Annual Report 2016
Achieving New Goals Together

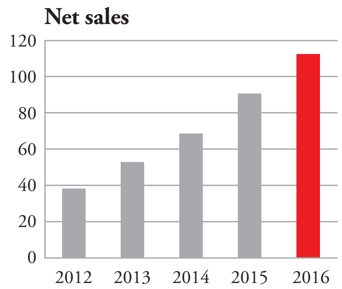
nanogate

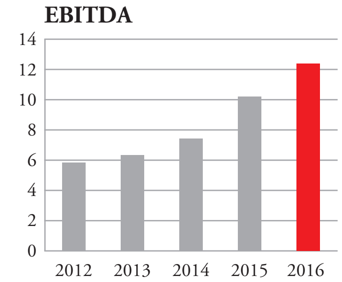
Nanogate Group at a glance

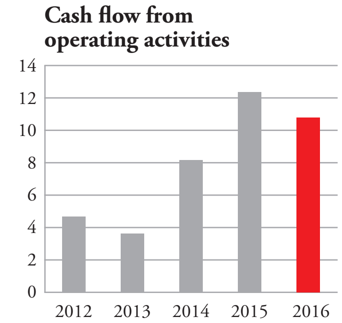
	2016	2015
Sales	112,452	90,894
Overall performance	116,856	94,787
Gross profit margin (in % of overall performance)	60.3	62.2
EBITDA	12,378	10,201
EBIT	4,632	3,003
EBT	3,373	616
Consolidated net income/loss	2,498	521
Earnings per share (EUR, basic)	0.70	0.16
Balance sheet total	156,424	123,849
Equity	65,823	51,286
Equity ratio (%)	42.1	41.4
Cash and cash equivalents	22,578	22,743
Cash flow from continuing operations	10,794	12,344
Cash flow from investing activities (without external growth)	-7,284	-9,620
Employees (average for the year)	715	586
Sales per employee	157	156
Market capitalisation at year-end*	143,799	108,019
Dividend** (in euros)	0.11	0.11

** Source: Bloomberg, ** Proposal for 2016.*

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







Figures in EUR ,000,000

Contents

NANOGATE AG – A WORLD OF NEW SURFACES®

Nanogate is a leading global specialist for design-oriented high-tech surfaces and components of very high optical quality. The Group has an international market presence and its own production capacities on both sides of the Atlantic. Nanogate develops and produces high-quality surfaces and components and enhances them with additional properties (e.g. nonstick, scratchproof, anticorrosive).

As a long-standing innovation partner, Nanogate offers companies from a range of industries unique systems expertise: The development of complex components, the material design for the surface coating, the series coating of various substrates as well as the production and enhancement of complete plastic components. The comprehensive service portfolio for Advanced Materials Engineering, Advanced Process Engineering and Advanced Component Engineering is unique in this integrated form and provides customers with new prospects for their value creation.

With Expertise and Technology from Nanogate
- new designs are created.
- surfaces are given new properties and additional functions.
- plastics are put to use in ground-breaking areas of application.
- metals are enhanced.
- products are given environmentally friendly properties.

We create value. For our customers, our shareholders, our employees and for the environment and society.

Letter to shareholders

Dear shareholders, ladies and gentlemen, and staff members,

Nanogate developed further in 2016 to become a leading global specialist for design-oriented, high-tech surfaces and components in terms of operations and strategy, we can look back on the most successful financial year in the company's history. As announced, we led the Group into a new dimension in 2016. Thanks to the strong demand, we achieved new record figures in sales and earnings. At the same time, we have significantly expanded our strategic foundation with two acquisitions. The new majority stakes in plastics specialists Goletz and U.S. provider Jay Plastics will give our business a significant boost, primarily in the U.S.

Achieving New Goals Together
Nanogate is firmly established as an innovation partner among international corporations, and it is now present in many areas of life with its solutions. Our technology is used in numerous applications: Automotive manufacturers, in particular, are turning to our design-oriented surfaces and components in order to distinguish themselves from their competitors. We also equip surfaces, such as those of domestic appliances and furniture, with new properties and operate in the areas of sport/leisure and medical technology. We operate as an integrated systems provider by supplying our customers with complete systems and components. We support them comprehensively along the entire value chain. Through our operating subsidiaries, we offer a unique range of technology and services, from development to mass production. We are now represented on both sides of the Atlantic with our own development and production facilities – meaning that we operate close to our customers and their primary sales markets. Nanogate is active in more than 30 countries around the world.

Nanogate is a strong corporate group. Through our subsidiaries in the Netherlands and Germany, and now also in the U.S., we have unique expertise in the development and production of innovative surfaces and components to the highest optical quality. As part of creating a uniform corporate identity, the Group standardized its brand world and naming during the reporting year. Accordingly, the annual report has been given the title "Achieving New Goals Together".

Medium-term Sales Target Exceeded Earlier than Expected
Since the launch of our Phase5 strategic growth program, the Group has significantly expanded its business activities and strengthened its profitability. Sales rose by almost 24 % to around EUR 112.5 million in 2016. We are benefiting from strong demand in all target industries as well as from the integration of the new Nanogate Goletz Systems subsidiary. With sales at a record level, we exceeded our medium-term sales target of EUR 100 million earlier than planned. The volume of business has therefore more than doubled since 2014, when we initiated the Phase5 program. Rising by approximately 20 % to EUR 12.4 million, the operating result (EBITDA) also reached a new record high in 2016. Without the expenses associated with the ongoing expansion and the transaction and integration costs for two acquisitions, the result and the margin would have been significantly higher. Consolidated net income increased from EUR 0.5 million to EUR 2.5 million. An improved financial result also contributed to this. Earnings per share rose particularly strongly, from EUR 0.16 to EUR 0.70 per share.

In view of the strong operating performance in the Group, the Supervisory Board and Management Board will propose to the shareholders' meeting to again distribute a dividend of EUR 0.11 per share. We would thereby like our shareholders to continue participating in the success of the Group. Despite this distribution as part of a prudent dividend strategy, financial strength remains assured.

Growth Leap in the U.S.

The new majority equity holding Nanogate Jay Systems represents a milestone in the expansion of our international business: With the plastics specialist, established for many years in the U.S., Nanogate is expanding its market access and strengthening its technology portfolio. With around 400 employees and renowned customers, our subsidiary is a leading integrated provider for the high-quality enhancement of plastic surfaces and components. The acquisition of around 80 % of the shares was concluded in January 2017 after the transaction had been agreed in December 2016. Our subsidiary means that we are establishing ourselves as a global provider and are receiving a strong sales boost. We anticipate significant synergies relating to customers and technologies. The fact that we are already in joint talks with customers regarding possible new projects makes us particularly optimistic – the broadened technology portfolio and expanded customer access are likely to pay off in the short term already.

Even before the expansion step on the other side of the Atlantic, Nanogate had already acquired a majority stake in plastics specialist Goletz in the spring. This strengthened our systems expertise with regard to development and production as well as the multifunctional enhancement of high-quality plastic components. Our subsidiary has a strong market position, particularly in relation to small and medium-sized, design-oriented components, while the Group was previously more specialized in larger components.

New Applications and Technologies

The Group also made significant progress in its operating business. This also includes our new production facility for the N-Metals® Chrome technology platform, which enables Nanogate to provide its customers with new worlds of design for plastic surfaces with a chrome look in the future. High-quality, multifunctional metal coatings with a chrome look are in demand for numerous products. The focus is on automotive construction, white goods, sanitary products as well as design elements of all kinds.

In parallel, we are expanding our order base with numerous new products and applications. Our focus on the lucrative component business is paying off in this regard. Some of the largest orders in the company's history include the supply of plastic components to a luxury car manufacturer. The multiyear order has a cumulative volume in the high double-digit million range. For this systems business, Nanogate is responsible for the entire component and covers all stages of the value chain. The Group is in charge of developing and designing the component, which includes manufacturing prototypes as well as the necessary machinery and tools. And we will again be expanding capacities for mass production. As another transaction at the beginning of the year, we acquired the remaining shares in our Nanogate PD Systems subsidiary.

Ralf Zastrau (CEO)

Michael Jung (COO)

Daniel Seibert (CFO)

Outlook for 2017

Thanks to our strong market position, we anticipate a dynamic course of business and expect a significant rise in the volume of business and profitability. On the basis of the planned projects and due to consolidation effects, sales should rise to more than EUR 160 million. Despite the transaction and integration costs, we expect an increase in the operating result (EBITDA) to at least EUR 18 million. In parallel, significant funds will continue to flow into our investment program and into the development of international markets. In view of the growth course, consolidated net income will continue to be influenced by depreciation and amortization as well as by financing costs. The Group is financially well positioned and is also benefiting from a successful capital increase in April 2017 that generated gross proceeds of issue of approximately EUR 14.2 million and that was implemented shortly after the consolidated financial statements had been audited.

We are expanding our business over the short term with all of our expansion steps, while at the same time laying the foundation for both medium and long-term growth. We are therefore ensuring that all measures sustainably strengthen the value of the company. We would like to thank our shareholders for their confidence in the Group. We would also like to express our thanks to our employees for their great dedication. In a demanding year with many changes, they have contributed to our good performance with passion and commitment.

Nanogate is well positioned as a leading global specialist for design-oriented high-tech surfaces and components. In view of the strong demand for multifunctional surfaces and components and of a market with an accessible volume in the billions, we are optimistic about further expanding our position. As a global provider, Nanogate will benefit from its integrated range of services along the entire value chain and from its complete technology portfolio for the multifunctional enhancement of metals and plastics in the highest optical quality. Nanogate has been established as an innovation partner for major corporations for many years and will continue to expand its business with its technology and design expertise. Our Phase5 growth agenda is the strategic foundation upon which Nanogate will achieve its ambitious sales and earnings targets.

Yours,

Ralf Zastrau (CEO) | Michael Jung (COO) | Daniel Seibert (CFO)

ACHIEVING NEW GOALS TOGETHER.

Integrated systems competence
for high performance surfaces and
innovative high-tech components:
A world of new surfaces

nanogate TEXTILE & CARE SYSTEMS GMBH

nanogate INDUSTRIAL SYSTEMS GMBH

nanogate GfO SYSTEMS AG

nanogate EUROGARD SYSTEMS B.V.

nanogate GLAZING SYSTEMS B.V.

nanogate PD SYSTEMS GMBH

nanogate VOGLER SYSTEMS GMBH

nanogate GOLETZ SYSTEMS GMBH

nanogate MEDICAL SYSTEMS GMBH

nanogate JAY SYSTEMS LLC

nanogate TECHNOLOGIES INC.

nanogate TEKNOLOJI AŞ

Göttelborn
Nanogate AG
Nanogate Textile & Care Systems GmbH

Neunkirchen
Nanogate Industrial Systems GmbH

Schwäbisch Gmünd
Nanogate GfO Systems AG

Geldrop
Nanogate Eurogard Systems B.V.
Nanogate Glazing Systems B.V.

Bad Salzuflen
Nanogate PD Systems GmbH

Lüdenscheid
Nanogate Vogler Systems GmbH

Kierspe
Nanogate Goletz Systems GmbH
Nanogate Medical Systems GmbH

Mansfield
Nanogate Jay Systems LLC

Highlights 2016: International Growth

SEPTEMBER 2016

New Technology Platform

Nanogate launches the production facilities for the new N-Metals® Chrome technology platform. With applications for multifunctional surfaces with a chrome look, the Group is targeting an attractive market. N-Metals® Chrome is a leading technology and is also an alternative – urgently demanded by the market – to conventional metallization processes.

MAY 2016

Major Order in the Systems Business

The Group is expanding its position in the market for enhanced plastic components more rapidly than originally expected. One major, multiyear order with a volume of more than EUR 20 million encompasses the supply of high-quality interior components for a luxury car manufacturer's new SUV. The project is being jointly implemented by Nanogate Goletz Systems and Nanogate Vogler Systems.

APRIL 2016

Takeover of Plastics Specialist Goletz

The acquisition of 75 % of the shares in Walter Goletz GmbH (now Nanogate Goletz Systems) significantly expands Nanogate's range of services. The Group now covers all specialist areas in the development and production, as well as the enhancement of multifunctional, design-oriented plastic components. The new subsidiary is primarily specialized in small and medium-sized components, while Nanogate was previously more active in the market for larger components.

MARCH 2016

Capacities Expanded

Nanogate subsidiary Vogler Systems increases its production capacities with a new coating facility. At the same time, the technologically sophisticated production line offers additional application possibilities and can also enhance complex components.

FEBRUARY 2016

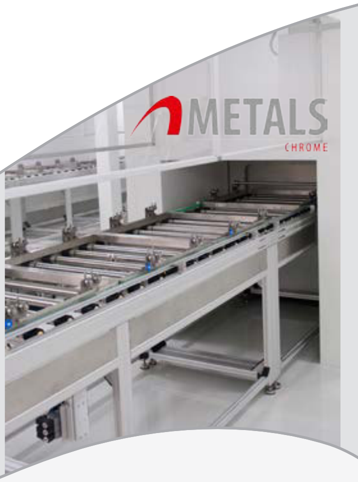
Strong Demand at the Start of the Year

Nanogate makes a good start to the new year: New projects and higher sales in the furniture and interiors segment ensure that the Group can balance out its product portfolio.

OCTOBER 2016

New Multi-million Order

Nanogate receives another major order: Starting in 2018, the Group will supply plastic components with optically high-quality surfaces to a luxury car manufacturer. The multiyear order has a cumulative volume in the high double-digit million range. This major project marks a milestone for Nanogate in the expansion of its lucrative component business.



OCTOBER 2016

New Brand Range

Nanogate standardizes the brand profile of all of its operating subsidiaries. In the future, the names of the individual companies will include the Group name "Nanogate" and the addition of "Systems". The Group is strengthening its Nanogate brand with the uniform positioning and successfully presents the new look for the first time at the largest international plastics trade fair, K, in Düsseldorf.

NOVEMBER 2016

Sustained Excellence Award

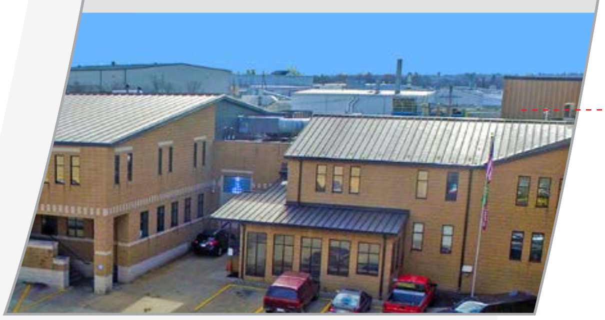
After winning in 2011, the Group again receives the Sustained Excellence Award from the Deloitte Technology Fast 50. The award recognizes companies that, in addition to their outstanding growth, show excellence in areas such as leadership, competitive advantage, management and corporate culture.

Source Deloitte GmbH Wirtschaftsprüfungsgesellschaft

NOVEMBER 2016

Entry into the E-Mobility Market

Growth in electric vehicles: The Group records increasing sales figures for the enhancement of a German car manufacturer's charging stations. Nanogate supplies high-quality design surfaces for plastic charging stations that allow a vehicle to be connected to the electricity grid.



DECEMBER 2016

Global Expansion

Nanogate becomes a global provider after agreeing its first acquisition of a U.S. company. Jay Plastics (now Nanogate Jay Systems) has been an established systems provider of components with high-quality surfaces for many years. With the successful U.S. company, Nanogate is establishing itself as a leading global specialist for design-oriented high-tech surfaces and components of very high optical quality.

Strategy – Strong Combination of Design and Function

Nanogate is benefiting more and more from its competitive advantages: We provide companies with integrated access to new worlds of design like scarcely any other provider. We develop and produce surfaces and components that stand out for their sophisticated design, highest optical quality and multifunctional properties. We thus support our customers – usually international corporations – in distinguishing themselves from their competitors. In doing so, we support them as an innovation partner over many years and continually provide them with new applications and solutions. As a systems provider, we focus primarily on the attractive target markets of automotive/transport, mechanical/plant engineering, buildings/interiors and sport/leisure. We continue to see significant growth potential in the strategic application areas of Advanced Metals and Advanced Polymers.

Represented on Both Sides of the Atlantic

Innovative surfaces and components are in strong demand around the world, which is why Nanogate has, for a long time, been pursuing a strategy of opening up global markets and strengthening its international presence. Having already been represented in more than 30 countries with its applications and systems, the Group established itself in the previous year as a leading global specialist for design-oriented and multifunctional high-tech surfaces and components. The first acquisition of a U.S. provider was crucial for expanding our international market position: With the majority stake in Jay Plastics, which we agreed in December 2016, we are significantly expanding our presence in one of the most important markets in the world, while at the same time strengthening our sales and our technology portfolio. Nanogate now operates in a market with a globally accessible volume in the billions. The transaction for the acquisition was already concluded in January 2017, which was quicker than expected. Having been integrated into the Group, our new equity holding now operates as Nanogate Jay Systems (see also Company Profile on page 12).

Superior Business Model

In the operating business, our growing business activities are based on three strong pillars. This means that we cover the entire value chain while at the same time offering our customers unique, all-round expertise as well as a "one-stop shopping" concept for the development and production of high-tech surfaces and components.

I. <u>Advanced Materials Engineering:</u>

Since it commenced operations, Nanogate has concentrated on exploiting the benefits of new materials for companies in the form of commercially successful products. We therefore occupy the crucial interface between the manufacturers of source materials and the manufacturers of industrial and consumer goods across various sectors. With our many years of integrated chemical expertise, we develop and produce surface systems based on our own as well as external basic processes for the enhancement of numerous substrates.

