shareholders must be granted subscription rights. However, subject to the approval of the Supervisory Board, the Management Board is authorised to set aside residual amounts from, or to preclude, shareholder subscription rights. Shareholder subscription rights may, nevertheless, be precluded only under the following circumstances:

- if the new shares are issued to employees of Nanogate AG or companies affiliated with Nanogate AG as defined in Section 15 ff. of the German Stock Corporation Act (AktG);
- if the new shares are issued as part of a capital increase for subscription in kind in order to acquire companies, parts of companies or equity holdings in companies as part of Nanogate AG's business purpose;
- if the shares are issued at a price which does not significantly undercut the quoted price and the preclusion of share subscription rights applies only to new shares whose arithmetical par value does not exceed 10 % of the share capital at the time of the combined effects of authorised capital I or – if this is lower – of the available share capital resulting from the utilisation of authorised capital I at the time of the resolution; the utilisation of the 10 % limit and the preclusion of subscription rights must take account of other authorisation under Section 186 (3) (4) of the German Stock Corporation Act (AktG).

Further details of the capital increase and its execution, in particular shareholders' rights and the terms of share issuance, are decided upon by the Management Board with the approval of the Supervisory Board.

Due to the capital increase against contributions in kind carried out during the second half of 2015 using authorised capital, authorised capital 2015/I still amounts to EUR 1,597,993.00 as at 31 December 2015.

**Capital reserves**

This item consists mainly of capital reserves of EUR 42,281,000 (previous year: EUR 28,699,000) which were gradually increased through business activities and reduced by the equity fundraising costs of EUR 1,725,000 (previous year: EUR 1,449,000).

The capital reserves also include the carrying amount of EUR 631,000 (previous year: EUR 521,000) of the obligations that arise within the framework of the stock option programme launched by Nanogate AG (cf. the explanations in "Share-based payment").

**Other reserves**

Other reserves include the reserve for revaluation of property, plant and equipment of EUR 1,402,000 (previous year: EUR 244,000) and the reserve for actuarial gains and losses from obligations arising from services following termination of the employment contract amounting to EUR -253,000 (previous year: EUR -233,000).

The changes to other reserves are as follows:

| Other reserves | Reserves for revaluation of property, plant and equipment | Reserves for actuarial gains and losses | Total other reserves |
|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 |
| **As at 1 January 2014** | **290** | **-140** | **150** |
| Transfer to retained earnings, net | -46 | 28 | -18 |
| Other comprehensive income/actuarial gains and losses, net | - | -121 | -121 |
| **As at 31 December 2014** | **244** | **-233** | **11** |
| Transaction with non-controlling entities | 701 | -77 | 624 |
| Transfer to retained earnings, net | -67 | - | -67 |
| Other comprehensive income/revaluation of buildings, net | 524 | - | 524 |
| Actuarial gains and losses, net | | 57 | 57 |
| **As at 31 December 2015** | **1,402** | **-253** | **1,149** |

**Retained earnings**

See “Statement of changes in equity” for changes to retained earnings.

**Share-based payment**

The shareholders’ meeting on 26 June 2006 (with the amendments passed on 28 June 2006 and 16 June 2010) resolved to initiate a stock option programme and create conditional capital in connection with the scheme (“2006 stock option plan”). On the basis of this, the Supervisory Board – or the Management Board with the Supervisory Board’s approval – is authorised to grant entitled shareholders subscription rights (“stock options”) for shares in tranches. To date, 29,428 shares from the 2006 stock option plan have been exercised and 45,906 have expired; the waiver of exercise of share options was declared for 36,647 shares. As at 31 December 2015, there are no longer any stock options for subscription of no-par-value bearer shares in the 2006 stock option plan.

The shareholders’ meeting on 16 June 2010 resolved to initiate a stock option programme and create conditional capital of EUR 75,910.00, currently EUR 24,850.00, in connection with the scheme (“2010 stock option plan”). On the basis of this, the Supervisory Board – or the Management Board with the Supervisory Board’s approval – is authorised to grant entitled shareholders subscription rights (“stock options”) for up to 24,850 no-par-value bearer shares in tranches. Based on this authorisation, stock options to subscribe for a total of 24,850 no-par-value shares were issued to entitled shareholders. To date, 7,525 shares from the 2010 stock option plan have been exercised, and none have expired. As a result, there are stock options relating to a maximum of 17,325 no-par-value bearer shares in the 2010 stock option plan.

The shareholders’ meeting on 19 June 2012 resolved to initiate a stock option programme and create conditional capital of EUR 133,082.00, currently EUR 60,100.00, in connection with the scheme (“2012 stock option plan”). On the basis of this, the Supervisory Board – or the Management Board with the Supervisory Board’s approval – is authorised to grant entitled shareholders subscription rights (“stock options”) for up to 60,100 no-par-value bearer shares in tranches. Based on this authorisation, stock options were granted to entitled shareholders in relation to a total of 60,100 no-par-value bearer shares, of which none have been exercised or have expired to date. The authorisation enabling the Management Board, with the Supervisory Board’s approval, and the Supervisory Board to issue additional stock options from the 2012 stock option plan was revoked by the resolution passed as the shareholders’ meeting on 26 June 2014. As a result, there are stock options relating to a maximum of 60,100 no-par-value bearer shares in the 2012 stock option plan.

The shareholders’ meeting on 26 June 2014 resolved to initiate a stock option programme and create conditional capital of EUR 189,756.00 in connection with the scheme (“2014 stock option plan”). On the basis of this, the Supervisory Board – or the Management Board with the Supervisory Board’s approval – is authorised to grant entitled shareholders subscription rights (“stock options”) for up to 189,756 no-par-value bearer shares in tranches or on a one-off basis. Stock options are issued on the basis of a resolution of the Management Board and an approval resolution of the Supervisory Board or, insofar as stock options are to be issued to members of the Management Board, exclusively on the basis of a resolution of the Supervisory Board. The subscription rights agreement must be concluded by midnight on 25 June 2019 and must otherwise be during an issue period. Based on this authorisation, no stock options have yet been granted to entitled shareholders.

The stock options are issued to managers and selected employees. As at 31 December 2015, two tranches had been issued, neither of which had expired. The exercise period was set at three years per tranche, whereby a four-year lock-up/vesting period has been agreed for both tranches.

The following table gives details of changes in the number of outstanding stock options and the corresponding weighted average exercise prices:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Average exercise price per option in EUR | Options | Average exercise price per option in EUR | Options |
| As at: 1 January | 17.74 | 83,989 | 16.97 | 105,978 |
| Granted | - | - | - | - |
| Expired | 15.86 | -2,677 | 13.47 | -12,200 |
| Exercise waived | - | - | - | - |
| Exercised | 17.67 | -3,887 | 14.74 | -9,789 |
| As at: 31 December | 17.81 | 77,425 | 17.74 | 83,989 |

Of the 77,425 outstanding options (previous year: 83,989), 17,325 can be exercised (previous year: 5,039). Options exercised in 2015 resulted in the issue of 3,887 shares (previous year: 9,789) at an average price of EUR 17.67 per share (previous year: EUR 14.74). The weighted average share price at the time of exercising was EUR 36.64 (previous year: EUR 34.82). The corresponding transaction costs amounted to EUR 6,000 (previous year: EUR 1,000) and were offset against the revenues received.

The stock options outstanding at the end of the year have the following expiry dates and exercise prices:

| Granting/exercise | Expiry date | Exercise price per share in EUR | Shares 2015 | Shares 2014 |
|---|---|---|---|---|
| 2010-2012 | 21.10.15 | 15.86 | 0 | 3,539 |
| 2010-2014 | 20.10.17 | 15.25 | 0 | 1,500 |
| 2011-2015 | 19.10.18 | 21.07 | 17,325 | 18,850 |
| 2012-2016 | 20.10.19 | 16.87 | 60,100 | 60,100 |
| | | | 77,425 | 83,989 |

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

The option pricing model applied is the Black-Scholes measurement model. No new share options were granted between 2013 and 2015. The key parameters relating to the last options granted in 2012 are an exercise price of EUR 16.87 (2011: EUR 21.07), volatility of 44.0 % (2011: 44.67 %), a dividend yield of 2.0 % (2011: 2.0 %), a risk-free interest rate of 1.1 % (2011: 1.63 %) and an anticipated option term of 87 months (2011: 87 months). A term of five years was applied to the volatility of the standard deviation from ongoing interest-bearing earnings per share. No staff fluctuation was factored in for the tranche issued in the 2012 financial year (2011: 15.0 %). The fair value of the options granted in 2012 was an average of EUR 7.67 per option (2011: EUR 6.08).

A total of EUR 110,000 was taken into account in the reporting period (previous year: EUR 120,000). In line with IFRS 2 this was posted via personnel expenses to the capital reserves.

**Non-controlling interests**

The increase of the equity holding in the fully consolidated GfO AG to 100 %, which was carried out during the financial year, led to the complete repatriation of the balancing items for shares held by parties outside the Group.

**Dividend per share**

The Management Board and Supervisory Board will make a proposal to the shareholders' meeting that a dividend of EUR 0.11 per share be paid from Nanogate AG's balance sheet profit for the 2015 financial year as calculated in accordance with the principles of the German Commercial Code (HGB). This would result in dividend payments totalling EUR 372,000. A dividend of EUR 0.11 per share was paid for the 2014 financial year.

## 24. Pension provisions

**Defined-benefit pension plans**

The Group operates defined-benefit plans in relation to company pension commitments for the entitled recipients of its GfO AG and Plastic-Design GmbH subsidiaries (until 30 June 2014). The company's pension scheme is financed using plan assets and, in the case of amounts exceeding these, using pension obligations.

In the case of GfO AG, the defined-benefit plans concern Christmas bonuses for (future) pensioners, non-lapsable entitlements of retired employees, ongoing pension obligations and pension bonuses for employees with higher income. All plans are final salary plans that assure members a guaranteed payment for life. The obligations arise from years of service completed until 30 September 1993.

The actuarial measurement of the present value of the defined-benefit obligations of GfO AG was performed as at 31 December 2015 by Prof. Dr Dieter Denneberg and Peter Denneberg (GbR), Bremen. The fair value of plan assets was substantiated by a confirmation of insurance as at 31 December 2015. The anticipated earnings were determined on the basis of the expected earnings of the assets in accordance with the current investment policy.

All of the pension entitlements at Plastic-Design GmbH were waived against compensation with effect from 30 June 2014. The compensation consisted of the transfer of existing reinsurance polices (plan assets) and a payment of EUR 135,000. According to actuarial calculations as at 30 June 2014, this settlement resulted in a gain of EUR 249,000.