II. <u>Advanced Process Engineering:</u>

Our production and coating processes cover a wide range of functions and substrates. Our engineering expertise ranges from our own process development to plant construction and to patented enhancement processes in ongoing mass production. We operate under clean-room conditions on many projects in order to ensure the highest optical quality. In doing so, we use high-performance PVD processes and wet-chemical coating processes of various kinds and are continually developing this technology expertise further. We manufacture best-in-class products for our customers based on a wide range of systems, including inkjet processes, flat-spray facilities and robot-assisted flow and spray coating. The combination of many years of experience and leading technologies ensures low reject rates and high levels of efficiency.

III. Advanced Component Engineering:
In our operating subsidiaries, we have a wealth of experience spanning decades in the development and production of components of the highest optical quality as well as in the associated multifunctional enhancement of surfaces. Starting with the design process, we are able to not only efficiently manufacture large volumes in plastic forming processes of the highest quality, but also to complement this with associated services such as laser etching, pressure mounting or pre-assembly. We are therefore able to fulfill our customers' key requirement of supplying the complete enhanced components. In the Advanced Polymers application area, in particular, companies benefit from our integrated expertise: We have a mastery of almost every plastic and a wide range of surface types. Combined with the functions offered (UV protection, scratchproof, antifog, etc.) and the designs (transparent, colored, metallized, matte, glossy, etc.), this range is a real leader.

Phase5 Growth Program with Important Successes
Since the launch of Phase5 in 2014, we have developed the Group at every level and achieved important goals. Sales have doubled since then, and profitability has also improved significantly despite the expenses associated with the expansion. We already exceeded our previous medium-term target of EUR 100 million in sales in the previous financial year, which was earlier than planned. We have also progressed more quickly in our internationalization, and are already benefiting now in 2017 from a stronger international presence thanks to our new majority equity holding in the U.S.

The Phase5 growth program also sets the strategic guidelines for the development of Nanogate in the future. Building on our strong position, we intend to exploit the opportunities offered by the attractive market. The improved customer access and our broad technology portfolio are a strong basis for enhancing even more products worldwide with new designs and functions for existing and future customers. The best example of this is our N-Metals® Chrome platform launched in 2016, which represents a new class of application and provides new opportunities for the multifunctional and aesthetic metallization of surfaces. In addition to significant organic growth, our strategic options to expand the business also include further equity holdings and collaborations. In parallel, the internal excellence program continues toward further integrating development, production and sales. A visible sign of this is the further development of our corporate design and brand profile, which we expect to provide us with an even better public perception. We have standardized our naming to coincide with our repeated participation at the "K" plastics trade fair – the world's most important event for our industry – so that all of our subsidiaries now appear under the parent Group's name Nanogate.

"Touch us every day" embodies the key element of our corporate vision, which we have been pursuing since Nanogate was established. Our aim is to become so successful as a corporate group that as many people as possible come into contact with our customers' products at least once a day. We work every day toward making enthusiasm for this aspiration tangible. It is the stimulus for our growth strategy and how we see ourselves: We are an innovative and lean company with the passion and motivation of a start-up and the professionalism of a market leader.

Nanogate Jay Systems – First Acquisition in the U.S.

No matter whether it's about aesthetic center consoles in cars or innovative lighting systems, our new Nanogate Jay Systems subsidiary is a leading specialist in the U.S. for the high-quality production and enhancement of plastic surfaces and components. With around 400 employees, the company has been established on the market since 1968 and was previously a division of the established family company Jay industries, Inc. The acquisition of around 80 % of the shares means that Nanogate is becoming a global provider. We are improving our market access, obtaining our own development and production capacities in the U.S. and expanding our technology portfolio.

Nanogate will benefit significantly from its broadened market position. We already anticipate reaching a new dimension in sales and results in 2017. We are also already in promising talks with potential customers about initial joint projects, which means that we can exploit synergies when it comes to sales and the transfer of technology.

As an integrated provider, the company covers the entire value chain from the development and production of components to their final enhancement. Nanogate Jay Systems has particular expertise in lighting systems, in the metallization of surfaces and in efficient production technologies and development processes. With its range of services and strategic focus, the new subsidiary ideally complements the Nanogate Group's existing technology portfolio, meaning that processes and procedures can be exchanged comparatively easily between all of the companies in the Group. We see synergy potential for our new N-Metals® Chrome technology platform, for example: On the one hand, both companies have already been active in this market for a long time, and on the other, there is a great deal of interest, particularly in the U.S., in new and especially high-quality metallization solutions.

Partner for renowned Companies
Customers of our new majority equity holding include all of the well-known U.S. automotive groups and suppliers, as well as manufacturers from Japan and South Korea. The company is also active in other industries, such as domestic appliances. The company is conveniently located in the U.S. state of Ohio, close to the American automotive industry, and also has access to a site in the southern state of Alabama.

Nanogate has extensive experience in acquiring new equity holdings and therefore expects a quick integration into the Group. The SME-style corporate structure should also contribute to this. The current management of Jay Plastics will also remain in place in the future, supported by a newly established advisory board. There has already been intensive dialog between staff on both sides of the Atlantic in many divisions, for example in accounting and sales.

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!

Commitment and Responsibility – Nanogate Publishes its First Sustainability Declaration

As it says in Nanogate's corporate values, in times of transformation and change, reliability is also required. This is a maxim that has deeply influenced our company's history from its very beginnings. It is especially important in relation to Corporate Social Responsibility (CSR): We are convinced that there is a very special opportunity in being seen as a responsible company. We assume responsibility beyond our day-to-day business, focusing on respect and integrity, and since the founding of our company, we have made an active contribution to the ongoing discussion surrounding the impact of technology and issues of sustainability around the use of new materials. Nanogate has always pursued the fundamental principle of wanting to exceed the expectations of its cooperation partners and of systematically building trust – above all over the long term – through exceptional commitment. Opportunities for this can always be identified in practice and along the entire value chain, starting from when the company was founded with the launch of *Nanosafe* – the largest EU-wide program for technology assessment at the time – and developing into today's support for and implementation of numerous programs and projects in the region.

Sustainability Management Expanded

We intend to again set an example by publishing our first declaration of conformity in line with the German Council for Sustainable Development (DNK) and to reinforce our long-term commitment with reporting in line with recognized standards. The application of this tool confirms our CSR strategy, which is an integral part of our corporate strategy.

Working Globally – Taking Responsibility Locally

Two current social projects demonstrate how Nanogate actively lives social commitment: Our most recent project, for example, focuses on our various sites' direct local roots, and aims to help children understand technology in a playful manner. We will be equipping predominantly elementary schools with a high-quality experiments kit relating to nanotechnology in order to promote sciences and to encourage interest in technology. This grassroots work promotes structures locally on the ground and focuses as early as possible on counteracting the skills shortage and on supporting education and technology leadership in Germany over the long term. This project is also directly integrated into the *Verantwortungspartner Saarland* ("Saarland – a responsible partner") initiative, which we have supported since it was established.

For many years, Nanogate has also been supporting the not-for-profit German Doctors e.V. organization, which sends volunteer doctors to developing countries. In addition to active public relations work and donations, Nanogate equips the doctors with a special "companion" rucksack for their volunteer placement, containing lots of useful extras for their daily work – and not least to express thanks and to show appreciation, as well as to give them a piece of home that they can take with them on placements, which may be in very difficult locations. Just as we are operating ever more globally, these doctors are also working around the world. The project symbolizes our intention to take on more responsibility globally in addition to our regional focus.

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.

The share

The Nanogate share performed significantly better than the overall market during the past financial year, rising by almost 19 % over the course of the year. By contrast, the leading DAX index only rose by 7 % and the SDAX by just under 5 %, while the TecDAX fell by 1 % and the Entry Standard index lost 2 %. Despite the predominantly positive market development, the year 2016 was characterized by significant fluctuations on the stock exchange. The main contributors to this were the debt crisis within the euro area, anxiety about China's economic development, the Brexit decision in the U.K. as well as the U.S. presidential election.

In this environment, Nanogate's share began the year at EUR 31.50. Following an initially weaker performance, the equity recovered quickly and then rose gradually. The share rapidly compensated for short-term price losses. At the end of the year, the equity rose significantly to close the 2016 at EUR 38, just below its high for the year of EUR 38.44 in mid-December. The average daily trading volume across all stock exchanges was 5,320 shares. Shares in Nanogate continue to receive a buy recommendation from equities analysts. In the first quarter of 2017, the share price targets for Nanogate shares stood at up to EUR 58.20 and were thereby significantly above the price level at the time. The share is currently being monitored by Hauck & Aufhäuser, Landesbank Baden-Württemberg, SMC Research and Warburg Research, and, since April 2017, also by Berenberg. Other research companies are also planning to take up coverage.

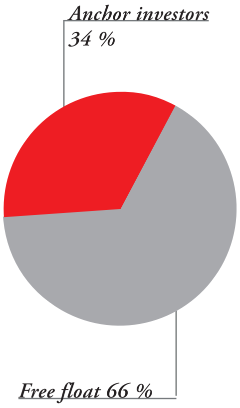
Dividend Proposal 2017

Given the good operational and financial development of the company, the Management Board and Supervisory Board again propose paying a dividend of EUR 0.11 per share. This moderate distribution means that our shareholders participate in the company's success, while at the same time ensuring the financial strength of the company with a view to its course of expansion.

Shareholders' Meeting 2016

The shareholders' meeting in Saarbrücken in June 2016 approved the dividend proposal of EUR 0.11 per share. Sebastian Reppegather, member of the management board at investment company Luxempart S.A., was also elected as a new member of the Supervisory Board. Furthermore, the shareholders also confirmed several members of the Supervisory Board in their offices.

Shareholder structure



As at: 4/20/2017, figures rounded

Shareholder Structure

The company's share capital increased to EUR 3,793,233 in the 2016 financial year. The main contributor to this was a cash capital increase with the exclusion of subscription rights, with which Nanogate generated gross proceeds of issue of almost EUR 10 million. The share capital also rose due to a non-cash capital increase as part of the purchase price for the majority stake in plastics specialist Goletz (now Nanogate Goletz Systems) as well as through share options exercised by Nanogate employees. Following the end of the reporting period, the share capital rose to EUR 4,176,180 as a result of a non-cash capital increase that was part of the transaction for the majority stake in Nanogate Jay Systems in the U.S. In April 2017, the Group also generated gross proceeds of issue of approximately EUR 14.2 million as part of a cash capital increase with the exclusion of subscription rights, which was implemented shortly after the consolidated financial statements had been audited. The new shares shall be entitled to a dividend from the 2017 fiscal year. This measure has increased the share capital to EUR 4,513,951.00.

The free float currently stands at 66 %. Luxembourg-based investment company Luxempart S.A. was acquired as an additional anchor shareholder in the first quarter of 2016, after BIP Investment Partners sold its shares. The largest anchor investor remains HeidelbergCapital Private Equity Fund. The larger institutional investors within the free float include French investor Alto Invest and German investment company Lupus Alpha.

During the reporting period, Nanogate continued to maintain close contact with its investors. The company took part in numerous capital market conferences, including in Portugal for the first time. The Management Board noted a particularly strong reception at the German Equity Forum in Frankfurt in November, which is probably Europe's largest investor conference. Numerous other talks and roadshows also took place.

Change of the Stock Exchange Segment

The Nanogate AG share remained listed in the Entry Standard segment of the Frankfurt Stock Exchange in the reporting year. With the restructuring of the stock exchange segments in the regulated unofficial market of the Frankfurt Stock Exchange, Nanogate switched to the newly created Scale SME segment, which has replaced the Entry Standard, in March 2017. With more stringent transparency requirements than the previous Entry Standard, the company believes that Scale is currently the most appropriate market segment for the Nanogate AG share. Furthermore, the Group already complies with the strict transparency requirements of the Prime Standard segment, such as by voluntarily publishing its annual report within four months of the reporting date, for example. All publications are also issued in English. Nanogate has already been fulfilling the new segment's requirement to hold annual analysts' conferences for a long time now, and will be participating again in several conferences both in Germany and abroad in 2017.

During the reporting year, the company established all of the necessary processes for meeting the requirements of the EU Market Abuse Directive, which has stipulated since July 2016 that issuers in the unregulated market, such as the new Scale SME segment, must also publish ad hoc announcements and directors' dealings as well as keep an insider register. Since Nanogate already meets many requirements of the General and Prime Standard, the Group regularly reviews whether and when a change of segment would make sense.

Due to its stock exchange segment, the company has not previously been subject to the German Corporate Governance Code. In view of the increased importance of sustainability issues, Nanogate has voluntarily submitted its first declaration of compliance with the German Sustainability Code (DNK). This is in addition to the varied ways in which the Group has practiced social responsibility ever since the company was first established.

Share Details 2016

Stock exchange segment	Scale (since 3/1/2017, previously Entry Standard)
Number of issued shares (as at 12/31/2016)	3,793,233
Designated sponsor	equinet Bank AG
Share price at start/end of year (Xetra)	EUR 31.50 / EUR 38.00
Share price high/low for the year (Xetra, intraday)	EUR 38.44 / EUR 24.30
Market capitalization at year-end	EUR 143.8 million

Source: Bloomberg

A SUCCESS STORY –
Nanogate Looks Back on Ten Eventful Years since Going Public

2006

Successful Stock Market Debut

By going public in the Entry Standard (now Scale segment) of the Frankfurt Stock Exchange, Nanogate creates the necessary financial latitude for further growth. The share performs better than the Entry Standard as a whole, with market capitalization growing from around EUR 60 million to some EUR 144 million in 2016.

2007

Volume of Business Doubled

Nanogate more than doubles its volume of business in two years with sales of over EUR 10 million. The NEXT – Nanogate EXtended Track – strategy program that is launched serves as a guide for the company's further development.

2008

New Company Headquarters

At the new Göttelborn site, which is nonetheless steeped in tradition, modern research and production facilities are built, while at the same time Nanogate acquires 100 % of today's Nanogate Industrial Systems GmbH. Nanogate is the first company in the industry to introduce certified environment management in accordance with ISO 14001.

2009

Innovation Offensive Launched

Successful companies act anti-cyclically: Despite difficult economic conditions around the world, Nanogate expands its technology portfolio and launches a comprehensive innovation offensive to develop powerful new solutions.

2010

Systematic Growth

The majority equity holding in GfO Gesellschaft für Oberflächentechnik GmbH (now Nanogate GfO Systems AG) heralds a new era in the company's history. Combined with the innovation offensive that has been implemented, Nanogate now supplies complete systems relating to intelligent, complex, high-performance surfaces, and moves further into the volume market.

2011

Pooled Plastics Expertise

Nanogate acquires an international market leader for 2D surface enhancements in Netherlands-based Eurogard B.V. (now Nanogate Eurogard Systems B.V.), thereby further extending its position in the market. The systems provider's related growth strategy also ensures transparency and reputation: Nanogate receives the Sustained Excellence Award from the Deloitte Technology Fast 50 in 2011. The award recognizes companies that stand out due to their growth and success over a period of several years.

nanogate
A world of new surfaces

2012

A World of New Surfaces

The Group intensifies its public presence under its new slogan "A world of new surfaces" and with a standardized, Group-wide logo. Nanogate continues to grow: In addition to the new company for end-user products – Nanogate Textile & Care Systems GmbH – the company also acquires an equity interest in plastics specialist Plastic-Design GmbH (now Nanogate PD Systems GmbH), thereby significantly expanding its expertise.

2013

New Horizons

At EUR 53 million, the company exceeds its medium-term sales target of EUR 50 million, bringing the previous strategy program, NEXT, to an end. The equity holdings in Nanogate PD Systems GmbH and Nanogate GfO Systems AG are also increased, and Nanogate Glazing Systems B.V. is established. The Group also intensifies preparations for opening up new, international markets.

2014

Phase5

Nanogate sets sales target of more than EUR 100 million and launches its comprehensive Phase5 growth program. Nanogate implements the program more quickly than expected and the takeover of surfaces specialist Vogler GmbH (now Nanogate Vogler Systems GmbH) expands the expertise in the decorative area. The continuous expansion of the technology and application portfolio at several sites is another important strategic measure.

2015

New Dimension

Pleasing intermediate results since the start of Phase5 as sales rise by more than 70 % between 2013 and 2015, the operating result improves despite the expansion strategy, and the international sales potential increases significantly. These successes are also increasingly recognized by third parties, and Nanogate wins the renowned Entrepreneur of The Year 2015 business award from auditing firm Ernst & Young.

EY Entrepreneur Of The Year™
Winner 2015

2016

Achieving New Goals Together

Nanogate establishes itself as a highly professional partner for design-oriented high-tech surfaces and components: Nanogate strengthens its international presence by establishing subsidiaries for the MENA (Middle East & North Africa) region and for the U.S. market, and in doing so reaches a milestone at the end of the year by agreeing the acquisition of around 80 % of the shares in Jay Industries' plastics division, Jay Plastics (now Nanogate Jay Systems LLC.) in the U.S. The Group complements its portfolio in 2016 with the additional majority shareholding in Walter Goletz GmbH (now Nanogate Goletz Systems GmbH) and the launch of the production facilities for N-Metals® Chrome. The Group continues its process of integration, thereby strengthening its common brand profile and the development of new, international markets. Nanogate achieves its medium-term sales target of EUR 100 million earlier than anticipated and becomes a leading global provider.

Report of the Supervisory Board

Dear shareholders,
Ladies and gentlemen,

In the past fiscal year, Nanogate has developed into a leading global specialist for design-oriented high-tech surfaces and components, while at the same time again achieving record operating figures in sales and earnings. The majority stake in Jay Plastics (now Nanogate Jay Systems), a division of Jay Industries, Inc., agreed in December 2016, expands Nanogate's international market access, provides it with its own production capacities in North America and strengthens its technology portfolio. Nanogate had already acquired a majority stake in plastics specialist Goletz (now Nanogate Goletz Systems) back in the spring of 2016, thus strengthening its expertise as a systems provider for the development and production of complete components.

The Supervisory Board provided comprehensive support to the company in the 2016 fiscal year and worked together with the Management Board in a spirit of trust. The Supervisory Board met in full its duty as a supervising body as defined by the German Stock Corporation Act and the company's articles of association and rules of procedure. In addition to the continuous critical dialog with the Management Board, including outside of formal Supervisory Board meetings, detailed written information such as the monthly reporting contributed to the Supervisory Board being provided with comprehensive and up-to-date information on the Group's business development, target achievement, risk management and strategy as well as all transactions requiring approval. In certain cases, the Supervisory Board made use of its legal entitlement to view certain documents separately. The Supervisory Board saw no reason to involve separate experts for particular tasks (pursuant to Section 111 [2] of the German Stock Corporation Act).

Focuses of the Meetings
The Supervisory Board met a total of five times in the previous fiscal year. The meetings took place on February 17 and April 26 in Göttelborn, on June 29 in Saarbrücken, on September 27 in Neunkirchen and on November 30 in Niederhausen/Nahe. The members of the Supervisory Board were all present at all five meetings and the members of the Management Board were invited accordingly. All of the members of the Supervisory Board received comprehensive documentation in good time before the corresponding meetings. In addition to the five Supervisory Board meetings, further meetings took place, including in the form of a strategy meeting in Neunkirchen on June 26. Various telephone conferences to discuss issues requiring prompt clarification were also held. Decisions could therefore be made at short notice regarding the interests of the company, also by circular resolution in individual cases. All transactions requiring the approval of the Supervisory Board were confirmed in the reporting period. There were no conflict of interests among members of the Supervisory Board or Management Board.

The Supervisory Board meetings and the other meetings during the reporting period focused on the following issues:

- Consolidated and annual financial statements for 2015 and proposal for the appropriation of profits
- Strategic development of the Group and its international focus
- Acquisitions and equity holdings (M&A activities) and, primarily in this regard, the majority stakes in plastics specialists Jay Plastics (now Nanogate Jay Systems) and Walter Goletz (now Nanogate Goletz Systems)
- Operational performance as well as liquidity and financing
- Corporate planning
- Risk situation and management
- Further development of the Supervisory Board

- Preparation of the shareholders' meeting
- Execution of the capital increase
- Implementation of the more stringent legal requirements concerning transparency

Members of the Supervisory Board

The 2016 shareholders' meeting elected Sebastian Reppegather, member of the management board at Luxembourg-based investment company Luxempart S.A., as a new member of the Supervisory Board succeeding Ms. Katrin Wehr-Seiter. Hartmut Gottschild, Oliver Schumann and Dr. Farsin Yadegardjam were also confirmed in their posts. They were elected as members of the company's Supervisory Board for the period up until the close of the shareholders' meeting that discharges the Supervisory Board for fiscal year 2018. The other members of the Supervisory Board are Dr. Clemens Doppler (elected until the shareholders' meeting for fiscal year 2017) and Klaus-Günter Vennemann (elected until the shareholders' meeting for fiscal year 2017).

The Supervisory Board includes the following committees:
- The Audit Committee is primarily concerned with the Group's accounting and risk management and prepares the endorsement of the annual and consolidated financial statements. The committee met on three occasions during the reporting year. Its members are currently Sebastian Reppegather as Chairman as well as Oliver Schumann and Klaus-Günter Vennemann.
- The HR and Compensation Committee is responsible for employment contracts and personnel issues relating to the Management Board. In 2016, the committee met twice in person and prepared the extension of Ralf Zastrau's contract as CEO, among other things. The members of the HR and Compensation Committee are currently Dr. Farsin Yadegardjam as Chairman, as well as Dr. Clemens Doppler and Hartmut Gottschild.

Members of the Management Board

The company's Management Board remained the same in 2016. In the new 2017 fiscal year, the contract with Ralf Zastrau as CEO was extended until March 2021. In addition, Michael Jung (COO, appointed until June 2020) and Daniel Seibert (CFO, appointed until April 2018) remain members of the Management Board.

Consolidated and Annual Financial Statements 2016

The auditing and consulting firm Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified audit certificate following its audit of the consolidated financial statements and Group management report, as well as of the individual financial statements for fiscal year 2016. The areas of focus of the audits included sales accruals, inventories measurement and personnel obligations, as well as the recoverable value of intangible assets (including goodwill and brands).

In its meeting of March 28, 2017, as well as in additional telephone conferences, the Audit Committee prepared the Supervisory Board's meeting to adopt the financial statements. The financial statement documents were subject to an advance audit in the presence of the auditor. All of the members of the Supervisory Board were informed of the advice and recommendations of the Audit Committee.

The members of the Supervisory Board received all of the necessary audit reports in good time before the meeting to adopt the financial statements on April 26, 2017. The auditor was available at the meeting to answer questions and provide clarification on individual issues. The Supervisory Board closely reviewed and subsequently approved all of the necessary documents. The Supervisory Board concurred with the Management Board's proposal for the utilization of the balance sheet profit.

Nanogate grew significantly in 2016. In view of this, the Supervisory Board would like to thank all employees for their great commitment, which is the foundation of the Group's success. The Supervisory Board would also like to thank the Management Board for its engagement in the fiscal year 2016. And for your continued trust, the Supervisory Board also wishes to extend its thanks to all shareholders, customers and business partners.

Quierschied, Germany, April 26, 2017

Oliver Schumann
Chairman of the Supervisory Board

Group management report 2016 for Nanogate AG, Quierschied

1 Fundamental Principles of the Group

The Nanogate Group (Nanogate) is a leading global specialist for design-oriented high-tech surfaces and components of very high optical quality. The Group develops and produces design-oriented surfaces and components and enhances them with additional properties. Nanogate launched its Phase5 growth program in 2014 and has since significantly increased its business volume and profitability. The Group and its management have received several awards for the good strategic and operational development. For example, Nanogate again received the Sustained Excellence Award from the Deloitte Technology Fast 50 in 2016. The Management Board also represented the Group as the only candidate from Germany in the selection of the World Entrepreneur of the Year 2016 in Monte Carlo, after Nanogate had been awarded the renowned Entrepreneur of the Year business prize in 2015 by auditing firm Ernst & Young.

For companies in a wide range of industries, Nanogate opens up the diverse possibilities offered by multifunctional and design-oriented surfaces based on new materials and components made of innovative plastics. With its slogan, "A world of new surfaces", the Group reinforces its aspiration of using intelligent surfaces and components made of new materials 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

As a leading global specialist for design-oriented high-tech surfaces and components, Nanogate provides its customers with technologically and optically high-quality surfaces, primarily plastic and metal, as well as components made of plastic, and where required also equips them with additional functions and properties (e.g. nonstick, anticorrosive, scratchproof, chemically stable or protected from exposure to the elements or 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 and plastic components. The aim is to improve products and processes using multifunctional and design-oriented high-performance surfaces and corresponding plastic components. New materials, designs and functions are intended to increase the competitiveness and profitability of Nanogate's customers and to reap environmental benefits. Nanogate's solutions and expertise can provide companies with a technological advantage. To this end, the Group adopts the approach of serving its customers as a long-term innovation partner.

As an integrated systems provider, Nanogate develops and produces multifunctional surface systems and enhanced plastic components in the highest optical quality. The Group achieves this with its vast experience and 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 and components. As an integrated systems provider, Nanogate manages and is responsible for all stages of development and design, through to production of the components and coating of the surfaces. The Group is therefore also continuously further developing the profitable components business. As a partner to major corporations, Nanogate assumes full responsibility for selected complete components, so-called high-tech components. The Group is focusing primarily on components with high-performance surfaces, thereby providing its customers with a broader range of services than previously offered.

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. Its additional enhancement of multifunctional surfaces and manufacture of sophisticated components is founded on its extensive expertise in the area of new materials. Its existing expertise in the area of nanotechnology as a cross-sectional technology is the basis for its innovative and comprehensive application and technology portfolio. 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, thus enabling the efficient use of high-performance surfaces and components made of various substrates. In doing this, Nanogate makes use of its own and, increasingly, external processes.

The Group primarily targets attractive sectors such as automotive/transport, mechanical/plant engineering, buildings/interiors and sport/leisure. Nanogate sees significant sales and margin potential in 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. Nanogate continually adds to its technology portfolio so as to build on its market position with additional applications. Several acquisitions, with which the Group has strengthened its technology portfolio, have also contributed to this, as have the expansion of its capacities and the development of new markets.

Advanced metals serves as a platform for high-quality metal coatings, for example on aluminum and stainless steel, as well as for applications for the metallization of surfaces. Nanogate sells solutions in the advanced metals growth area under the N-Metals® brand. The division also includes the applications based on the new N-Metals® Chrome technology platform. The Group put a new production facility into operation at the Neunkirchen site for this purpose. The Advanced Polymers division includes 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 the integrated manufacture of plastic components, the enhancement and coating of surfaces, and the production of colored or transparent, glazed plastic components with glass-like properties. This includes the integrated glazing center of excellence at the Bad Salzuflen site, for example. In its core business, the Group also has numerous conventional applications, such as in the areas of sport/leisure and buildings/interiors, for example.

1.2 Group Structure and Operating Subsidiaries

The Group standardized its brand profile during the reporting year, meaning that all subsidiaries can now be clearly recognized as belonging to a unified corporate identity, having been supplemented with the parent company's name. The Nanogate Group consists of the parent company Nanogate AG, Quierschied, and the consolidated equity holdings Nanogate Industrial Systems GmbH, Quierschied, Nanogate GfO Systems AG, Schwäbisch Gmünd, Nanogate Textile & Care Systems GmbH, Quierschied, Nanogate PD Systems GmbH, Bad Salzuflen, and Nanogate Vogler Systems GmbH, Lüdenscheid. The shares in Nanogate Eurogard Systems 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 April 2016, the Group also acquired 75 % of the shares in plastics specialist Goletz, which now operates as Nanogate Goletz Systems GmbH, Kierspe. The new subsidiary also includes Nanogate Medical Systems GmbH, formerly Goletz Medical GmbH. Nanogate also agreed the acquisition of around 80 % of the shares in the plastics division Jay Plastics, which had previously been part of Jay Industries Inc., Mansfield, Ohio, USA (see also the explanations in Note 34, Events after the Balance Sheet Date December 31, 2016, in the Notes to the consolidated financial statements). The transaction was completed in January 2017 following the signing of the contract in December 2016.

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 and controlling, and services for all Group companies are also pooled in the management and technology holding company.

1.2.2 Nanogate Industrial Systems GmbH

Nanogate Industrial Systems GmbH concentrates on the industrial implementation of various high-performance surfaces, in particular on the market for metal surfaces, for example made of aluminum or stainless steel, as well as metallization, especially of plastics. This is in addition to energy efficiency applications, for example, which are marketed under the N-Metals® Energy brand, in addition to other growing applications such as coatings for products using stainless steel. The company also specializes in process integration. The subsidiary put the production facility for the new N-Metals® Chrome technology platform into operation in September 2016. It is part of the center of excellence for advanced metals at the Neunkirchen site.

1.2.3 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” and “Empire”. Applications for functional textiles are also used here.

1.2.4 Nanogate GfO Systems AG

Nanogate GfO Systems AG specializes in the technical and optical enhancement of complex plastic and metal surface geometries. In addition, the company has an inkjet technology unique in Europe.

1.2.5 Nanogate Eurogard Systems B.V.

Nanogate Eurogard Systems B.V. specializes 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. All of the shares in Nanogate Eurogard Systems B.V. have been pooled in the Dutch holding company Nanogate Nederland B.V. since 2014.

1.2.6 Nanogate PD Systems GmbH

Nanogate PD Systems 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. At Nanogate PD Systems GmbH's headquarters in Bad Salzuflen, the Group operates a center of excellence for N-Glaze® applications, whose capacities have again been expanded due to the strong demand and good performance in 2016. This center of excellence will enable Nanogate to offer the integrated development, production and subsequent enhancement of transparent and colored N-Glaze® components in one location. Nanogate concluded the acquisition of the still outstanding shares in the company in January 2017 (see also the explanations in Note 34, Events after the Balance Sheet Date December 31, 2016, in the Notes to the consolidated financial statements).

1.2.7 Nanogate Glazing Systems B.V.

Nanogate Glazing Systems B.V., established in June 2013, focuses on the production, enhancement and molding 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 shares in the company have been pooled in the holding company Nanogate Nederland B.V. since 2014.

1.2.8 Nanogate Vogler Systems GmbH

Nanogate Vogler Systems GmbH specializes in technically advanced coatings for decorative and transparent, multifunctional surfaces. The company's customers include major international companies, for example from the automotive industry and building services, as well as leading domestic appliance manufacturers. In 2016, Vogler launched a new coating facility that is more flexible and has a greater capacity than its predecessor. This also expanded the Group's range of technology.

1.2.9 Nanogate Goletz Systems GmbH

Nanogate Goletz Systems GmbH offers a wide range of services for the manufacture and processing of smaller and medium-sized design-oriented plastic components. The company supplies customers from the automotive, electronics and domestic appliances industries. The company was founded in 1969, and Goletz cooperates closely with Nanogate Vogler Systems GmbH – located nearby – as part of its integration into the Group. An initial joint project has already begun, with the Group receiving a multiyear order from a luxury car manufacturer in spring 2016. The majority acquisition of 75 % of the shares in the plastics specialist means that Nanogate has significantly expanded its systems expertise in the area of high-demand plastic components.

1.2.10 Nanogate Medical Systems GmbH

The Group is also present in the medical technology sector through Nanogate Medical Systems. The subsidiary of Nanogate Goletz Systems specializes in the development and production of high-quality plastic articles for medical technology, and has corresponding certifications and manufacturing systems.

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 design-oriented multifunctional surfaces and components, both nationally and internationally. The main aim is to raise the company's value with a greater volume of business and increased profitability. High-performance surfaces and components based on new materials are a fundamental part of many products. Innovative materials are established in many sectors and, as a cross-sectional technology, catalyze technical progress by means of better products or more efficient processes. Design-oriented multifunctional surfaces and components in the highest optical quality thereby contribute equally to improving the competitiveness of companies in their respective markets. Until now, sales of systems based on new technologies and of high-performance surfaces have been continuously increasing.

The main customer industries are automotive/transport, mechanical/plant engineering, buildings/interiors and sport/leisure. The focus is on systems that support value preservation (e.g. coatings that protect against corrosion or abrasion), reduce the need for cleaning ("easy-to-clean"), have hygienic properties or improve energy efficiency. Design-oriented surfaces and components made of innovative materials are in particular demand.

Given the heterogeneous and dynamic nature of the market, market observers forecast continued strong growth. According to experts at Research and Markets, the market for nanosurfaces is likely to increase by an annual average of almost 25 % and reach a volume of around USD 14 billion by 2022. The Zion Research market research institute also expects the market for plastic surfaces to grow from USD 5.6 billion in 2015 to a volume of more than USD 7.7 billion by 2021. The automotive industry, in particular, is expected to generate increasing demand. Nanogate itself sees an accessible, future global market worth considerably more than a billion euros for its products and applications.

As a leading global specialist, the Group is concentrating its growth strategy on several particularly attractive target industries and on the development of new technologies and solutions, primarily in the two strategic growth areas. 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 and metal as a material and offer greater scope for designing high-quality components. They also allow for a substantial reduction in weight, which can result in lower fuel consumption, among other things.

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. 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 costs involved in implementing its ongoing Phase5 growth program – such as for capacity expansions – Nanogate intends to increase the operating result (EBITDA) over the long term. The Group strives to find a balance between investing in growth and optimizing 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 analyzed. 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

New systems and solutions are significant parts of the expansion strategy. Accordingly, Nanogate significantly expanded its technology portfolio in 2016, investing considerable funds in development over the reporting period. New applications include the launch of the N-Metals® Chrome technology platform, for example. The corresponding new production facility was put into operation in September. The Group is targeting an attractive market with its applications for multifunctional surfaces with a chrome look, and has also made significant investments in a new coating facility at Nanogate Vogler Systems GmbH, for example. The strategic growth areas of advanced metals and advanced polymers remain the focus of the portfolio expansion. The capitalized development costs amounted to EUR 0.4 million in the reporting year. This corresponds to 5.8 % of the entire research and development costs. The amortization of capitalized development costs amounted to EUR 0.9 million in the reporting year.

For reasons of efficiency, Nanogate concentrates on specific and customer-driven development projects. In its fundamental and applied research, on the other hand, the Group looks to cooperations with recognized research institutes, such as the Kunststoff-Institut Lüdenscheid plastics institute.

Internal expertise, primarily in processes and procedures, is becoming increasingly important for the Group. Nanogate therefore pursues a market-oriented patent strategy to secure its competitive advantage and to protect ongoing innovation partnerships. Nanogate therefore continuously reviews its patent portfolio, considering costs and future benefit, and allows selected patents to expire if they are no longer required.

2 Business Report

2.1 Macroeconomic Environment

The global economy continued to expand in the past year, but did not quite achieve the growth rate of 2015. According to estimates from the International Monetary Fund (IMF) in January 2017, global economic output rose by 3.1 % in 2016. By contrast, the economy in Germany grew more rapidly than in the previous year, by 1.7 % according to the IMF. In an initial estimation in January 2017, the German Federal Statistical Office, however, expects an increase in gross domestic product in Germany of 1.9 % in the reporting year. According to an IMF study, the euro area saw weaker growth than in 2015, increasing by only 1.7 %. The U.S. also achieved only weaker economic growth of 1.6 %, while China fell short of the previous year's growth rate, with a rise of 6.7 % in 2016.