Pension obligations are as follows after being offset against plan assets:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Present value of defined-benefit obligations | 1,471 | 1,550 |
| Fair value of plan assets | 479 | 441 |
| Recorded provision | 992 | 1,109 |

The table below shows changes in the pension obligations:

| **Development of pension obligations** | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 |
| **As at: 1.1.2015** | **1,550** | **-441** | **1,109** |
| Ongoing service cost | 9 | - | 9 |
| Interest expense/interest income | 31 | -11 | 20 |
| | 40 | -11 | 29 |
| **Revaluations:** | | | |
| Income from plan assets excluding amounts included in the interest listed above | - | -4 | -4 |
| Actuarial gains arising from changes in the financial assumptions | -78 | - | -78 |
| | -78 | -4 | -82 |
| Contributions: | | | |
| Employer | - | -32 | -32 |
| Ongoing payments made from the plan | -41 | 9 | -32 |
| **As at: 31.12.2015** | **1,471** | **-479** | **992** |

The values for the previous year are shown in the table below:

| **Development of pension obligations** | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 |
| **As at 1.1.2014** | **2,346** | **-1,066** | **1,280** |
| Ongoing service cost | 27 | - | 27 |
| Interest expense/interest income | 58 | -18 | 40 |
| | 85 | -18 | 67 |
| **Revaluations:** | | | |
| Income from plan assets excluding amounts included in the interest listed above | - | -16 | -16 |
| Actuarial losses arising from changes in the financial assumptions | 241 | - | 241 |
| Actuarial gains arising from empirical adjustments | -2 | - | -2 |
| | 239 | -16 | 223 |
| Contributions: | | | |
| Employer | - | -34 | -34 |
| Ongoing payments made from the plan | -76 | 33 | -43 |
| Profit in case of settlement | -249 | - | -249 |
| Payments of debts by means of settlement | -795 | - | -795 |
| Assets disposed of through settlement | - | 660 | 660 |
| **As at: 31.12.2014** | **1,550** | **-441** | **1,109** |

As at the valuation date, the present value of the defined-benefit obligations comprised EUR 510,000 (previous year: EUR 583,000) relating to active employees, EUR 312,000 (previous year: EUR 326,000) relating to former employees, and EUR 649,000 (previous year: EUR 641,000) relating to retired employees.

All pension commitments are non-lapsable.

The plan assets relate exclusively to reinsurance polices with an insurance company.

The following material actuarial assumptions were made:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | % | % |
| Discount rates | 2.40 | 2.00 |
| Future salary increases | 2.00 | 2.00 |
| Future pension increases | 2.00 | 2.00 |

The 2005 G mortality tables by Klaus Heubeck were used as the biometric basis of calculation.

The average weighted term of the defined-benefit obligations as at 31 December 2015 is 13.8 years (previous year: 14.3 years).

The actual income from plan assets is EUR 14,000 (previous year: EUR 34,000).

EUR 89,000 is expected to be paid into defined-benefit pension plans in the 2016 financial year. The payments comprise the planned remuneration on the one hand, and payment of pension obligations, less planned pension obligation payments from the reinsurance policies on the other.

The following sensitivity analysis was used to examine how the change in the most important parameters affects the defined-benefit obligations:

| | Effect on the defined-benefit obligation | |
|---|---|---|
| | 2015 | 2014 |
| | TEUR | TEUR |
| Assumptions for the pension plan | | |
| Discount rate: | | |
| Increase of 0.5 % | -90 | -101 |
| Decrease of 0.5 % | 100 | 113 |
| Future pension increases: | | |
| Increase of 0.25 % | 46 | 50 |
| Decrease of 0.25 % | -44 | -48 |
| Life expectancy: | | |
| Increase of 1 year | 50 | 55 |
| Decrease of 1 year | -50 | -54 |

The same method (determination of present value using the projected unit credit method) was used for the calculation of sensitivity for the relevant actuarial assumptions as was used for the calculation of the pension obligations as at 31 December 2015. The sensitivity calculations are based on the average term of the pension obligations determined as at 31 December 2015. The sensitivity analysis is based on a change to one important assumption, while all other assumptions remain unchanged. It is therefore possible that it is not representative for the actual change to the defined-benefit obligation, since it is unlikely that isolated changes to the assumptions occur.

**Defined-contribution plans**

Payments of EUR 1,876,000 (previous year: EUR 1,561,000) were made to the statutory pension scheme in the reporting year as well as of EUR 70,000 (previous year: EUR 52,000) to the company pension scheme. These are defined-contribution pension plans.

**25. Other provisions**

The other provisions recognised in the balance sheet under non-current and current provisions comprise the following:

| | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Total | Non-current | Current | Total | Non-current | Current |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Cost of personnel* | 220 | 199 | 21 | 214 | 185 | 29 |
| Customers and suppliers** | 2,101 | - | 2,101 | 1,550 | - | 1,550 |
| Litigation | 500 | - | 500 | 180 | - | 180 |
| Removal and dismantling obligations | 92 | 92 | - | 88 | 88 | - |
| Other provisions | 1,328 | 89 | 1,239 | 1,336 | 158 | 1,178 |
| | 4,241 | 380 | 3,861 | 3,368 | 431 | 2,937 |

** primarily includes provisions for anniversaries*
*** primarily includes provisions for warranties*

The following table shows changes in the individual categories of provisions (including both non-current and current provisions) in the financial year 2015:

| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
|---|---|---|---|---|---|---|
| **As at 1.1.2015** | **214** | **1,550** | **180** | **88** | **1,336** | **3,368** |
| Changes to companies included in the consolidated financial statements | | | | | | 0 |
| Currency differences | | | | | | 0 |
| Utilisation | 11 | 368 | - | - | 400 | 779 |
| Addition / creation | 17 | 1,079 | 350 | 1 | 501 | 1,948 |
| Interest effects | - | - | | 3 | | 3 |
| Reversal | - | 160 | 30 | - | 109 | 299 |
| **As at 31.12.2015** | 220 | 2,101 | 500 | 92 | 1,328 | 4,241 |

**26. Financial liabilities**

The financial liabilities reported are liabilities to banks amounting to EUR 38,266,000 (previous year: EUR 38,915,000) in total. Of these, liabilities amounting to EUR 6,589,000 (previous year: EUR 7,095,000) fall due within one year.

Total financial liabilities include secured liabilities to banks in the amount of EUR 36,466,000 (previous year: EUR 36,800,000).

**27. Trade payables**

All of the reported trade payables amounting to EUR 5,192,000 (previous year: EUR 4,455,000) fall due within one year.

**28. Other financial liabilities**

As at 31 December 2015, there were other financial liabilities amounting to EUR 14,676,000 (previous year: EUR 10,841,000).

Of the above sum, EUR 8,782,000 (previous year: EUR 5,387,000) is accounted for by obligations arising from finance leases, of which EUR 6,477,000 falls due in more than one year (previous year: EUR 4,267,000). Furthermore, other financial liabilities include liabilities that have already been recognised in connection with the acquisition of the remaining shares in Plastic-Design GmbH and the purchase price liability relating to last year's acquisition of Vogler GmbH & Co. KG totalling EUR 4,831,000 (previous year: EUR 4,768,000). Current financial liabilities also mainly consist of provisions for accounts payable in the amount of EUR 962,000 (previous year: EUR 331,000).

Of the reported other financial liabilities, EUR 4,483,000 fall due within one year (previous year: EUR 2,334,000).

Other financial liabilities include bank loans secured to the amount of EUR 0 by machinery and equipment (previous year: EUR 247,000).

**29. Other liabilities**

As at 31 December 2015, there were other financial liabilities amounting to EUR 5,583,000 (previous year: EUR 4,485,000), of which EUR 4,420,000 fall due within one year (previous year: EUR 4,177,000).

Other non-current liabilities comprise the special item for investment grants for non-current assets of EUR 104,000 (previous year: EUR 125,000), accruals and deferrals from interest advantages associated with loans of EUR 127,000 (previous year: EUR 183,000) as well as first-time employee obligations of EUR 932,000 (previous year: EUR 0).

Other current liabilities mainly include personnel liabilities of EUR 3,016,000 (previous year: EUR 2,721,000), liabilities for sales tax and other taxes of EUR 596,000 (previous year: EUR 773,000) and social security liabilities of EUR 117,000 (previous year: EUR 127,000). This also includes payments received for customer projects of EUR 626,000 (previous year: EUR 451,000).

**30. Deferred tax liabilities**

The deferred tax liabilities solely relate to divergences between the IFRS balance sheet and the balance sheet prepared for tax purposes. The components of and changes in deferred tax assets are described in section B. 12 "Income taxes".

**31. Obligations from finance leases**

This item includes obligations from finance leases for intangible assets, for technical plant and machinery, and for office and operating equipment. The terms of the finance leases entered into are between three and six years. The interest rates on which the individual agreements are based are between 2.9 % and 5.6 % p.a. They are reported under other financial liabilities.

There are purchase or extension options at the end of the contractual term for some of the existing leases. Premature termination of the contracts is generally not envisaged. There are some rights to tender.

Liabilities from finance leases (present value):

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Due within one year | 2,305 | 2,264 |
| With a remaining term of more than one year and up to five years | 6,258 | 7,033 |
| With a remaining term of more than five years | 219 | 470 |
| | 8,782 | 9,767 |

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

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Due within one year | 2,631 | 2,666 |
| With a remaining term of more than one year and up to five years | 6,109 | 7,227 |
| With a remaining term of more than five years | 203 | 307 |
| | 8,943 | 10,200 |
| Less as yet unrealised interest expenses | -770 | -1,039 |
| Plus remaining lease liability | 609 | 606 |
| Present value of the minimum lease payments to be made | 8,782 | 9,767 |

## D. Other notes

**32. Disclosures on financial instruments**

**Financial risks**

The Nanogate Group is exposed to various financial risks in the course of its ordinary business. These include credit risks, liquidity risks and market risks (currency risks, interest rate risks). The Group uses derivative financial instruments in order to hedge against certain risks.

The objectives, methods and processes of the financial risk management system are described in the risk report section of the management report.

**Default risk**

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

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

**Liquidity risk**

Liquidity risk is the risk that existing or future payment obligations cannot be settled due to a lack of available cash. It is managed centrally for the Nanogate Group. Cash is held to ensure solvency at all times and to enable the Group to meet all of its planned payment obligations as they fall due.

The following table gives details of the financial liabilities according to their maturity periods, based on their residual terms at the balance sheet date. The analysis relates only to financial instruments and liabilities from finance leases. These are undiscounted cash flows, and as such it is not possible to reconcile them with the sums included in the balance sheet.

| 2015 | Cash flows 1 year | Cash flows 1 to 2 years | Cash flows 3 to 5 years | Cash flows over 5 years |
|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Financial liabilities | 6,972 | 6,386 | 21,268 | 3,952 |
| Trade payables | 5,192 | - | - | - |
| Derivative financial instruments | 27 | - | - | - |
| Liabilities from finance leases | 2,629 | 2,320 | 3,790 | 203 |
| Other financial liabilities | 2,151 | 3,761 | - | - |

| 2014 | Cash flows 1 year | Cash flows 1 to 2 years | Cash flows 3 to 5 years | Cash flows over 5 years |
|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Financial liabilities | 7,095 | 4,766 | 13,817 | 13,633 |
| Trade payables | 4,455 | - | - | - |
| Derivative financial instruments | - | 53 | - | - |
| Liabilities from finance leases | 2,666 | 2,385 | 4,842 | 307 |
| Other financial liabilities | 1,214 | 1,822 | 2,477 | - |

## Market risk

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

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

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

*Currency risk*

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

Liabilities denominated in foreign currencies existing on the reporting date are subject to currency risks as set out under IFRS 7 due to currency-related translation differences.

*Interest rate risk*

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

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

A sensitivity analysis was carried out for our floating-rate financial instruments as at year-end 2015. A hypothetical change in these interest rates of 100 basis points or 1 percentage point p.a. from 1 January 2015 onwards would have either increased earnings by EUR 178,000 or decreased earnings by EUR 168,000 as at 31 December 2015.