Nanogate's main target industries performed largely positively in 2016. German car manufacturers again recorded dynamic business growth. According to information from the VDA industry association, sales figures in the U.S. and China achieved record levels. New registrations in Western Europe went up by almost 6 % to around 14 million vehicles. At 3.4 million, new car registrations in Germany reached the highest level this decade. Back in December, however, the German chemical industry association reported that the chemical industry had experienced falling prices with a slight increase in production of 0.5 %. The performance of German machinery and equipment manufacturers stagnated in 2016, according to the VDMA industry association, who referred to initial estimates from the Federal Statistical Office, which reported that production in mechanical engineering in Germany had fallen in real terms by 0.2 % compared with the previous year. According to market researchers at GfK with reference to the Federal Statistical Office, private spending rose by 2.0 % in real terms in 2016.

2.2 Course of Business

The Group again generated record sales in the previous fiscal year. Sales rose by almost 24 % to around EUR 112.5 million. Nanogate benefited from strong demand across the Group, as well as from the successful integration of the two newly acquired Goletz companies. As a result, the volume of business has doubled since the start of the Phase5 growth program. Despite the significant financial burden of the expansion strategy, the Group also recorded a record high in the operating result. EBITDA improved by more than 20 % to EUR 12.4 million.

During the reporting year, the focus was on further strategic development, opening up new international markets and expanding the technology portfolio. The most important expansion step was the acquisition of around 80 % of the shares in U.S. plastics specialist Jay Plastics, formerly a division of Jay Industries. The transaction was agreed in December 2016 and concluded in January 2017, thereby establishing Nanogate as a global provider. Thanks to the new majority holding, the Group is expanding its technology portfolio and its access to international markets, primarily in the U.S., but also to Asian manufacturers. The integration is focusing on a comprehensive technology transfer and expanded market access. With the new subsidiary, Nanogate now has its own production facilities on both sides of the Atlantic (see also the explanations in Note 34, Events after the Balance Sheet Date December 31, 2016, in the Notes to the consolidated financial statements).

Nanogate had acquired 75 % of the shares in plastics specialist Goletz, now operating as Nanogate Goletz Systems, back in spring 2016. This step strengthened the Group's expertise as an integrated systems provider, primarily in the design and development of complex projects in the area of plastics. The new subsidiary has a broad range of services in the manufacture and processing of smaller and medium-sized design-oriented plastic components, while the Group was previously more specialized in larger components.

In January 2017, Nanogate also completed the acquisition of the remaining shares in the Nanogate PD Systems subsidiary. The company was already fully consolidated (see also the explanations in Note 34, Events after the Balance Sheet Date December 31, 2016, in the Notes to the consolidated financial statements). All three expansion steps represent a significant strategic development for the Group and lay the foundations for the further expansion of its market position, particularly in North America.

The launch of the new N-Metals® Chrome platform was the focus of the expansion of the technology portfolio. With applications for multifunctional surfaces with a chrome look, the Group is targeting an attractive growth market. The expansion of the new platform and the associated new site are among the largest technology investments in the company's history. High-quality, multifunctional metal coatings with a chrome look are in demand for numerous products. N-Metals® Chrome is more cost effective, more environmentally friendly and offers new application possibilities over existing electroplating applications. The enhancement by Nanogate allows for numerous additional functions. The technology also makes no use of environmentally damaging materials such as chromium trioxide, and therefore meets the latest environmental guidelines in line with the European REACH regulation.

In operational terms, Nanogate recorded persistently strong demand and continued to expand its market position, also internationally. The Group received a series of major new orders worth millions during the reporting year. The new projects and the new equity holding in the U.S. mean that the automotive industry is growing in significance as one of several target industries. Some of the largest orders in the company's history include the supply of plastic components with optically high-quality surfaces to a luxury car manufacturer. The project – which is due to begin in 2018 – has a cumulative volume in the high double-digit million range. The agreement is an important milestone for the expansion of the profitable components business. The company will continue to expand its capacities for this project. For another major order in the systems business, the new Nanogate Goletz Systems subsidiary is working together with Nanogate Vogler Systems, which is located nearby. In addition to its economic significance, the project, which was announced in May 2016, also confirms the rapid integration of the new equity holding into the Group as a whole. The order volume is worth more than EUR 20 million. As part of the project, high-quality interior parts for the center console of a luxury SUV will be supplied from 2017.

The Group also recorded increasing demand from the international furniture industry. In the area of domestic electrical appliances, Nanogate received a follow-on order to coat design elements for high-quality stoves for a long-established global manufacturer. Sales in the area of sport/leisure also rose, such as for new applications of the Empire brand, for example.

As part of its international market development, the Group achieved a significant increase in sales in the U.S. The Group is manufacturing glazing components for a luxury car manufacturer, which will be used on the exterior of the vehicle. The order has an annual volume in the mid-single-digit million range. Demand remains high in Asia. The Group also established a subsidiary in the U.S. in 2016, in order to better open up global sales markets.

2.3 Net Assets, Financial and Earnings Position

2.3.1 Earnings Position

Nanogate can once again look back on a positive performance, achieving record figures in sales and earnings in 2016. Thanks to strong demand, sales rose by 23.8 % to EUR 112.5 million (previous year: EUR 90.9 million). The newly acquired Nanogate Goletz Systems subsidiary also contributed to this. The Group recorded particularly strong sales in its advanced metals and advanced polymers strategic growth areas. With a share of around 52 % (previous year: 47 %), foreign business remain an important sales market. The Group improved its market position considerably, primarily in the U.S. and Asia. Significant sales contributions from projects with German customers who themselves subsequently supply customers abroad are not accounted for in the export business. In the reporting year, changes in inventories stood at EUR 2.4 million (previous year: EUR 0.3 million) and other own work capitalized came to EUR 0.6 million (previous year: EUR 1.4 million). Other operating income amounted to EUR 1.4 million (previous year: EUR 2.2 million). The overall performance (sales, changes in inventories, own work capitalized plus other operating income) thereby increased by some 23 % to EUR 116.9 million (previous year: EUR 94.8 million).

In view of the strong growth and while accounting for the new Nanogate Goletz Systems subsidiary, the cost of materials rose to EUR 46.4 million (previous year: EUR 35.9 million), while the cost of materials ratio (in relation to overall performance) stood at 39.7 % (previous year: 37.8 %). As expected, the gross profit margin (in relation to overall performance) declined to 60.3 % (previous year: 62.2 %). This development is a result of the increasing importance of the components business. Personnel expenses went up in the reporting year to EUR 33.7 million (previous year: EUR 28.5 million), while the personnel expenses ratio (in relation to overall performance) fell to 28.8 % (previous year: 30.0 %). Other operating expenses increased at a lower rate of 20.7 % to EUR 24.4 million (previous year: EUR 20.2 million).

Nanogate continued its profitable course of growth in the previous fiscal year. Despite the ongoing costs associated with implementing the Phase5 growth program, the operating result (EBITDA) increased by 21.3 % to the record level of EUR 12.4 million (previous year: EUR 10.2 million). The Group thereby significantly exceeded its original earnings forecast. Transaction and integration costs for two acquisitions in the low single-digit million range were not originally budgeted for and had an adverse impact on the operating result, as did projects and processes in connection with the expansion of capacities and the technology portfolio. Despite these costs, the consolidated EBITDA margin remained virtually unchanged at 11.0 % (previous year: 11.2 %). Without the significant one-off expenses for implementing the growth strategy, the operating margin would have been correspondingly higher. Despite these adverse effects, consolidated EBIT showed particularly strong growth compared with sales, rising by more than 50 % to EUR 4.6 million (previous year: EUR 3.0 million). The financial result is positively influenced by changes in the valuation of subsidiaries and their obligations (IAS 8) and therefore stood at EUR -1.3 million (previous year: EUR -2.4 million). Earnings before tax improved accordingly to EUR 3.4 million (previous year: EUR 0.6 million). Tax expense increased to EUR 0.9 million due to the improved profitability (previous year: EUR 0.1 million). Consolidated net income rose fivefold to EUR 2.5 million (previous year: EUR 0.5 million), reflecting the positive performance. Earnings per share increased to EUR 0.70 (basic, based on an average number of 3,566,594 shares in the reporting period).

2.3.2 Financial Position

Regardless of the enormous investment in the implementation of the Phase5 growth program, the Group's financial strength remains high. Despite the cost burden associated with the development of international markets, the investments in capacities and new technologies as well as transaction and integration costs for external growth, cash and cash equivalents remained virtually unchanged at EUR 22.6 million (previous year: EUR 22.7 million). The good course of business and a successful capital increase contributed to this.

In view of the expansion strategy, with significant expenditure for new applications and international market development, as well as the integration of the newly acquired Nanogate Goletz Systems, cash flow from operating activities amounted to EUR 10.8 million (previous year: EUR 12.3 million). Cash flow from financing activities stood at EUR 0.9 million (previous year: EUR 2.2 million) and is, in part, characterized by a cash capital increase without subscription rights. The Group generated gross proceeds of issue of almost EUR 10 million by placing 331,454 new shares. Cash flow from financing activities also includes the repayment and raising of borrowed capital as well as the dividend payment. Cash flow from investing activities primarily reflects the acquisition of a majority stake in Nanogate Goletz Systems GmbH as well as measures from the implementation of the Phase5 growth strategy. Cash flow from investing activities thus totals EUR -11.9 million (previous year: EUR -9.6 million).

The Group's financial position in the new fiscal year will be shaped by the integration of the majority stake in Nanogate Jay Systems. The purchase price combines a cash component and a share component and was paid in 2017

2.3.3 Assets Position

In view of the Group's continued course of expansion, the balance sheet total rose as at the December 31, 2016, reporting date to EUR 156.4 million (previous year: EUR 123.8 million). The increase is essentially the result of the acquisition of Nanogate Goletz Systems and of the cash inflow from a capital increase. The equity ratio improved slightly to 42.1 % (previous year: 41.4 %).

Noncurrent assets rose to EUR 105.7 million (previous year: EUR 85.1 million). As a result of the growth strategy, property, plant and equipment increased to EUR 47.4 million (previous year: EUR 41.3 million). Investments were made largely in the Group-wide expansion of production capacities and in establishing the new N-Metals® Chrome technology platform. Current assets increased to EUR 50.8 million (previous year: EUR 38.7 million) and are affected by the integration of Nanogate Goletz Systems. Cash and cash equivalents remained virtually unchanged at EUR 22.6 million (previous year: EUR 22.7 million).

The Group's equity increased in the reporting period to EUR 65.8 million (previous year: EUR 51.3 million). Nanogate benefited here from a successful cash capital increase. Moreover, the share capital grew as a result of a small capital increase against contributions in kind as part of the purchase price for plastics specialist Nanogate Goletz Systems, as well as due to new shares which are the result of share options being exercised. Noncurrent liabilities rose to EUR 53.7 million (previous year: EUR 47.7 million) due to the acquisition of Nanogate Goletz Systems. The debt ratio (net debt/EBITDA) amounted to 1.2 (previous year: 1.5) as at the reporting date and underscores the Group's particular financial strength.

The balance sheet in the new fiscal year will be affected by the integration of the new U.S. company Nanogate Jay Systems LLC. The transaction was concluded in January 2017 after it had been announced back in December 2016.

2.4 Appropriation of Profits

The Group again reported a positive performance in the 2016 fiscal year. Sales and the operating result (EBITDA) as well as net profit for the year rose to a new record level. Nevertheless, the expense involved in implementing the Phase5 growth strategy continued to adversely affect 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, comprehensive M&A activities and business development. For reasons of transparency, the parent company has borne the vast majority 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 due to the consolidation. This has a considerable negative impact on the operating result reported in the individual financial statements pursuant to HGB. This development is also due to greater costs related to additional responsibilities of the holding company, which has optimized its structures and processes in view of the sharply increasing volume of business, the expected weaker development of subsidiaries as well as transaction and integration costs for external growth. By contrast, the net result for the year amounted to EUR 4.1 million (previous year: EUR -2.1 million) after profit distributions from the subsidiaries to the parent company. Given the Group's positive overall operational development and its continued good prospects and financial strength, the Management Board and Supervisory Board again propose paying a dividend of EUR 0.11 per share. Nanogate would thereby like its shareholders to continue participating in its success. Despite the dividend payment, the financial latitude for the forthcoming expansion steps remains assured, meaning that the Group will continue its growth strategy as announced, while expecting a jump in sales and earnings for 2017. The good business performance in the previous year, with a significant sales increase and a rise in net income for the year, confirms this course.

2.5 Financial and Nonfinancial Performance Indicators

2.5.1 Financial Performance Indicators

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.

2.5.2 Nonfinancial Performance Indicators, Sustainability, and Employees

As at the December 31, 2016, reporting date, the number of employees rose to 776 (previous year: 593) as a result of consolidation. The annual average for the number of employees within the Group (FTE) was 715 (previous year: 586). Sales per employee rose slightly to EUR 157,000 (previous year: approximately EUR 156,000). There were 22 trainees (previous year: 17) as at the end of the reporting period. In order to meet the needs of the significantly expanded Group, the Human Resources department was strengthened.

Since it commenced operations, Nanogate has placed a great deal of value on sustainable business and responsible corporate governance (corporate social responsibility). As part of the strategic further development of its CSR commitment, Nanogate has now submitted its declaration of compliance with the German Sustainability Code (DNK, Deutscher Nachhaltigkeitskodex). With this step, the Group is professionalizing its CSR reporting and is voluntarily fulfilling a recognized standard. In doing so, numerous criteria – such as aspects relating to the environment, fighting corruption, diversity and employees – are surveyed. Since the previous fiscal year, the Group has also had a company-wide and certified energy management system in Germany pursuant to ISO DIN 50001 on the basis of a matrix certification. Several energy-saving projects have been launched. Since back in 2007, active environmental management in line with the standards of ISO DIN 14001 has been practiced at Nanogate AG as the parent company.

The Group has a variety of activities in the area of corporate social responsibility. Nanogate has traditionally advocated safe use of new technologies and occupational safety, and has participated in or initiated various research projects. Nanogate played a crucial role in establishing the Deutscher Verband Nanotechnologie e.V. industry association and is represented on its management board by COO Michael Jung. Nanogate is also involved in numerous projects that promote dialog between society and companies as well as driving forward the networking of various partners. Nanogate aims to anchor the topic of social responsibility among SMEs and is therefore involved in regional projects, also within schools. Nanogate CEO Ralf Zastrau is also a member of the management board at *Unternehmen für die Region e.V.* ("Companies for the Region") and chairman of the board at *Verantwortungspartner Saarland e.V.* ("Saarland – a responsible partner"), which are both supported by the renowned Bertelsmann Foundation.

2.6 Previous-Year Comparison

Nanogate underwent further strategic development in the previous fiscal year and exceeded its forecast in the operating business. With the acquisition of the majority stake in plastics specialist Goletz, the Group had already announced its expectation that sales would increase to more than EUR 100 million in 2016. The Group would therefore achieve its medium-term sales target earlier than expected. Just a few weeks later – with the presentation of the annual report for 2015 – Nanogate defined its expectations for 2016 more precisely, stating that sales would be likely to rise to more than EUR 105 million and that the operating result (EBITDA) would reach at least EUR 12 million. Thanks to strong demand in all target industries, the Group exceeded this forecast with sales of EUR 112.5 million. And despite transaction and integration costs related to external growth that were not budgeted for, the operating result rose to EUR 12.4 million, thereby developing better than expected. Consolidated net income also increased particularly strongly. The Group also benefited from the fact that its financial result was positively affected by changes in the valuation of subsidiaries and their obligations.

2.7 Overall Statement on Business Development

As a leading global specialist for design-oriented high-tech surfaces and components, Nanogate intends to continue its dynamic course of expansion and to benefit further from its significant past investments. The Group expects a significant leap in growth and a further expansion of its market position in 2017.

The new majority shareholding in the U.S. company Nanogate Jay Systems is the main contributor to this. The Group therefore anticipates a significant rise in sales to more than EUR 160 million for the current fiscal year. Despite the considerable transaction and integration costs, the operating result (EBITDA) is expected to increase to more than EUR 18 million. The Group had already published its forecast for 2017 at the end of January, after the transaction had been implemented more quickly than expected and planning for the integration could be undertaken more concretely. The new U.S. equity holding has been consolidated since January 1, 2017. Upon agreeing the majority stake in December 2016, Nanogate had initially only forecast a sales increase to more than EUR 150 million, since the exact date of completion could not, at the time, be foreseen. The U.S. company means that Nanogate is establishing itself as a global provider, improving its international market access and strengthening its technology portfolio.

As a leading global specialist for design-oriented high-tech surfaces and components, the Management Board believes that the Group is well positioned to benefit from the increasing global demand for innovative surfaces made of new materials. The strong demand from Asia and the U.S. in the reporting period confirms the good strategic alignment. As an integrated systems provider, Nanogate covers the entire value chain for development, production and coating, and therefore sees significant opportunities, particularly in the profitable components business. The Group is thereby primarily concentrating on the strategic growth areas of advanced metals and advanced polymers. In addition, Nanogate is driving forward its Phase5 growth program, launched in 2014, with which the Group intends to strengthen its organic growth, expand its international market position and broaden its technology portfolio. Further external growth is also one of the strategic options. Phase5 also includes an internal excellence program to strengthen the internal organization. With a view to the integration of the new majority shareholding in the U.S. and the Phase5 strategy program, coupled with the high level of financial strength, Nanogate intends to continue its profitable course of growth and to further expand its international market position.