## Objectives of capital management

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

Equity and the financial liabilities are listed in the following table:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| **Equity** | **51,286** | **42,307** |
| Share of total capital | 41.4% | 39.0% |
| Non-current financial liabilities | 41,870 | 40,327 |
| Current financial liabilities | 11,072 | 9,429 |
| **Financial debt total** | **52,942** | **49,756** |
| Share of total capital | 42.7% | 45.9% |
| **Total capital** | **123,849** | **108,499** |

## Risk management

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

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

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

## Information on financial instruments by category

Financial assets and liabilities are shown according to measurement category in the table below.

| *Financial instruments in the balance sheet as at 31.12.2015* | Loans and receivables | Financial assets measured at fair value through profit or loss | Financial assets available for sale | Financial assets held to maturity | Other financial liabilities at cost | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|---|
| 2015 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| **Financial assets** | | | | | | |
| Equity holdings not included in the consolidated financial statements *) | - | - | 84 | - | - | - |
| Loans | 920 | - | - | - | - | - |
| Derivative financial instruments | - | 1 | - | - | - | - |
| Other financial assets | 999 | - | 30 | - | - | - |

| *Financial instruments in the balance sheet as at 31.12.2015* | Loans and receivables | Financial assets measured at fair value through profit or loss | Financial assets available for sale | Financial assets held to maturity | Other financial liabilities at cost | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|---|
| 2015 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Trade receivables | 5,726 | - | - | - | - | - |
| Cash and cash equivalents | 22,743 | - | - | - | - | - |
| **Total** | **30,388** | **1** | **114** | **-** | **-** | **-** |
| **Financial liabilities** | | | | | | |
| Financial liabilities | - | - | - | - | 38,267 | - |
| Derivative financial instruments | - | - | - | - | - | 27 |
| Other financial liabilities | - | - | - | - | 1,036 | 4,831 |
| Trade payables | - | - | - | - | 5,192 | - |
| **Total** | **-** | **-** | **-** | **-** | **44,495** | **4,858** |

*) measured alternatively at cost pursuant to IAS 39.46 c

| *Financial instruments in the balance sheet as at 31.12.2014* | Loans and receivables | Financial assets measured at fair value through profit or loss | Financial assets available for sale | Financial assets held to maturity | Other financial liabilities at cost | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|---|
| 2014 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| **Financial assets** | | | | | | |
| Equity holdings not included in the consolidated financial statements *) | - | - | 79 | - | - | - |
| Loans | 1,228 | - | - | - | - | - |
| Derivative financial instruments | - | 2 | - | - | - | - |
| Other financial assets | 1,103 | - | 30 | - | - | - |
| Trade receivables | 6,543 | - | - | - | - | - |
| Cash and cash equivalents | 17,796 | - | - | - | - | - |
| **Total** | **26,670** | **2** | **109** | **-** | **-** | **-** |
| **Financial liabilities** | | | | | | |
| Financial liabilities | - | - | - | - | 38,915 | - |
| Derivative financial instruments | - | - | - | - | - | 53 |
| Other financial liabilities | - | - | - | - | 633 | 4,768 |
| Trade payables | - | - | - | - | 4,455 | - |
| **Total** | **-** | **-** | **-** | **-** | **44,003** | **4,821** |

*) measured alternatively at cost pursuant to IAS 39.46 c

The fair values of interest rate derivatives correspond to the respective market value, determined using appropriate actuarial methods, such as discounting expected future cash flows. The market interest rates applicable for the remaining term of the contracts are taken as a basis.

For cash and cash equivalents, trade receivables, loans and other financial assets, trade payables and other financial liabilities, the carrying amount must be accepted as a realistic assessment of the fair value. In the case of variable financial liabilities, the carrying amounts correspond to the fair values. The fair values of the remaining financial liabilities were determined on the basis of the interest rates applicable on the reporting date for corresponding remaining terms, subject to available market information.

The fair value of fixed-interest liabilities is calculated as the present value of the future expected cash flows. Discounting is based on the interest rates applicable at the reporting date.

The table below shows the carrying amounts and fair values of the financial liabilities:

| | Carrying amount as at 31.12.2015 | Fair value as at 31.12.2015 | Carrying amount as at 31.12.2014 | Fair value as at 31.12.2014 |
|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| **Financial liabilities** | | | | |
| Financial liabilities | 38,267 | 38,578 | 38,915 | 39,311 |

Assets and liabilities recognised at fair value are shown according to measurement level in the table below. Each level is defined as follows:

Level 1: Financial instruments traded on active markets, whose prices were taken unchanged for the measurement.

Level 2: The measurement is made on the basis of valuation methods in which the influential factors are derived either directly or indirectly from observable market data.

Level 3: The measurement is made on the basis of valuation methods in which the influential factors are not based exclusively on observable market data.

As at 31 December 2015, financial assets and liabilities recognised at fair value were broken down according to measurement level:

| *2015* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| ***Assets*** | | | | |
| Financial assets measured at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 1 | - | 1 |
| Financial assets available for sale | | | | |
| Other financial assets | - | - | 30 | 30 |
| **Total assets** | **-** | **1** | **30** | **31** |
| ***Liabilities*** | | | | |
| Financial liabilities measured at fair value through profit or loss: | | | | |
| Contingent consideration | - | - | -4,831 | -4,831 |
| Derivative financial instruments | - | -27 | - | -27 |
| **Total liabilities** | **-** | **-27** | **-4,831** | **-4,858** |

| *2014* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| ***Assets*** | | | | |
| Financial assets measured at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 2 | - | 2 |
| Financial assets available for sale | | | | |
| Other financial assets | - | - | 30 | 30 |
| **Total assets** | **-** | **2** | **30** | **32** |

| 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| ***Liabilities*** | | | | |
| Financial liabilities measured at fair value through profit or loss: | | | | |
| Contingent consideration | - | - | -4,768 | -4,768 |
| Derivative financial instruments | - | -53 | - | -53 |
| **Total liabilities** | **-** | **-53** | **-4,768** | **-4,821** |

The development of financial assets and liabilities (level 3) based on non-observable input factors and recognised at fair value is represented on balance as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| **Financial assets and liabilities (balance)** | | |
| Net carrying amount of assets / liabilities (-) 1.1. | -4,738 | -1,181 |
| Additions to assets / liabilities (-) | 0 | -3,602 |
| Disposals of assets (-) / liabilities | 0 | 100 |
| Gains / losses recognised in profit or loss (-) | -63 | -55 |
| *of which assets / liabilities held as at the balance sheet date* | -63 | -55 |
| Gains / losses recognised without effect on profit or loss (-) | - | - |
| *of which assets / liabilities held as at the balance sheet date* | - | - |
| Reclassifications | - | - |
| Net carrying amount of assets / liabilities (-) 31.12. | -4,801 | -4,738 |

Changes with effect on profit or loss have been recognised in financial income and expenses.

The net result from financial instruments according to measurement category is as follows:

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Loans and receivables | -217 | -89 |
| Financial assets measured at fair value through profit or loss | -2 | -17 |
| Financial assets available for sale | -25 | - |
| Financial assets held to maturity | - | - |
| Other financial liabilities at cost | -1,759 | -1,220 |
| Financial liabilities measured at fair value through profit or loss | -64 | -42 |
| **Total** | **-2,067** | **-1,368** |

During the 2015 financial year, interest expense for financial instruments amounted to EUR 1,662,000 (previous year: EUR 1,213,000). Interest income also accrued for financial instruments in the amount of EUR 47,000 (previous year: EUR 52,000).

Impairments of financial instruments measured at amortised cost amounted to EUR 309,000 (previous year: EUR 132,000).

### 33. Segment reporting

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

#### Base Technologies

The Base Technologies segment essentially comprises the existing business activities in the area of surface enhancement. The segment comprises much of the Group's existing portfolio of conventional applications in the areas of sport/leisure and buildings/interiors.

#### Advanced Technologies

The Advanced Technologies segment focuses on applications with especially strong sales and revenue potential. Among other things, this segment covers the areas of energy efficiency and innovative plastics, with a focus on glazing applications.

| 2015 Segment information | Base Technologies | Advanced Technologies | Total of segments | Reconciliation | Group |
|---|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Segment revenue (external) | 34,675 | 56,219 | 90,894 | - | 90,894 |
| Segment revenue (internal) | 1,997 | 6,091 | 8,088 | -8,088 | - |
| **Segment EBIT** | **2,832** | **3,078** | **5,910** | **-2,907** | **3,003** |
| Key income and expense items | | | | | |
| Personnel expenses | 11,200 | 14,781 | 25,981 | 2,499 | 28,480 |
| Depreciation/amortisation | 1,732 | 4,192 | 5,924 | 1,274 | 7,198 |

| 2014 Segment information | Base Technologies | Advanced Technologies | Total of segments | Reconciliation | Group |
|---|---|---|---|---|---|
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Segment revenue (external) | 26,373 | 42,183 | 68,556 | - | 68,556 |
| Segment revenue (internal) | 2,397 | 3,731 | 6,128 | -6,128 | - |
| **Segment EBIT** | **2,176** | **2,054** | **4,230** | **-1,772** | **2,458** |
| Key income and expense items | | | | | |
| Personnel expenses | 8,869 | 14,565 | 23,434 | - | 23,434 |
| Depreciation/amortisation | 1,657 | 2,758 | 4,415 | 560 | 4,975 |

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

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

| | 2015 | 2014 |
|---|---|---|
| | EUR ,000 | EUR ,000 |
| Operating result of reporting segments | 5,910 | 4,230 |
| Reconciliation | -2,907 | -1,772 |
| **Operating result (EBIT)** | **3,003** | **2,458** |
| Net financial result | -2,387 | -1,645 |
| **Earnings before taxes** | **616** | **813** |

**Information about revenue distribution according to geographical area**

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

| | | 2015 | 2014 |
|---|---|---|---|
| | | EUR ,000 | EUR ,000 |
| Gross revenue: | Germany | 49,715 | 38,069 |
| | Abroad*) | 42,276 | 31,043 |
| | | 91,991 | 69,112 |
| Less: | Sales deductions | -1,097 | -556 |
| | **Overall Group** | **90,894** | **68,556** |
| | *) of which in | | |
| | European Union | 28,030 | 23,947 |
| | Other countries | 14,246 | 7,095 |
| | | 42,276 | 31,043 |

**34. Notes to the consolidated statement of cash flows**

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

For a detailed breakdown of this item, please refer to section B. 22 "Cash and cash equivalents".

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 activities includes payments for acquisitions in the amount of EUR 0 (previous year: EUR 12,961,000). Further explanations about company acquisitions are set out in section D. 38 "Company acquisitions".

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

**35. Other financial obligations**

As part of its business activities, the Nanogate Group has acquired operating resources via leasing, which is essentially limited to buildings and equipment. This includes a small number of leases for vehicles as well as for hardware and software.

The Nanogate Group's contractual obligations (operating leases) to third parties as at 31 December 2015 were as follows:

| | Due | | | |
|---|---|---|---|---|
| | < 1 year | 2 - 5 years | > 5 years | Total |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Building rental agreement | 2,376 | 8,214 | 5,067 | 15,658 |
| Other rental/lease agreements | 1,201 | 411 | 12 | 1,624 |
| | 3,577 | 8,625 | 5,079 | 17,282 |

The previous year the following amounts were disclosed for operating leases:

| | Due | | | |
|---|---|---|---|---|
| | < 1 year | 2 - 5 years | > 5 years | Total |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Building rental agreement | 2,200 | 8,218 | 6,706 | 17,124 |
| Other rental/lease agreements | 814 | 578 | - | 1,392 |
| | 3,014 | 8,796 | 6,706 | 18,516 |

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

Payments of EUR 2,630,000 (previous year: EUR 1,963,000) under leases and sub-leases were recognised as expenses in the reporting period in accordance with IAS 17.35.