3 Forecast, Risk and Opportunities Report

3.1 Forecast

3.1.1 Future Economic and Industry Development

The global economy is again expected to grow more strongly in 2017 than in the previous year. In its most recent study from January 2017, the International Monetary Fund (IMF) forecasts growth of 3.4 % in the current year compared to 3.1 % in 2016. By contrast, a slightly reduced growth rate is anticipated for Germany in 2017, with an increase of 1.5 %. The experts again expect a rise of 1.6 % for the euro area. On the other hand, the IMF believes that the U.S. economy will gain momentum again and grow more strongly in 2017 than of late, at 2.3 %. Weaker growth is anticipated for China, however, although the expected rise of 6.5 % for 2017 is significantly above that of the established industrialized nations and is exceeded only by India's growth.

The main industries targeted by Nanogate are optimistic about 2017. The chemical industry in Germany, for example, anticipates a slight increase in production of 0.5 % and, thanks to rising prices, growth in sales of 1 %, as announced by the German Chemical Industry Association in December 2016. According to statements from its VDA industry association, the German automotive industry again expects good sales growth. It believes that the global market for passenger cars will expand to almost 85 million vehicles. Following the stagnation in 2016, German mechanical engineering firms expect a slight increase of 1 % for the current year. GfK forecasts a rise in private spending of 1.5 % for 2017.

3.1.2 Future Development of the Nanogate Group – Forecast for 2017

Nanogate intends to continue its dynamic course of growth in 2017. In doing so, the Group is likely to benefit from its strong order base, growing demand in the strategic growth areas of advanced metals and advanced polymers, as well as its new majority stake in U.S. plastics specialist Jay Plastics.

Nanogate will focus on extending its international market position as well as on expanding capacities and the technology portfolio in 2017. Rapid integration of the new U.S. subsidiary is also pending. Across the Group, Nanogate primarily expects more orders in the profitable components business. The ongoing Phase5 strategic growth program will be continued. The aim is to establish Nanogate even more firmly in international markets as a global provider and innovation partner to major corporations. External growth remains one of the strategic options. The ongoing internal excellence program will also encompass the U.S. business in the future. Significant funds will continue to be invested in the implementation of the Phase5 expansion program. In the current year, the Group will therefore focus on expanding capacity, broadening the application portfolio and integrating the new U.S. company.

As a leading global specialist for design-oriented high-tech surfaces and components, Nanogate expects a strong boost to growth for the current year. On the basis of ongoing projects and the expected sales figures, and as a result of consolidation effects, sales should rise by more than 40 %. Overall, Nanogate expects an increase to more than EUR 160 million in 2017, after EUR 112.5 million was generated in the previous year. As announced, Nanogate will review and, with a view to Group synergies, optimize the order and product mix as part of the integration of the new U.S. subsidiary. The operating result is also predicted to increase strongly. Despite the significant cost burden associated with implementing the Phase5 growth program and the transaction and integration costs for the new U.S. subsidiary, consolidated EBITDA is expected to increase from EUR 12.4 million to at least EUR 18 million. Budgeting is based on the projects that are currently planned, taking into account the current exchange rate level. In view of the high pace of expansion, consolidated net income remains affected by depreciation and amortization as well as by financing costs. Nanogate is continuing to focus on the expansion of its international market position, even if this means an initial slowdown in margin growth. With cash and cash equivalents of almost EUR 23 million as at the balance sheet date, Nanogate is financially well positioned.

Nanogate has started the new fiscal year energetically. With the conclusion of the transactions to acquire the majority stake in Nanogate Jay Systems and the outstanding shares in Nanogate PD Systems, the Group has already achieved important strategic targets in January and has laid the foundation for its planned leap in sales. The operational course of business is developing promisingly. The growing business activity is due to the good strategic positioning with the three pillars of advanced materials engineering, advanced process engineering and advanced component engineering. Nanogate intends to further expand its good market position as a leading global specialist for design-oriented high-tech surfaces and components in 2017.

3.2 Risk Report

In order to grow profitably, Nanogate takes appropriate, reasonable and manageable risks. 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.

3.2.1 Risk Management System

In the course of its business activities, the Group is exposed to risks that are inseparably linked with its corporate actions. Corporate action without assuming risks is inconceivable. Genuine risks result from unforeseeable events, which can entail both hazards and opportunities. For the Group, risk management therefore means not only reducing dangers, but at the same time dealing consciously with opportunities. Aims of risk management include securing corporate goals and increasing company value. Risk management is tasked with identifying, analyzing, assessing and monitoring existing and expected risks along the entire value chain. In doing so, both external risks affecting the Group as well as risks that arise internally are taken into consideration. We never assume risks that could endanger the company’s continued existence.

Like all other management systems, the Group’s risk management is an integral part of its management system and serves as a value- and success-oriented corporate management tool. The process steps of risk management include the identification and assessment of risks, the management of measures and the monitoring of them.

Risk categories have been defined and individual risk areas allocated for the identification of risks. Priorities have been set as a result. The Group's essential risk categories comprise strategic risks, market risks, financial market risks, political and legal risks, organizational and management risks, risks arising from the value chain and risks from support processes.

The process of identifying and assessing these risks is performed within the scope of work meetings with the respective risk manager of the subsidiaries and is carried out together with external specialists. This process ensures that potential new and known risks and opportunities are presented for discussion at management level. Following the structured risk identification, the risks are assessed using a relevance scale.

Relevant risks above a certain threshold value are quantified using scenarios. Planning risks are estimated using standard deviations based on past experience. The risks arising from subsidiaries are consolidated at Group level.

Risk-specific management measures are determined following successful assessment. Where possible and sensible, the Group has taken out appropriate insurance for potential claims and liability risks, in order to reduce the degree of exposure and to avoid or minimize possible losses. Monitoring the respective risks is the responsibility of the risk officers from the operating divisions.

The effects of the individual risks are aggregated in the context of corporate planning using the risk simulation. This means that the income statement of a given fiscal year is simulated several thousand times in independent simulation runs with the help of random numbers (Monte Carlo simulation).

The risk analysis, consisting of identification, assessment and the specification of measures, is currently carried out every half-year. Reporting is made to the Management Board and Supervisory Board on an annual basis. The system is continually maintained and undergoes ongoing improvements both qualitatively as well as structurally when new Group companies are integrated. In order to communicate acute risks, the regular risk analysis will be supplemented with immediate reporting from 2017. Our risk management system encompasses both risks and opportunities.

3.2.2 Overview of the Risks

Economy: Demand for high-performance surfaces and innovative plastic components in the highest optical quality in Germany is partly dependent on the macroeconomic development as well as on the sector economy in the target markets. Companies' willingness to invest might be adversely affected by a slowdown in domestic demand. In the light of this fact, the possibility of demand 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 design-oriented high-tech surfaces and components could bring to the market competitors with a variety core expertise, such as in materials manufacture or nanotechnology, special chemicals companies or manufacturers of end products, as well as suppliers of major corporations, such as car manufacturers, 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 components, and they expect their technology partners to have mastered both development and mass production. It may also no longer be possible for Nanogate to convince customers of the value and benefit 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 and international 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 harmonize 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. Should Nanogate be unable to find alternative solutions in the case of supply shortages or regulatory changes, this may have an adverse effect on the company's 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. With the increasing internationalization of the business outside of the European Union, political developments and changing economic conditions may affect Nanogate's sales.

Customer structure: Nanogate targets several attractive industries. The diversification in terms of customers and regions is to be continuously improved as a result of the company's strong growth. Nevertheless, dependencies on individual customers or industry developments may remain. In the 2016 fiscal year, Nanogate generated around 47 % (previous year: 44 %) of its sales with its ten largest customers. However, sales fluctuations relating to individual customers due to economic developments in individual markets cannot be ruled out. Nanogate has so far 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. Nevertheless, product and technology developments or equity investments that fail to achieve the targets set for them in terms of sales and earnings cannot be ruled out, neither can problems that delay the integration of acquired companies or increase the cost of doing so. 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: Nanogate AG and selected subsidiaries have certified quality management pursuant to ISO 9001. In addition to this, there are other certifications pursuant to ISO 14001, ISO 13485 and ISO 16949 as well as other certifications and audits held by customers, some of which significantly exceed the 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 practicing factoring in selected divisions. The Group also has a very strong financial position. With the growing foreign business outside of the euro area, currency fluctuations are becoming more and more important. Nanogate therefore makes some use of appropriate hedging transactions in order to protect itself from wide fluctuations in exchange rates. Appropriate hedging transactions for interest rate fluctuations have also been concluded.

Information technology (IT): The Group relies on standardized programs and redundantly designed high-quality hardware and software for all business-critical IT applications. Data security is ensured by appropriate standardized procedures such as the virtualization of all key servers. In addition, appropriate security facilities are used to maintain protection against unauthorized access or data loss (see Risk Management System, Group Accounting, below)

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. Nanogate is fully committed to seeking long-term relationships with its specialist and management personnel, to which the Group's comprehensive sustainability management aims to contribute.

3.2.3 Assessment of the Risk Situation

The increasing internationalization has meant that the risk situation over which the Group has influence has changed in comparison with the previous year. Nanogate closed its acquisition of a majority stake in Jay Plastics, a division of the U.S. Jay Industries corporation, in January 2017. With this equity holding, Nanogate is expanding its market access, obtaining its own production capacities in North America and strengthening its technology portfolio. The company is a leading specialist in the U.S. for the high-quality enhancement of plastic surfaces and components. As an integrated provider, the company covers the entire value chain from the development of components to their production. Customers include well-known U.S. automotive groups and suppliers, as well as manufacturers from Japan and South Korea. Various measures for introducing the Group guidelines in the Tax, Controlling, Accounting and Risk Management departments are currently being implemented as part of the post-merger integration.

Due to the current political situation in the U.S., we are continuing to monitor the development of legislation in the area of tax policy and in relation to import restrictions. There are currently no negative developments to report for the Group in this regard. Nevertheless, drastic changes in the law, such as luxury taxes or import duties, could have a negative impact on the business development of the new equity holding in the U.S. and thus indirectly also on the Group. These risks may currently be seen as manageable.

These risks are already closely monitored and accounted for by risk management.

The risks presented which could negatively impact the forecasts are those that are identified today. Existing risks from pending legal proceedings are analyzed with the involvement of specialized 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. Despite the increasing internationalization, Nanogate's Management Board believes that the following risks do not endanger the continued existence of the Group either individually or as a whole. 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.

3.3 Opportunities Report

Nanogate is pursuing a comprehensive growth strategy in order to increase the value of the company. The aim of the Phase5 program presented at the beginning of 2014 includes continuously increasing sales and expanding profitability.

3.3.1 Overview of Opportunities

Economy: The demand for multifunctional high-performance surfaces and innovative components in the highest optical quality, which companies use to create added value and to enable them to offer applications and solutions with an advantage over their competition, is partly dependent on the general economic situation. A stronger than expected economic upturn could increase customers' readiness to invest in innovations.

Market: High-performance surfaces and innovative components have significant market potential. 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 sees considerable sales potential. 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. This includes, for example, the new technology platform for the multifunctional metallization of surfaces. In this regard, Nanogate can refer to the good position of German surfaces technology in a global comparison. High-end, new materials provide companies and private and commercial users with manifold advantages: existing products are given additional properties, production is made more efficient and cost-effective or resource consumption 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 is concentrating on the attractive segment of high-performance surfaces and innovative components in the highest optical quality. In doing so, the company is focusing on high-margin submarkets, such as multifunctional transparent coatings, as well as on submarkets that require special technological expertise. Nanogate itself sees an accessible future global market worth more than a billion euros for its products and applications. Observers are forecasting a significant increase in demand. The Zion Research market research institute, for example, expects the market for plastic services to grow to a volume of more than USD 7.7 billion by 2021. The automotive industry, in particular, is expected to generate increasing demand. According to experts at Research and Markets, the market for nanosurfaces is likely to grow even more strongly. They believe that the market is likely to increase by an annual average of almost 25 % and reach a volume of around USD 14 billion by 2022. In view of the industry's growing demand for complete systems and one-stop shopping, Nanogate sees considerable growth opportunities in the market for design-oriented multifunctional high-performance surfaces and components.

Customers: Nanogate's primary aim is to acquire new international customers. The growing foreign business, above all in the U.S. and 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. From 2017, the newly acquired Nanogate Jay Systems subsidiary will be contributing to opening up new markets around the world and benefiting from the strong demand for design-oriented high-tech surfaces and components made of new materials.

Investments: Nanogate is focusing on broadening its sales basis 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 2016 and the beginning of 2017, the company has sufficient liquidity as well as unused credit lines to finance the ongoing business and the planned growth strategy. In addition, Nanogate strengthened its financial position again in the summer of 2016 with a capital increase without subscription rights.

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.

4 Other Reporting Requirements

4.1 Hedging of Currency Risks

In December 2016, Nanogate AG concluded two hedging transactions to fix the euro/US dollar exchange rate. Both of these transactions are foreign currency forwards. This served to minimize the risk of currency fluctuation and fixed an exchange rate of USD 1.0762 and another of USD 1.0719 per euro. In the case of the currently volatile price development of the US dollar, concluding these foreign currency forwards was advantageous insofar as a rate fluctuation risk was excluded. These hedging transactions do not represent future risks for the Group.

4.2 Internal Control System and Risk Management System Related to Group Accounting

Nanogate AG prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and pursuant to Section 315a (1) HGB. The risks in Group accounting comprise accounting, valuation and reporting risks. To counter these risks, the accounting of Nanogate AG, as well as of Nanogate Textile and Care Systems GmbH and Nanogate Industrial Systems GmbH, is conducted centrally at the headquarters in Quierschied, Germany. The accounting of the other subsidiaries is usually conducted decentrally in their own commercial departments. Our subsidiaries are supported by the central accounting department and equity holding controllers of Nanogate AG in preparing accounts. Local tax advisers are also involved where required.

Accounting guidelines applicable across the Group also enable a uniform treatment of business transactions.

The annual financial statements and the consolidated financial statements as at the end of the year are audited by public auditors in accordance with the applicable legal provisions and audit standards, and are submitted to the supervisory boards and committees set up in the respective divisions for review within their scope of responsibility.

The IT systems used for this are protected against unauthorized access or data loss with appropriate security facilities. The entire Group accounting process has a systematic and multilevel structure and includes various supervisory bodies.

The Nanogate AG parent company also operates software-supported risk management that encompasses all the subsidiaries. The risk situation is regularly reviewed. The Group also operates centralized 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 once a year, however, which serves to direct the management in the corporate strategy. The dual-control principle is also strictly applied 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, Germany, April 10, 2017

Ralf Zastrau
Chief Executive Officer

Michael Jung
Chief Operating Officer

Daniel Seibert
Chief Financial Officer

Consolidated income statement of Nanogate AG

for the fiscal year from January 1 to December 31, 2016

	Note	2016 EUR ,000	2015 EUR ,000
Sales	5	112,452	90,894
Change in inventories of finished goods and work in progress		2,376	309
Other own work capitalised		617	1,380
Other operating income	6	1,411	2,204
Cost of materials	7	-46,360	-35,869
Personnel expenses	8	-33,691	-28,480
Other operating expenses	9	-24,427	-20,237
EBITDA		**12,378**	**10,201**
Amortisation of intangible assets and depreciation of property, plant and equipment	10	-7,746	-7,198
EBIT		**4,632**	**3,003**
Financial income	11	1,472	134
Financial expenses	11	-2,731	-2,521
Earnings before taxes (EBT)		**3,373**	**616**
Tax expenses	12	-875	-92
Net result for the period		**2,498**	**524**
of which attributable to non-controlling interests		-	3
of which attributable to shareholders of Nanogate AG (consolidated net income/loss)		**2,498**	**521**
Earnings per share (EUR)	13		
Earnings per share, basic (EUR)		0.70	0.16
Earnings per share, diluted (EUR)		0.69	0.16

Consolidated statement of comprehensive income of Nanogate AG

for the fiscal year from January 1 to December 31, 2016

	Note	2016 EUR ,000	2015 EUR ,000
Net result for the period		**2,498**	**524**
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	-58	81
Income taxes on items which are not retrospectively reclassified to P&L		17	-239
Other comprehensive income/loss		**-41**	**582**
Total net income/loss		**2,457**	**1,106**
of which attributable to non-controlling interests		-	4
of which attributable to shareholders of Nanogate AG		2,457	1,102

Consolidated statement of financial position of Nanogate AG

as at December 31, 2016

Assets	Note	12/31/2016 EUR ,000	12/31/2015 EUR ,000
Non-current assets			
Intangible assets	14	51,161	38,501
Property, plant and equipment	15	47,387	41,298
Other financial assets	16	646	642
Deferred tax assets	17	6,097	4,021
Other assets		359	690
		105,650	85,152
Current assets			
Inventories	18	12,446	7,473
Trade receivables	19	10,739	5,726
Other financial assets	16	2,186	1,392
Income tax receivables		12	189
Other assets	20	2,813	1,174
Cash and cash equivalents	21	22,578	22,743
		50,774	38,697
		156,424	123,849

Equity and liabilities	Note	12/31/2016 EUR ,000	12/31/2015 EUR ,000
Equity	22		
Subscribed capital		3,793	3,378
Capital reserves		53,223	41,187
Other reserves		1,012	1,149
Retained earnings		7,795	5,572
Equity attributable to the shareholders of Nanogate AG		65,823	51,286
Non-controlling interests		-	-
		65,823	51,286
Non-current liabilities			
Pension provisions	24	1,020	992
Other provisions	25	414	380
Financial liabilities	26	30,757	31,677
Other financial liabilities	28	15,336	10,193
Deferred tax liabilities	17	4,514	3,294
Other liabilities	29	1,681	1,163
		53,722	47,699
Current liabilities			
Other provisions	25	6,210	3,861
Financial liabilities	26	6,380	6,589
Trade payables	27	7,524	5,192
Other financial liabilities	28	10,705	4,483
Income tax liabilities		1,628	319
Other liabilities	29	4,432	4,420
		36,879	24,864
		156,424	123,849