**36. Events after the balance sheet date 31 December 2015**

At the beginning of 2016, Nanogate Industrial Solutions GmbH and Vogler GmbH agreed a profit and loss transfer agreement.

In February 2016, Nanogate announced the start of operations at its new Turkish subsidiary, Nanogate Teknoloji, based in Istanbul. From its new location, the Group intends to access the markets in Turkey and the Middle East. Nanogate also sees additional potential for growth with other fields of application in the region. In light of the existing order base, Nanogate is expecting to achieve regional sales in the million range in the current 2016 financial year and intends to realise initial earnings contributions.

**37. Number of employees**

Employees (average for the year):

| | 2015 | 2014 |
|---|---|---|
| Blue-collar employees | 414 | 339 |
| White-collar employees | 158 | 120 |
| | 572 | 459 |
| Apprentices | 14 | 15 |
| | 586 | 474 |

The annual average is calculated pro rata temporis for companies consolidated for the first time or deconsolidated.

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

At the balance sheet date, the Nanogate Group employed 593 staff (previous year: 555). There were 17 trainees at the end of the year (previous year: 15 trainees).

**38. Company acquisitions**

Nanogate AG acquired a controlling influence over Vogler GmbH & Co. KG, effective 15 July 2014. As a consequence, the company is included in the consolidated financial statements of Nanogate AG from this point onwards. For the resulting first-time full consolidation, the assets, liabilities and contingent liabilities corresponding to the proportion of the shares acquired were measured as part of the purchase price allocation as at 1 July 2014. The fair values of the identifiable assets and liabilities of Vogler GmbH & Co. KG are as follows as per their first-time consolidation:

| | Fair value |
|---|---|
| | EUR ,000 |
| Goodwill | 10,887 |
| Brand | 4,250 |
| Development services acquired | 117 |
| Other intangible assets | 86 |
| Property, plant and equipment | 1,377 |

| | Fair value |
|---|---|
| | EUR ,000 |
| Inventories | 1,067 |
| Trade receivables and other receivables | 2,858 |
| Cash and cash equivalents | 1,421 |
| Deferred tax assets | 0 |
| **Total of assets acquired** | **22,063** |
| Tax liabilities | -67 |
| Other provisions | -462 |
| Financial liabilities | -1,062 |
| Trade payables | -907 |
| Other liabilities | -383 |
| Deferred tax liabilities | 0 |
| **Total of liabilities acquired** | **-2,881** |
| **Net assets acquired** | **19,182** |
| **Purchase price** | **19,182** |
| of which paid for with cash and cash equivalents | 14,329 |
| of which assumed liabilities | 309 |
| of which equity instruments | 912 |
| of which purchase price liabilities | 3,632 |

Goodwill primarily consists of inseparable synergies in administrative processes, employee expertise and cost savings in the area of sales. It is fully tax deductible.

The costs directly attributable to the acquisition of a 100.0 % equity holding in Vogler GmbH & Co. KG amount to EUR 360,000; they have been recognised as expenses.

The equity instrument used comprises 28,480 no-par-value bearer shares issued in Nanogate AG. The fair value of the no-par-bearer shares, which represent part of the consideration transferred for the acquisition of Vogler GmbH & Co. KG, was determined on the basis of the official trading price at the time the shares were issued.

The reported purchase price obligations are contingent considerations of EUR 3,632,000 as future payments to the former shareholder of Vogler GmbH & Co. KG. Insofar as the acquired company achieves contractually defined targets in the years 2015 to 2016, the purchase price shall be revised upwards to an undiscounted maximum value of EUR 4,000,000. The fair value of this contingent consideration was recognised at the discounted expected value of EUR 3,632,000. This is a level three valuation of the fair value hierarchy.

Including the effects arising from the purchase price allocation and integration costs, the acquired company contributed revenue of EUR 9,296,000 and a net profit of EUR 667,000 to Nanogate AG between the time of acquisition and 31 December 2014. If Vogler GmbH & Co. KG had been consolidated on 1 January 2014, sales of EUR 20,634,000 and a profit of EUR 1,500,000 would have been recognised in the Group's income statement.

Following the acquisition of the only limited partner's share in Vogler GmbH & Co. KG, the hidden reserves and losses in the balance sheet prepared for tax purposes were uncovered at the time of acquisition; i.e. the fair values of the identifiable assets and liabilities are also shown in the balance sheet prepared for tax purposes in the same way. In this respect, the presentation of the purchase price allocation did not result in any deferred taxes.

Nanogate increased its equity holding in GfO AG in Schwäbisch Gmünd from 75.0 % to 100.0 % in July 2015. The purchase price comprised a cash component and a share component, which were executed as part of a capital increase through contributions in kind.

At the beginning of April 2016, by way of a notarised participation agreement, Nanogate AG acquired a 75 % stake in Walter Goletz GmbH, a plastics specialist from Kierspe (North Rhine-Westphalia, Germany) as part of a share deal.

For further details of this, please also refer to our explanations in the Group management report under point 3.: Events after the balance sheet date.

### 39. Auditor's fees pursuant to Section 314 HGB

The following fees for services provided by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, based in Stuttgart, were recognised as expenses:

| | 2015 |
|---|---|
| | TEUR |
| Auditing services | 115 |
| Other certification services | - |
| Tax advisory services | - |
| Other services | - |
| | 115 |

### 40. Related party disclosures

Related parties within the meaning of IAS 24 Related Party Disclosures are those persons or entities that have control, joint control with other entities, or significant influence over Nanogate AG.

Subsidiaries, joint ventures and associates are also related parties of Nanogate AG. Subsidiaries and joint ventures are also related parties for one another. This also applies to subsidiaries not included in the scope of consolidation.

Related parties are also key management personnel, their close family members and companies over which these persons exercise control, joint control or significant influence.

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

Business transactions between Nanogate AG and its subsidiaries were eliminated in the course of consolidation in the 2015 financial year, with the exception of sarastro GmbH and Nanogate Teknoloji AS, and are not explained in these disclosures.

The following transactions with related parties were carried out in the reporting year:

| | Acquisition of assets | | Assumption of liabilities | | Services rendered | | Services received | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Subsidiaries – not consolidated | - | 54 | - | 28 | - | - | - | - |

The following balances were outstanding at the end of the reporting period:

| | Liabilities | | Receivables | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | EUR ,000 | EUR ,000 | EUR ,000 | EUR ,000 |
| Subsidiaries – not consolidated | 56 | 64 | 216 | 174 |

There were no other relationships with related parties not included in the consolidated financial statements in the financial year 2015. There were no major transactions with other companies or related parties having a significant influence over the Nanogate Group in the reporting period.

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

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

| | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | No. of shares | No. of options | No. of shares | No. of options |
| **Management Board** | | | | |
| Michael Jung | 18,724 | 21,541 | 22,524 | 23,041 |
| Daniel Seibert | 150 | 10,000 | 150 | 10,000 |
| Ralf M. Zastrau | 56,400 | 21,559 | 56,400 | 21,559 |
| **Supervisory Board** | | | | |
| Oliver Schumann | 7,175 | - | 9,275 | - |
| Dr Farsin Yadegardjam | 9,375 | - | 5,438 | 3,937 |
| Klaus-Günter Vennemann | 2,500 | - | 3,910 | - |
| Dr Clemens Doppler | - | - | 700 | - |
| Katrin Wehr-Seiter | - | - | - | - |
| Hartmut Gottschild | 2,000 | - | 2,000 | - |

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

**Remuneration of Management Board members**

The remuneration of members of the Management Board as defined by Section 315a HGB together with Section 314 (1) (6a) HGB totalled EUR 816,000 during the financial year as current payments in 2014.

In addition to this remuneration in the form of basic salary, bonuses, company pension and use of company vehicles, there are again non-cash benefits from the stock option programmes adopted by the shareholders' meeting totalling EUR 32,000.

Furthermore, other long-term benefits amounting to EUR 602,000 were granted.

**41. Company boards**

**Supervisory Board of Nanogate AG**

Oliver Schumann, Bad Soden, Chairman of the Supervisory Board; partner at 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.

Klaus-Günter Vennemann, Waldring/Austria, management consultant, since 26.6.2014.

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

Hartmut Gottschild, Aalen, management consultant.

Katrin Wehr-Seiter, Bad Homburg, Managing Director of BIP Investment Partners S.A.

The members of the Supervisory Board received remuneration totalling EUR 114,000 (previous year: EUR 75,000) As in the previous year, these are exclusively current payments.

**Management Board**

Ralf M. Zastrau, St. Ingbert, Chairman of the Management Board/CEO

Michael Jung, Riegelsberg, COO

Daniel Seibert, Rüsselsheim, CFO

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

Quierschied-Göttelborn, 22 April 2016

Nanogate AG

Ralf M. Zastrau
Chairman of the Management Board/ CEO

Michael Jung
Member of the Management Board/ COO

Daniel Seibert
Member of the Management Board/ CFO

# Auditors' report

*We have issued the following opinion on the consolidated financial statements and the group management report:*

We have audited the consolidated financial statements prepared by Nanogate AG, Quierschied-Göttelborn, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). 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 the applicable financial reporting framework 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 annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as 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 IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. 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.

Saarbrücken, 22 April 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Witsch | Dr. Zabel |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# Overview of separate financial statements as per HGB

## Nanogate AG

The following refers to Nanogate AG (in accordance with HGB, figures in EUR ,000)

| | 2015 | 2014 |
|---|---|---|
| Net sales | 3,748 | 2,766 |
| Overall performance | 6,188 | 5,828 |
| Gross earnings | 5,084 | 4,984 |
| Earnings before taxes | -2,055 | 1,097 |
| Net income/loss | -2,060 | 1,092 |
| Balance sheet total | 78,363 | 64,862 |
| Balance sheet profit | 1,596 | 3,987 |
| Equity | 47,599 | 36,124 |
| Equity ratio (%) | 60.7% | 55.7 |
| Cash and cash equivalents | 13,332 | 7,812 |
| Dividend in euros* | 0.11 | 0.11 |

** proposal for 2015*

The Nanogate Group again recorded pleasing business development in the 2015 financial year, achieving new records in sales and operating result (EBITDA). Cash flow from the Group's operating activities and liquidity also improved. The parent company, Nanogate AG, also recorded a slight rise in sales performance. However, the expense involved in implementing the Phase5 growth strategy adversely affected Nanogate AG's earnings as parent company with its numerous holding and service functions. This includes, for example, costs for opening up new, international markets and for business development. For reasons of transparency, the parent company has borne all of these special costs itself and has therefore not included subsidiaries in individual cases. In addition, there were significant expenses for new technologies and additional capacities which were partly incurred by the operating subsidiaries and were thus ultimately borne by the parent company. The net result of the parent company under HGB therefore declined, as expected, to EUR -2.1 million (previous year: EUR +1.1 million). This development is also due to rising costs resulting from the additional tasks performed by the holding company, which has optimised its structures and processes in view of the sharp increase in the volume of business. The good performance in 2015, coupled with a significant sales increase of almost one third within the Group, and the improved consolidated net result are confirmation of this strategy. The liquidity and equity ratio of the parent company under HGB also increased.

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