Consolidated statement of cash flows of Nanogate AG

for the fiscal year from January 1 to December 31, 2016

	Note	2016 EUR ,000	2015 EUR ,000
Earnings before taxes		3,373	616
Amortisation of intangible assets and depreciation of property, plant and equipment		7,746	7,198
Increase in provisions		1,918	756
Result from the disposal of non-current assets		-22	-489
Other non-cash income and expenses		-767	480
Interest income		-44	-53
Interest expenses		2,197	2,183
Increase in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		-5.393	-676
Increase in trade payables and other liabilities that cannot be allocated to investing or financing activities		2,684	2,772
Cash flow from operations before taxes		11,692	12,787
Income tax payments		-898	-443
Cash flow from operating activities		10,794	12,344
Proceeds from the disposal of property, plant and equipment		589	583
Payments for investments in intangible assets		-1,120	-1,033
Payments for investments in property, plant and equipment		-6,182	-9,422
Proceeds from investments in financial assets		18	304
Payments for investments in financial assets		-573	-102
Payments for the acquisition of consolidated companies	36	-4,570	-
Payments for investments in other assets		-44	-9
Interest received		28	59
Cash flow from investing activities		-11,854	-9,620
Proceeds from capital increases		9,975	11,288
Dividend payments		-371	-332
Payments in connection with consolidated companies		-473	-3,314
Proceeds from the raising of loans		3,699	8,479
Payments for the redemption of loans		-7,296	-9,643
Payments for the redemption of finance lease liabilities		-2,762	-2,326
Interest payments		-1,877	-1,929
Cash flow from financing activities		895	2,223
Changes in cash and cash equivalents		-165	4,947
Cash and cash equivalents at the beginning of the period		22,743	17,796
Cash and cash equivalents at the end of the period	31	22,578	22,743

Consolidated statement of changes in equity of Nanogate AG

for the fiscal year from January 1 to December 31, 2016

	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 January 1, 2015		**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 December 31, 2015		**3,378**	**41,187**	**1,149**	**5,572**	**51,286**	**-**	**51,286**
Capital increases by issuance of new shares		415	11,920	-	-	12,335	-	12,335
Dividend distribution to shareholders		-	-	-	-371	-371	-	-371
Share-based payments		-	116	-	-	116	-	116
Transfer to retained earnings, net		-	-	-96	96	-	-	-
Total net income/loss								
Net result for the period 2016		-	-	-	2,498	2,498	-	2,498
Other comprehensive income/ loss 2016		-	-	-41	-	-41	-	-41
As at December 31, 2016	22	**3,793**	**53,223**	**1,012**	**7,795**	**65,823**	**-**	**65,823**

Notes to the Consolidated Financial Statements of Nanogate AG for the 2016 Fiscal Year

Notes to the Consolidated Financial Statements of Nanogate AG for the 2016 Fiscal Year

A. Accounting Principles and Methods

1. Principles of Preparation

The consolidated financial statements of Nanogate AG, Quierschied, Germany (hereafter also "Nanogate AG" or "the company") for the fiscal year ending on December 31, 2016 were prepared using Section 315a of the German Commercial Code (HGB) in accordance with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB), as they are applicable in the European Union (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 2016 fiscal year were taken into account. All legal duties of disclosure according to the German Commercial Code (HGB) that exceed the scope of the stipulations of the IASB standards were fulfilled, particularly those pertaining to the preparation of a Group management report. Nanogate AG is a company domiciled in Germany, headquartered at Zum Schacht 3, 66287 Quierschied, Germany. 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 shares of Nanogate AG are included in open market trading, as well as in the Entry Standard segment ("Scale" stock exchange segment since March 1, 2017) on the Frankfurt Stock Exchange. Nanogate AG's listing in the Entry Standard (now "Scale") 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 decided to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards. With the restructuring of the stock exchange segments in the regulated unofficial market of the Frankfurt Stock Exchange, Nanogate AG switched to the newly created Scale SME segment, which has replaced the Entry Standard, in March 2017.

The consolidated financial statements of Nanogate AG for the fiscal year from January 1, 2016 through December 31, 2016 were approved for publication and forwarded to the Supervisory Board for approval on April 10, 2017.

The reporting currency of the consolidated financial statements of Nanogate AG is euros (€). Unless otherwise specified, all amounts are in thousands of euros (EUR). For reasons related to the calculations, rounding differences of +/- one unit (euro, %, etc.) may occur in the information presented in these financial statements.

2. New and Amended Standards and Interpretations

2.1 New and Amended Standards and Interpretations to be Applied for the First Time in the 2016 Fiscal Year

The accounting methods applied in the consolidated financial statements comply with the mandatory standards and interpretations as at December 31, 2016. 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 2016 fiscal year.

New and amended standards and interpretations to be applied for the first time in the 2016 fiscal year		Endorsement	Mandatory from financial years beginning	Effects on Nanogate AG's consolidated financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities – Applying the Consolidation Exception (issued on December 18, 2014)	September 22, 2016	January 1, 2016	Not relevant
Amendments to IAS 16 and IAS 41	Bearer Plants (issued on June 30, 2014)	November 23, 2015	January 1, 2016	Not relevant
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (issued on May 6, 2014)	24. November 2015	January 1, 2016	Not relevant
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization (issued on May 12, 2014)	2. Dezember 2015	January 1, 2016	No significant effects
Annual Improvements	Annual Improvements to IFRSs 2012–2014 Cycle (issued on September 25, 2014)	15. Dezember 2015	January 1, 2016	No significant effects
Amendments to IAS 1	Disclosure Initiative (issued on December 18, 2014)	18. Dezember 2015	January 1, 2016	Description follows the table overview
Amendments to IAS 27	Equity Method in Separate Financial Statements (issued on August 12, 2014)	18. Dezember 2015	January 1, 2016	Not relevant
Amendments to IAS 19	Defined Benefit Plans – Employee Contributions (issued on November 21, 2013)	December 17, 2014	February 1, 2015	No significant effects
Annual Improvements	Annual Improvements to IFRSs 2010–2012 Cycle (issued on December 12, 2013)	December 17, 2014	February 1, 2015	No significant effects

The amendment to IAS 1 as part of the Disclosure Initiative should allow the financial statements to be reduced to only the necessary and simplified disclosures. Nanogate AG has taken this as an opportunity to completely revise its Notes to the consolidated financial statements, making them more transparent and readable and focusing on essential information. The other accounting standards applicable for the first time in the 2016 fiscal year have no material influence on, or are of no relevance to, the presentation of the assets, financial and earnings position of the Nanogate Group.

2.2 Standards and Interpretations Requiring Mandatory Application in the Future

The following standards and interpretations have already been published by the IASB, but need only be applied from December 31, 2016.

New and amended standards and interpretations requiring mandatory application in the future		Endorsement	Mandatory from financial years beginning	Effects on Nanogate AG's consolidated financial statements
IFRS 9	Financial Instruments (issued on July 24, 2014)	Endorsed on November 22, 2016	January 1, 2018	Description follows the table overview
IFRS 15	Revenue from Contracts with Customers (issued on May 28, 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on September 11, 2015)	Endorsed on September 22, 2016	January 1, 2018	Description follows the table overview
IFRS 16	Leases (issued on January 13, 2016)	Planned for Q4 2017	January 1, 2019	Description follows the table overview
IFRS 14	Regulatory Deferral Accounts (issued on January 30, 2014)	Not adopted	January 1, 2016	Not relevant
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on September 11, 2014)	Deferred	Postponed indefinitely	Not relevant
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses (issued on January 19, 2016)	Planned for Q2 2017	January 1, 2017	No significant effects
Amendments to IAS 7	Disclosure Initiative (issued on January 29, 2016)	Planned for Q2 2017	January 1, 2017	No significant effects
Clarifications to IFRS 15	Revenue from Contracts with Customers (issued on April 12, 2016)	Planned for Q1 2017	January 1, 2018	Additional provisions for ease of transition, otherwise no significant effects
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions (issued on June 20, 2016)	Planned for Q3 2017	January 1, 2018	No significant effects
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on September 12, 2016)	Planned for Q3 2017	January 1, 2018	Not relevant
Annual Improvements	Annual Improvements to IFRSs 2014–2016 Cycle (issued on December 8, 2016)	Planned for Q3 2017	January 1, 2018/ January 1, 2017	No significant effects
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration (issued on December 8, 2016)	Planned for Q3 2017	January 1, 2018	No significant effects
Amendments to IAS 40	Transfers of Investment Property (issued on December 8, 2016)	Planned for Q3 2017	January 1, 2018	No significant effects

IFRS 9 introduces a universal approach to the classification and measurement of financial assets and financial liabilities. IFRS 9 refers in this case to the features of the contractual cash flows and the business model governing their management. The standard also provides for a new risk provision model that now takes expected losses into account when calculating the risk provision. IFRS 9 also includes regulations relating to hedge accounting in order to better present the company's risk management activities, particularly related to the management of financial risks. This has resulted in significantly more comprehensive information in the Notes. IFRS 15 replaces the accounting guidelines relating to revenue recognition. It replaces existing guidelines for recording sales, including IAS 18 Revenue, IAS 11 Construction Contracts and the relevant interpretations (IFRIC 13, IFRIC 15, IDRIC 18, and SIC-31). The new standard sets a comprehensive framework specifying the level of sales to be recognized and at what time. IFRS 15 provides for a uniform, five-stage revenue recognition model that must be applied to all contracts with customers. IFRS 15 adds the items Contract Assets and Contract Liabilities to the balance sheet. These may arise as a result of transaction surpluses or payment obligations existing at the contract level. This has resulted in significantly more comprehensive information in the Notes. The Nanogate Group is planning to apply the modified retrospective transition method, according to which the cumulative effects of the conversion to the 2018 opening balance must be recorded.

IFRS 16 changes the regulations for the recognition of lease agreements. The main aim of IFRS 16 is the recognition of all lease agreements in the balance sheet. Lessees are accordingly no longer classified under finance and operating lease agreements. Instead, in the future, a right of use and a lease liability must be recorded in the balance sheet for all lease agreements. The only exceptions to this are short-term and low-value lease agreements. During the lease term, the right of use must be amortized and the lease liability adjusted using the effective interest method and taking into account the lease payments. The new recognition of lessees therefore tends to lead to an increase in noncurrent assets and noncurrent liabilities. A relief of the operating results and a negative impact on financial result is expected in the income statement. This has resulted in significantly more comprehensive information in the Notes.

Nanogate AG has not, currently, conclusively analyzed the effects associated with the first-time application of IFRS 9, IFRS 15 and IFRS 16, meaning that it has not yet been possible to make reliable statements in this regard. The company plans to conclude the detailed analyses required for this during the course of fiscal year 2017.

According to current estimates, the other new or amended standards and interpretations named in the above table have no material impact on the consolidated financial statements of Nanogate AG.

Nanogate AG will not be voluntarily and prematurely applying the above new or amended standards and interpretations.

3. Presentation of the Relevant Accounting Methods

The relevant accounting methods applied throughout the consolidated financial statements of Nanogate AG are presented below. An explanation of the specific applied accounting methods in relation to individual items on the consolidated statement of financial position and consolidated statement of income and/or the consolidated statement of comprehensive income is given within the additional Notes to the Group Notes together with the relevant disclosures. The explanations of the relevant accounting methods within the individual Notes are an integral component of the presentation of the relevant accounting methods throughout the consolidated financial statements.

Sales	Note	5.
Other Operating Income	Note	6.
Cost of Materials	Note	7.
Personnel Expenses	Note	8.
Other Operating Expenses	Note	9.
Financial Income and Expenses	Note	11.
Tax Income or Expenses	Note	12.
Earnings per Share	Note	13.
Intangible Assets	Note	14.
Property, Plant and Equipment	Note	15.
Other Financial Assets	Note	16.
Deferred Tax Assets and Liabilities	Note	17.
Inventories	Note	18.
Trade Receivables	Note	19.
Other Assets	Note	20.
Cash and Cash Equivalents	Note	21.
Share-based Remuneration	Note	23.
Pension Provisions	Note	24.
Other Provisions	Note	25.
Financial Liabilities	Note	26.
Trade Payables	Note	27.
Other Liabilities	Note	29.
Consolidated Statement of Cash Flows	Note	31.
Business Combinations	Note	36.
Relationships with Associated Persons and Companies	Note	38.

General Principles

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. Pursuant to IAS 1, the assets and liabilities in the consolidated statement of financial position must be structured in current and noncurrent assets and liabilities. An asset or a liability is classified as current if it is expected that the asset will be sold within the next twelve months following the reporting date or that the liability must be settled within twelve months following the reporting date.

The consolidated statement of income is prepared in accordance with the total cost method. If, for the purpose of improving clarity of presentation or for reasons of materiality, items of the consolidated statement of financial position and/or the consolidated statement of income have been combined, these are reported separately in the Notes. The established financial measures used within the consolidated statement of income are defined by the company as follows:

- EBITDA: Earnings before amortization and impairments of intangible assets and depreciation of property, plant and equipment, financial income and expenses as well as tax income or expenses
- EBIT: Earnings before financial income and expenses as well as tax income or expenses
- EBT: Earnings before income taxes and expenses.

The consolidated financial statements are always prepared using the historical cost principle. Exceptions to this include derivative financial instruments and financial assets held for sale, which are always measured at fair value. Land and buildings of property, plant and equipment are also recognized using the revaluation method as defined by IAS 16.

Consolidation Principles

The consolidated financial statements include Nanogate AG and its subsidiaries, over which it exercises control. The Nanogate Group have control if they are burdened by risk or entitlement to fluctuating yields, resulting from its participation in an equity holding and can use its power of disposition over the equity holding to influence these yields. It is generally assumed that ownership of a majority of the (indirect or direct) voting rights leads to control. Equity holdings which, due to their dormant or low level of operations for the Nanogate Group and are not of material significance in determining a true and fair view of the net assets, financial and earnings position, are always recognized at fair value pursuant to IAS 39. This excludes equity holdings that are recognized at amortized cost if their fair value cannot be determined reliably.

The financial statements of the consolidated subsidiaries included in the consolidated financial statements are always prepared as at the reporting date of the consolidated financial statements (December 31, 2016). The financial statements of Nanogate AG and its subsidiaries included in the consolidated financial statements are prepared using uniformly applicable recognition and measurement principles. All intercompany assets and liabilities, equity, earnings and expenses as well as cash flows from transactions between the companies included in the consolidated financial statements are eliminated in full as part of the consolidation.

Business combinations are recognized according to the purchase method (see also the relevant remarks relating to this on the significant accounting methods in Note *36. Business Combinations*).

Group Companies and Companies Included in the Consolidated Financial Statements

Group Companies

(In addition to Nanogate AG as parent company) the following companies (hereafter "Nanogate Group") are included in the scope of consolidation pursuant to Section 313 (2) of the German Commercial Code (HGB) as at December 31, 2016:

Name of the subsidiary and head office	Main business	Share of capital in %	Consoli-dation
Nanogate Industrial Systems (formerly: Nanogate Industrial Solutions) GmbH, Quierschied	Energy efficiency and process integration	100.00	full
Nanogate GfO Systems (formerly: GfO Gesellschaft für Oberflächentechnik) AG, Schwäbisch Gmünd	Nglaze® surfaces 3D-systems	100.00[3)]	full
Nanogate Eurogard Systems (formerly: Eurogard B.V., Geldrop, Netherlands	Nglaze® surfaces 2D-systems	100.00	full
Nanogate Textile & Care Systems GmbH, Quierschied	Multifunctional textiles & DIY systems	100.00	full

Name of the subsidiary and head office	Main business	Share of capital in %	Consolidation
Nanogate PD Systems (formerly: Plastic-Design) GmbH, Bad Salzuflen	Nglaze® components 3D systems	100.00	full
Nanogate Glazing Systems B.V., Geldrop, Netherlands	Nglaze® components 2D systems	100.00	full
Nanogate Nederlands B.V., Geldrop, Netherlands	Holding	100.00	full
Nanogate Vogler Systems (formerly: Vogler) GmbH, Lüdenscheid	Decorative, multifunctional surfaces	100.00[4)]	full
Nanogate Goletz Systems (formerly: Walter Goletz) GmbH, Kierspe	Decorative, multifunctional surfaces	75.00[1)]	full
Nanogate Medical Systems (formerly: Goletz Medical) GmbH, Kierspe	High-quality plastic parts for medical technology	100.00[5)]	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)]
Nanogate Technologies Inc. Norwalk, Connecticut/USA	Holding	100.00	[2)]

1) Full consolidation without disclosure of noncontrolling interests, see Note 36. Business Combinations
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 Nanogate GfO Systems AG
4) Nanogate Vogler Systems GmbH is a wholly owned subsidiary of Nanogate Industrial Systems GmbH
5) Indirect shareholding: Nanogate Medical Systems GmbH is a wholly owned subsidiary of Nanogate Goletz Systems GmbH

Companies Included in the Consolidated Financial Statements

In addition to the parent company, the fully consolidated subsidiaries included in the consolidated financial statements of Nanogate AG as at December 31, 2016 can be seen in the above table.

Changes to the Companies Included in the Consolidated Financial Statements

In April 2016, the Nanogate Group acquired 75 % of shares in plastics specialist Goletz, which now operates as Nanogate Goletz Systems GmbH, Kierspe. The new subsidiaries also include Nanogate Medical Systems GmbH, formerly Goletz Medical GmbH. Due to the contractual arrangement, the Management Board assumes that full consolidation of Nanogate Goletz Systems and Nanogate Medical Systems is appropriate without disclosure of minority interests. A corresponding purchase price obligation for the shares, which have not yet been legally transferred, has been recognized as a liability.

Nanogate Goletz Systems GmbH offers a wide range of services for the manufacture and processing of smaller and medium-sized design-oriented plastic components. The company supplies customers from the automotive, electronics and domestic appliances industries. The company was founded in 1969, and Goletz cooperates closely with Nanogate Vogler Systems GmbH – located nearby – as part of its integration into the Nanogate Group. An initial joint project has already begun, with the Nanogate Group receiving a multiyear order from a luxury car manufacturer in spring 2016. Its acquisition means that the Nanogate Group has significantly expanded its system expertise in the area of high-demand plastic components. The Nanogate Group is also represented in the medical technology sector by Nanogate Medical Systems. The subsidiary of Nanogate Goletz Systems specializes in the development and production of high-quality plastic articles for medical technology, and has corresponding certifications and manufacturing systems.

Foreign Currency Translation

The financial statements of all subsidiaries included in the consolidated financial statements of Nanogate AG are prepared in euros (€). Foreign currency transactions by the Group companies are translated into euros using with the applicable mean spot exchange rate at the point in time at which the transaction can be recognized for the first time. Foreign currency receivables or liabilities recognized on the reporting date are translated into euros with the mean spot exchange rate applicable at the time. Gains and losses from these foreign currency measurements are recognized with effect on profit and loss.

4. Estimations and Assumptions

Estimations and assumptions must be made to a limited degree in the consolidated financial statements of Nanogate AG, which have an impact on the level and reporting of assets and liabilities in the balance sheet, the earnings and expenses as well as contingent liabilities. In so doing, all currently available information is taken into account. The estimates are based on past experience and other assumptions that are considered appropriate under the given circumstances. Estimations and assumptions made by the Nanogate Group are reviewed on an ongoing basis, but may deviate from actual values.

Material estimations and assumptions for preparing the consolidated financial statements of Nanogate AG have been made in particular in relation to the following accounting and measurement methods: The impairment test of goodwill and intangible assets with indefinite useful life, the impairment of doubtful receivables, the actuarial parameters in calculating the expenses arising from defined benefit plans and the present value of pension obligations, the level of deferred tax assets eligible for capitalization and the recognition of other provisions. Furthermore, estimations and assumptions are made in particular in determining the useful lives of intangible assets and property, plant and equipment, in the revaluation of property, plant and equipment, in the evaluation of leases, as well as in the measurement of inventories. In capitalizing development costs on the basis of past experience, it is also assumed that the technical and economic feasibility is given and that the developments will lead to future sales and earnings contributions.

An explanation of the estimations and assumptions made in relation to individual items of the consolidated statement of financial position and consolidated statement of income and/or the consolidated statement of comprehensive income is given in the additional Notes to the Group Notes together with the relevant Notes disclosures.

Tax Income or Expenses	Note	12.
Property, plant and equipment, and leases	Note	15.
Deferred Tax Assets and Liabilities	Note	17.
Trade Receivables	Note	19.
Pension Provisions	Note	24.
Other Provisions	Note	25.

B. Notes to the Consolidated Statement of Income

5. Sales

		2016	2015
		EUR ,000	EUR ,000
Gross revenue:	Germany	54,712	49,715
	Abroad*)	58,680	42,276
		113,392	91,991
Less:	Sales deductions	-940	-1,097
	Overall Group	**112,452**	**90,894**
	*) of which in		
	European Union	34,258	28,030
	Other countries	24,422	14,246
		58,680	42,276

Significant Accounting Methods and Estimations and Assumptions:

The Nanogate Group reports the payments billed to customers for deliveries and services, less sales deduction, as sales. The Nanogate Group's sales result from the sale of self-generated products and the enhancement of products. Sales are recognized 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. The sales are realized on delivery and transfer of significant risks and opportunities to the customer.

6. Other Operating Income

	2016	2015
	EUR ,000	EUR ,000
Income from the reversal of provisions	420	299
Noncash benefits (for use of vehicles et al.)	218	287
Transfer of costs / reimbursements	427	350
Income from disposal of assets	26	530
Insurance compensation	15	83
Miscellaneous other income	305	655
	1,411	**2,204**

Significant Accounting Methods and Estimations and Assumptions:

The Nanogate Group reports all earnings which occur as part of operating activities, but which have no relation to the Nanogate Group's core business within other operating income. Other operating income is recognized 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.

7. Cost of Materials

	2016	2015
	EUR ,000	EUR ,000
Cost of raw materials and supplies	-44,010	-31,830
Cost of external services	-2,350	-4,039
	-46,360	-35,869

Significant Accounting Methods and Estimations and Assumptions:

Material expenses are recognized in profit and loss at the time when the goods or services are utilized or when the expenses are incurred. The valuations of the material expenses to be reported are determined according to the carrying amount of the inventories or according to the acquisition costs for external services.

For information on the measurement of inventories, please refer to the corresponding explanations in Note *18. Inventories*.

8. Personnel Expenses

	2016	2015
	EUR ,000	EUR ,000
Wages and salaries	-28,127	-23,998
Social security	-4,909	-3,994
Pensions	-539	-378
Noncash remuneration costs for stock options	-116	-110
	-33,691	-28,480

In order to secure the long-term loyalty and motivation of the Nanogate Group's employees, Nanogate AG has set up a stock option program for participation in the share capital, which gives entitlement to subscription of shares in return for the fulfillment of certain requirements. As at the reporting date, there are a total of 159,120 stock options (previous year: 77,425 stock options), which have not expired or been exercised. The stock option programs influenced noncash remuneration costs for stock options, resulting in earnings amounting to TEUR -116 for the 2016 fiscal year (previous year: TEUR -110).

For further details on the stock option program, please refer to Note *23. Share-based remuneration*.

Significant Accounting Methods and Estimations and Assumptions:

Personnel expenses encompass all services (financial and benefits in kind) of the Nanogate Group toward its employees and are recorded in profit and loss on the date of performance of the services or at the time they are incurred. Personnel expenses are allocated to the periods in which the substantiation of a Nanogate Group employee's claim occurs, taking into account the matching principle.

9. Other Operating Expenses

	2016	2015
	EUR ,000	EUR ,000
Operating expenses	-14,207	-12,716
Sales expenses	-3,513	-3,050
Administrative expenses	-5,165	-3,001
Losses on receivables and impairment	-169	-189
Miscellaneous other expenses	-1,373	-1,281
	-24,427	-20,237

Significant Accounting Methods and Estimations and Assumptions:

The Nanogate Group reports all expenses which occur as part of operating activities, but which have no relation to the Nanogate Group's core business or are not reported separately due to their immateriality, within other operating expenses.

10. Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

For information on the breakdown of amortization of intangible assets and depreciation of property, plant and equipment, please refer to the corresponding information in Note *14. Intangible Assets* and Note *15. Property, Plant and Equipment*.

11. Financial Income and Expenses

The financial income reported is essentially income from the fair value adjustment of financial liabilities from contingent purchase price payments as part of company acquisitions, interest payments on loans extended and income from an interest rate hedge. Of the financial income, TEUR 60 impacted on cash flow during the current fiscal year (previous year: TEUR 41).

The financial expenses are essentially financial expenses for overdrafts and loans with banks. Financial expenses also include amortization of financial assets amounting to TEUR 523 (previous year: TEUR 125). Of the financial expenses reported, TEUR 1,887 impacted on cash flow during the current fiscal year (previous year: TEUR 1,929).

Net interest expenses from pension obligations amount to TEUR 26 for the 2016 fiscal year (previous year: TEUR 20).

Significant Accounting Methods and Estimations and Assumptions:

The Nanogate Group reports all income and expenses which occur as part of financing activities and not from operating activities, in financial income and expenses. Financial income and expenses are usually recognized in profit and loss on an accrual basis using the effective interest method.

12. Tax Income or Expenses

	2016	2015
	EUR ,000	EUR ,000
Current taxes		
Germany	-1,087	-214
Abroad	-589	-365
Taxes previous years	-149	23
Deferred taxes		
Germany	941	488
Abroad	9	-24
(tax expense -; tax income +)	-875	-92

The table below shows a reconciliation of the expected reported tax expenses for the 2016 fiscal year and for the previous year. To determine the expected tax expenses, the earnings before taxes were multiplied by the overall tax rate for 2016 (or the previous year) 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 difference between the expected and reported income tax expenses can be seen in the reconciliation below.

	2016	2015
	EUR ,000	EUR ,000
Earnings before taxes	3,373	616
Applicable tax rate	30.525 %	30.525 %
Expected tax expense	-1,030	-188
Effects of changes in tax rates	44	-5
Tax-free gains	401	-
Effects of different tax rates in foreign countries	119	81
Differences due to varying trade tax multipliers	-80	-38
Tax increase due to non-tax-deductible costs	-202	-386
Non-capitalised tax deferrals on losses; realisable loss carryforwards on which no deferred taxes were calculated	2	416
Impairment on loss carryforwards	-	-4
Tax payments/rebates for prior years	-149	23
Other tax effects	20	9
Income tax expense recognized in the income statement	-875	-92

Significant Accounting Methods and Estimations and Assumptions:

Recognized tax income and expenses are reported by the Nanogate Group as taxes on taxable profits in the respective countries as well as changes in deferred taxes. The income taxes reported are recorded on the basis of the legal regulations applicable or agreed upon on the reporting date in the amount in which a reimbursement from the tax authorities or a payment to the tax authorities is expected.

For information on reporting deferred taxes, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *17. Deferred Tax Assets and Liabilities*.

13. Earnings per Share

	2016	2015
Net result for the period attributable to shareholders of Nanogate AG (in EUR)	2,497,858	521,517
Weighted average number of shares issued		
Basic	3,566,594	3,273,988
Diluted	3,603,155	3,279,899
Basic earnings per share (in EUR)	0.70	0.16
Diluted earnings per share (in EUR)	0.69	0.16

The diluted number of shares issued refers to 68,950 (previous year: 17,325) shares that can only be issued under certain circumstances. The dilutive effect refers exclusively to tranches of the employee stock option program that can be utilized.

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

Significant Accounting Methods and Estimations and Assumptions:

In calculating the undiluted earnings per share, the earnings attributable to the shareholders of Nanogate AG are divided by the weighted average number of common shares in circulation during the year.

In calculating the undiluted earnings per share, the earnings attributable to the shareholders of Nanogate AG are divided by the weighted average number of common shares in circulation during the year, plus the weighted average number of common shares that would result from the conversion of all potential common shares with dilutive effect to common shares.

C. Notes to the Consolidated Statement of Financial Position

14. Intangible Assets

	Intangible assets					
	Software, licences, trade-marks and patents	Client base	Develop-ment costs	Goodwill	Assets under construc-tion	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
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 fiscal year	-460	-315	-807	-	-	-1,583
Additions	83	-	909	-	41	1,033
Transfers	-	-	104	-	-	104
Disposals	-	-	-85	-	-	-85
As at 12/31/2015	**10,015**	**1,491**	**6,151**	**20,804**	**41**	**38,501**
Acquisition and production costs	11,549	3,057	9,610	21,391	41	45,648
Depreciation/amortisation	-1,534	-1,566	-3,459	-588	-	-7,147
As at 1/1/2016	**10,015**	**1,491**	**6,151**	**20,803**	**41**	**38,501**
Change in the companies included in the consolidated financial statements	863	-	-	12,306	-	13,169
Depreciation and amortisation in the financial year	-383	-346	-947	-	-	-1,676
Additions	715	-	405	-	-	1,120
Transfers	122	-	-	-	-41	81
Disposals	-34	-	-	-	-	-34
As at 12/31/2016	**11,298**	**1,145**	**5,609**	**33,109**	**-**	**51,161**
Acquisition and production costs	13,140	3,057	9,809	33,697	-	59,703
Depreciation/amortisation	-1,842	-1,913	-4,199	-588	-	-8,542

There were no impairments or reversals for the reported intangible assets either in the current 2016 fiscal year or in the previous year.

The software, licenses, trademarks and patents shown are intangible assets acquired for payment. Of these, intangible assets of TEUR 4,719 (previous year: TEUR 3,436) have a limited useful life as at the reporting date. The amortization of these intangible assets occurs on a straight-line basis over their expected useful lives or is based on use. The items of software, licenses, trademarks and patents also include the word marks ELAMET® and SICRALAN®, whose useful lives cannot be determined and are carried at TEUR 2,329 (previous year: TEUR 2,329) in connection with nonpatented knowledge. With a carrying amount of TEUR 4,250 (previous year: TEUR 4,250), this item also includes the "Vogler" brand, whose useful life also cannot be determined, acquired as part of the company acquisition of Vogler GmbH & Co. KG. The internally generated intangible assets reported in the consolidated statement of financial position are exclusively capitalized development costs distributed across seven higher-level development projects. Amortization of TEUR 947 (previous year: TEUR 807) was carried out on the capitalized development costs during the 2016 fiscal year. The research and noncapitalized development costs for the 2016 fiscal year amount to TEUR 7,001 (previous year: TEUR 5,532).

As at the reporting date, the intangible assets included leased assets (finance leases) with a residual carrying amount of TEUR 72 (previous year: TEUR 120).

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 nonpatented 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 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. This planning is partly based on external sources and continues to account for the price agreements based on past experience, expected efficiency increases and a sales development derived from the strategic focus. The discount rates on which the impairment test is based are interest rates after taxes.

The table below provides an overview of the breakdown of goodwill across the CGUs and the assumptions on which the impairment tests of the 2016 fiscal year are based.

Name of the CGU	Nanogate Industrial Systems GmbH	Nanogate Eurogard B.V.
Goodwill carrying amount	1,661	5,442
Sales growth p.a. planning period	3.0 % - 20.0 %	2.5 % - 4.6 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.02 %	6.08 %
Pre-tax discount rate	7.86 %	8.14 %

Name of the CGU	Nanogate PD Systems GmbH	Nanogate Vogler Systems GmbH
Goodwill carrying amount	2,813	10,887
Sales growth p.a. planning period	0.1 % - 3.0 %	2.5 % - 11.2 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.02 %	6.02 %
Pre-tax discount rate	8.26 %	8.10 %

Name of the CGU	Nanogate Goletz Systems GmbH	
Goodwill carrying amount	12,306	
Sales growth p.a. planning period	3.0 % - 5.8 %	
Duration of planning period	5 years	
Sales growth p.a. at end of planning period	1.00 %	
Discount rate	6.02 %	
Pre-tax discount rate	8.77 %	

The assumptions on which the impairment tests of the previous year are based can be seen in the table below.

Name of the CGU	Nanogate Industrial Systems GmbH	Nanogate Eurogard B.V.
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	6.20 %	6.30 %
Pre-tax discount rate	8.09 %	8.43 %

Name of the CGU	Nanogate PD Systems GmbH	Nanogate Vogler Systems GmbH
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	6.30 %	6.30 %
Pre-tax discount rate	8.64 %	8.48 %

The impairment test of the acquired word marks ELAMET® and SICRALAN®, that have a carrying amount as at the reporting date of TEUR 2,329 (previous year: TEUR 2,329), was carried out on the basis of the respective smallest cash-generating unit (CGU). The premises for the ELAMET® and SICRALAN® CGUs correspond to those of the impairment test for acquired goodwill. Furthermore, sales growth in the planning period of between +2.8 % and +9.8 % p.a. was based on a planning period of five years and a sales growth following the end of the planning period of 1.0 % p.a. The discount rate after taxes used is 6.02 %.

As in the previous year, no impairments resulted from the review of recoverable value of the goodwill and the word marks ELAMET® and SICRALAN®. In addition, the recoverable value of the goodwill and the word marks was confirmed by a sensitivity analysis, which included a change to the discount rates (after taxes) of one percentage point.

The Group management is of the opinion that, based on reasonable judgment, 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 the recoverable amount.

Significant Accounting Methods and Estimations and Assumptions:

Intangible Assets

The intangible assets of the Nanogate Group essentially comprise software, licenses, trademarks and patent rights, client bases, unpatented knowledge, capitalized development costs and goodwill. Intangible assets acquired individually are measured at acquisition cost on first-time recognition. The acquisition cost of an intangible asset obtained through a business combination corresponds to the fair value at the time of acquisition. A fundamental precondition for the capitalization of an internally generated intangible asset is that the Nanogate Group will in all probability receive a future benefit from this asset and that the costs can be reliably determined.

Development projects are then only capitalized if the conditions of IAS 38.57 are met; research and development costs not eligible for capitalization are recognized with effect on expenses in the period in which they were incurred. If an internally generated intangible asset meets the conditions for recognition, it will be measured at its production costs on first-time recognition. Production costs encompass all costs which are attributable to the production process and reasonable proportions of the production-related overheads.

Following their first-time recognition, intangible assets are recognized at acquisition and production costs less the accumulated amortization and any accumulated impairment losses. The amortization of intangible assets with ascertainable useful life occurs on a straight-line basis over the contractual or estimated useful life. The Nanogate Group recognizes useful lives of between 3 and 15 years.

(Purchased) goodwill acquired against payment arising from the capital consolidation of subsidiaries is reported in the consolidated statement of financial position of Nanogate AG as an asset item. A capitalization prohibition exists for self-created (original) goodwill according to IAS 38.48.

Impairment of Goodwill

Capitalized goodwill is subject to an impairment test at least once a year or whenever there is an indication that the value of the goodwill may have declined. The recoverable value of goodwill is assessed in a one-step procedure at the level of the cash-generating units (CGUs) to which goodwill has been allocated. In the impairment test the carrying amount of a cash-generating unit is compared with the recoverable amount. If the carrying amount is greater than the recoverable amount, the recoverable amount is impaired with effect on profit and loss. If the reason for an impairment of goodwill made in previous periods no longer exists, a subsequent reversal is not permitted.

The recoverable amount is the greater of both valuations of fair value less costs of disposal and the value in use of an asset. 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.

Impairment of Property, Plant and Equipment and Other Intangible Assets

For property, plant and equipment and intangible assets with limited useful lives, the Nanogate Group checks whether there are indications (triggering events) for an impairment on every reporting date. If facts or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, it will be subjected to an impairment test. Furthermore, intangible assets, whose useful life cannot be determined or which are not yet in operational use, are subjected to an impairment test at the end of each fiscal year. In this impairment test the carrying amount of the asset to be tested is compared with the recoverable amount. The recoverable amount is determined for each asset individually or, if this is not possible, for the cash-generating unit (CGU) an asset is allocated to. If the carrying amount is greater than the recoverable amount, the recoverable amount is impaired with effect on profit and loss. Impairment expenses (for goodwill, other intangible assets and property, plant and equipment) are reported in the consolidated statement of income under the item Amortization of Intangible Assets and Property, Plant and Equipment; reversals are reported in Other Operating Income.

If the preconditions for an impairment on property, plant and equipment or intangible assets already carried out in previous periods are no longer applicable, a reversal is made with effect on profit and loss up to a maximum of the amortized acquisition or production costs, if the relevant IFRS does not prescribed a different procedure.

Accounting for Leases

For information on recognition of lease agreements, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *15. Property, Plant and Equipment*.

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	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 fiscal year	-758	-3,733	-674	-	-5,615
Write-downs	-	-450	-	-	-450
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 12/31/2015	**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
As at 1/1/2016	**10,262**	**22,402**	**2,593**	**6,041**	**41,298**
Change in the companies included in the consolidated financial statements	-	1,948	209	-	2,157
Depreciation and amortisation in the fiscal year	-873	-4,293	-904	-	-6,070
Additions	217	5,922	951	3,531	10,621
Transfers	-	1,482	16	-1,579	-81
Disposals	-	-487	-51	-	-538
As at 12/31/2016	**9,606**	**26,974**	**2,814**	**7,993**	**47,387**
Acquisition and production costs	13,234	41,065	5,681	7,992	67,972
Depreciation/amortisation	-3,628	-14,090	-2,867	-	-20,585

The Nanogate Group's land and buildings which are not leasehold improvements were evaluated by an independent expert in the 2015 fiscal year to determine the fair value. The fair values were determined using the comparative value method (level 2 of the fair value hierarchy as defined by IFRS 13; see also Note *30. Disclosures on Financial Instruments for information on the rating levels*. If the land and buildings were measured at amortized acquisition or production costs, the residual carrying amount as at the reporting date would be TEUR 5,151 (previous year: TEUR 5,370).

The additions to property, plant and equipment totaling TEUR 10,621 (previous year: TEUR 16,186) are the result of ongoing investment activity during the 2016 fiscal year. The additions arising from the changes to the companies included in the consolidated financial statements are due to the acquisition of the Goletz Group. In the previous year, the additions also resulted from the revaluation of land and buildings of TEUR 740. Disposals of TEUR 538 (previous year: TEUR 420), amortization of TEUR 6,070 (previous year: TEUR 5,165) and impairments of TEUR 0 (previous year: TEUR 450) also arose during the fiscal year. There were no reversals during either the 2016 fiscal year or during the previous year.

Property, plant and equipment includes leased assets (finance leases) with a residual carrying amount as at the reporting date of TEUR 14,800 (previous year: TEUR 10,497).

The bank loans recognized under financial liabilities are secured to the amount of TEUR 2,607 (previous year: TEUR 7,624) by machinery and equipment as at the reporting date.

Significant Accounting Methods and Estimations and Assumptions:

Property, Plant and Equipment

Property, plant and equipment is recognized at acquisition or production costs less the accumulated amortization on a straight-line basis and any accumulated impairment losses. The acquisition costs include the expenses directly attributable to the acquisition. Subsequent acquisition or production costs are then only capitalized if the Nanogate Group is likely to receive a future economic benefit as a result and the costs can be reliably determined. If the acquisition or production phase for property, plant and equipment continues for a longer period, the interest on borrowed capital until completion is capitalized as part of the acquisition or production costs in line with IAS 23. 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.

Land and buildings are measured at fair value less accumulated amortization on a straight-line basis on buildings and accumulated impairments on the date of the revaluation. The measurement is taken by external experts at suitably regular intervals to ensure that the carrying amount of a revalued asset does not deviate significantly from its fair value. Increases in value from the revaluation identified by a valuation report are recognized in other income and in equity in the revaluation reserve. However, an increase in value is recognized in profit and loss to the extent to which it reverses an impairment previously recognized in profit and loss on the same asset due to a revaluation. Impairments are always recognized in profit and loss with the exception of those impairments that compensate for a value growth from the revaluation of an asset previously recognized in the revaluation reserve. The revaluation reserve that is to be allocated to an asset is transferred to retained earnings in full upon disposal or retirement of the asset.

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

The calculation of straight-line basis amortization was based on the useful economic lives shown in the table below.

	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

Impairment of Assets

For information on impairment of property, plant and equipment, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *14. Intangible Assets*.

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 rewards and risks associated with ownership are transferred to the lessee under the lease agreement.

Assets held under a finance lease are capitalized at the beginning of the lease agreement with the lower of the fair value of the leasing object and the present value of the minimum lease payments. The corresponding liability to the lessor is reported in the consolidated statement of financial position as obligations from finance leases within other financial liabilities. A lease object leased under a finance lease is amortized over the useful economic life of the asset.

The lease payments arising from finance leases are allocated to financing costs and the repayment portion of the residual debt, so as to ensure a constant rate of interest on the outstanding debt. The financing costs are recognized in profit and loss in financing expenses in the consolidated statement of income, while the repayment portion reduces the residual debt.

Material estimations and assumptions are made when evaluating leases, with regard to exercising lease extension options and in selecting the discounting rate. In the Nanogate Group, leases are always evaluated on the assumption that extension options are exercised. The discount rate used corresponds to the respective marginal interest rate on borrowed capital.

An operating lease agreement is a lease agreement that is not a finance lease. Lease payments for operating lease agreements are recognized over the term of the lease agreement on a straight-line basis as operating expenses in the consolidated statement of income.

16. Other Financial Assets

Noncurrent Other Financial Assets

The recognized noncurrent other financial assets as at the reporting date consist mainly of loans of TEUR 582 with a term to maturity of more than one year (previous year: TEUR 539).

Current Other Financial Assets

As at the reporting date, current other financial assets mainly include interim financing of a major order totaling TEUR 350 (previous year: TEUR 350) that will be concluded in part only as of 2017, the assignment of accounts receivable of TEUR 1,435 (previous year: TEUR 602) as part of factoring, as well as receivables from bonus agreements of TEUR 235 (previous year: TEUR 247).

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

There were no interest rate or currency risks as at the reporting date.

The arrears relating to the (current and noncurrent) financial assets as at the reporting date of the fiscal year and of the previous year are presented in the table below.

	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
12/31/2016	2,832	2,832	-	-	-	-
12/31/2015	2,034	2,034	-	-	-	-

Significant Accounting Methods and Estimations and Assumptions:

Financial assets consist of loans and receivables, equity and debt securities acquired and cash and cash equivalents with positive fair values. Financial assets are reported in the consolidated statement of financial position if the Nanogate Group is contractually entitled to receive cash or other financial assets from a third 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 on the acquisition of financial assets measured at fair value through profit and loss are recognized directly in the income statement.

Receivables that do not bear interest, or do so at below-market rates, are initially recognized at the present value of the expected future cash flows.

The subsequent measurement of financial assets is dependent upon their classification in the measurement categories of IAS 39. This differentiates between:

- Financial assets measured at fair value recognized as income
- Loans and receivables
- Financial assets held to maturity
- Financial assets available for sale

Financial assets measured at fair value recognized as income include derivative financial assets held for trading and are not involved in a hedging relationship. Financial assets measured at fair value recognized as income are always recognized at fair value. Value fluctuations must be recognized as income in financial income or expenses. Derivative financial instruments are measured at fair value on the basis of market prices derived from an active market.

Loans and receivables are nonderivative financial assets that are not traded on an active market. Loans and receivables are measured at amortized cost using the effective interest method. The measurement category “loans and receivables” includes trade receivables, financial receivables and loans included in other financial assets as well as cash and cash equivalents. The financial income from the financial assets allocated to the loans and receivables category is determined using the effective interest method, except in the case of current receivables or if the effect of calculating interest is nonessential.

As in the previous year, there were no *financial assets held to maturity* as at the reporting date.

Available-for-sale financial assets encompass those nonderivative financial assets that have not been allocated to one of the three categories listed above (residual category). These are in particular equity securities (e.g. shares) and debt securities not held to maturity.

Available-for-sale financial assets are subsequently measured at fair value. Changes to the fair value are recognized without affecting the operating result in other income. Changes in fair value are recognized in profit or loss when the assets are either disposed of or subject to an impairment. An impairment must be recognized in profit and loss if the fair value is significantly below the amortized cost over a long period of time. In cases where the market value of equity and debt securities can be determined, this is recognized as fair value. If there is no quoted market price and the fair value cannot be reliably estimated, the available-for-sale financial assets are recognized at amortized cost less the accumulated impairment losses.

If there are objective, substantive indications that financial assets in the 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, an impairment in the amount of the difference is made in profit and loss.

Indications of impairment include operating losses at the company for several years in succession, a diminished market value, a substantial decline in creditworthiness, the high probability of insolvency, other forms of financial restructuring by a debtor or the disappearance of an active market. If the preconditions for an impairment already carried out in previous periods are no longer applicable, a reversal is made up to a maximum of the amortized acquisition or production costs; no reversals for equity instruments available for sale are made.

Financial assets are derecognized if the contractual right to payments from the financial assets no longer exist or the financial assets have been transferred with all significant opportunities and risks.

17. Deferred Tax Assets and Liabilities

	Consolidated statement of financial position		Consolidated income statement	
	12/31/2016	12/31/2015	2016	2015
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Intangible assets	-	-	-	-2
Property, plant and equipment	-	-	-	-
Inventories	70	27	5	2
Other assets	-	2	-6	-15
Pension provisions	208	191	-	-3
Other provisions	214	140	22	-66
Other liabilities	2,108	2,520	-613	860
Loss carryforwards	6,973	5,517	1,354	932
Deferred tax assets	9,573	8,397	762	1,708
Intangible assets	-3,817	-3,403	-291	-203
Property, plant and equipment	-4,146	-4,222	461	-1,028
Trade receivables	-12	-15	4	-4
Other assets	-3	-	-3	-
Pension provisions	-	-	-	-
Other provisions	-13	-30	17	15
Other liabilities	-	-	-	-
Loss carryforwards	-	-	-	-
Deferred tax liabilities	-7,991	-7,670	188	-1,220
Net deferred taxes, deferred tax assets	1,582	727	950	488
(tax expense -; tax income +)				
Reported in the balance sheet as follows:				
Deferred tax assets	6,096	4,021		
Deferred tax liabilities	-4,514	-3,294		
Deferred tax assets, net	1,582	727		

The calculation of deferred tax assets and liabilities 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 December 31, 2016, 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. The respective country specific tax rates were used to calculate the deferred tax assets and liabilities for the foreign companies.

The change in deferred tax assets compared with the previous year results essentially from the tax income (TEUR 950) recognized in the consolidated statement of income of Nanogate AG, from the tax deferrals (TEUR 59) recognized directly in equity and from the balance of tax deferrals from the purchase price allocation of Walter Goletz GmbH (TEUR -154).

Based on past experience and the expected taxable income, the Nanogate Group assumes that the corresponding benefits from the deferred tax assets may be realized. The tax loss carry-forwards amount to TEUR 22,539 for the 2016 fiscal year (previous year: TEUR 18,102). As a result, deferred tax assets on loss carry-forwards amounting to TEUR 6,924 (previous year: TEUR 5,517) are reported in Nanogate AG's consolidated statement of financial position as at December 31, 2016. Furthermore, there are deferred tax assets from future taxable expenses eligible for offset amounting to TEUR 49 (previous year: TEUR 0). On the basis of positive estimations about the future business development, Nanogate AG anticipates with reasonable certainty that the tax income will be sufficient to realize the capitalized 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 TEUR 52 (previous year: TEUR 26), 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.

Significant Accounting Methods and Estimations and Assumptions:

Pursuant to IAS 12, deferred taxes are formed for all temporary differences between the valuations of the tax balance sheet and the IFRS balance sheet. In the event of the asset being realized 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 always be recognized on loss carry-forwards if it is expected that these can probably be used in future. The deferrals are carried out for the amount of the likely tax burden or relief in subsequent fiscal years on the basis of the tax rate prevailing at the time of utilization.

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 recognized in profit and loss. Pursuant to 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 recognized directly in equity. In this case, the taxes are also recognized without effect on profit and loss.

The estimates with regard to deferred taxes on loss carry-forwards 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.

18. Inventories

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Raw materials and supplies	4,756	3,387
Work in progress	3,742	1,536
Finished goods and merchandise	3,948	2,550
	12,446	7,473

The 2016 fiscal year resulted in an impairment of inventories of TEUR 39 (previous year: TEUR 0). The loans from banks recognized under financial liabilities are secured with inventories in the amount of TEUR 844 (previous year: TEUR 969).

Significant Accounting Methods and Estimations and Assumptions:

Inventories are recognized at their date of addition at the acquisition or production costs on the basis of the first-in-first-out method. 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. As at the reporting date, the inventories are recognized at the lower of acquisition and production costs and net realizable value.

19. Trade Receivables

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Domestic receivables	5,178	4,407
Foreign receivables	5,875	1,571
	11,053	5,978
Impairments on at-risk receivables	-314	-252
	10,739	5,726

As part of subsequent measurement of trade receivables, any impairments that may be necessary are taken into account (amortized cost). The value adjustments account for the possible default risk. In addition, there are no other significant risks relating to credit worthiness, change in interest rate or currency as at the reporting date.

Changes to the impairments during the 2016 fiscal year and during the previous year are shown in the table below.

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Position at the start of the year	252	83
Change in the companies included in the consolidated financial statements	17	-
Utilisation of impairments	-14	-15
Reversal of impairments	-93	-
Allocation of impairments	152	184
Position at the end of the year	314	252

Before accepting an order from a new customer, the Nanogate Group uses information provided by an external credit check to assess the credit worthiness of potential customers and to determine the individual credit limit for those customers. The value adjustment of doubtful receivables comprises estimations and assessments of individual receivables relating to the credit worthiness of the respective customer, the current economic developments and the analysis of historical receivables losses. In addition, all changes in a customer's credit worthiness between granting the credit period and the reporting date are taken into account in determining the recoverable value of trade receivables. The Management Board is of the opinion that no risk provision is necessary beyond the impairment already recognized.

The following listed arrears resulted from the current trade receivables.

	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
12/31/2016	10,739	7,957	2,421	156	96	48
12/31/2015	5,725	3,350	1,819	214	6	19

As at the reporting date of the fiscal year, loans from banks of TEUR 0 (previous year: TEUR 0) reported in financial liabilities were secured with trade receivables.

Significant Accounting Methods and Estimations and Assumptions:

Trade receivables represent financial assets.

For information on recognition of trade receivables, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *16. Other Financial Assets*.

The value adjustment of doubtful trade receivables encompasses estimations about the customer's credit worthiness. The anticipated allowances may vary in case of a deterioration in the financial figures of customers.

20. Current Other Assets

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Prepayments/payments on account/prepaid expenses	1,768	606
Sales tax and other taxes	641	507
Creditors with debit balances	378	44
Receivables from staff	4	3
Other	22	14
	2,813	1,174

Significant Accounting Methods and Estimations and Assumptions:

Other assets are assets that are based on a contract which does not simultaneously lead to a financial asset in the case of one company, and to a financial liability or to an equity instrument in the case of another company. In particular, these include assets that arise on the basis of legal regulations, as well as accruals deferrals and prepayments. Other nonfinancial assets are posted or reversed according to performance.

The value adjustment of doubtful receivables encompasses estimations about the customer's credit worthiness. The anticipated allowances may vary in case of a deterioration in the financial figures of customers.

21. Cash and Cash Equivalents

The cash and cash equivalents of TEUR 22,578 (previous year: TEUR 22,743) reported as at the reporting date in the consolidated statement of financial position of Nanogate AG include exclusively cash balances and current accounts 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 have a residual term – calculated from the date of acquisition – of no more than three months.

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 already accrued as at the reporting date but not yet settled is reported in other current financial assets. The financing income from cash and cash equivalents amounts to TEUR 5 for the 2016 fiscal year (previous year: TEUR 12).

Changes to cash allocated to cash and cash equivalents according to IAS 7 are shown in the consolidated statement of cash flows.

Significant Accounting Methods and Estimations and Assumptions:

Cash and cash equivalents include cash balances and immediately available bank balances that have a residual term of no more than three months calculated from the date of acquisition. Cash and cash equivalents are measured at face value.

For information on recognition of cash and cash equivalents, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *16. Other Financial Assets*.

For information on the treatment of cash and cash equivalents in foreign currency, please refer to the details on currency translation in Note *3. Presentation of the Significant Accounting Methods*.

22. Equity

The consolidated statement of changes in equity includes a detailed presentation of Group equity and its individual components.

Subscribed Capital

Following resolutions of the Management Board dated June 29 and July 13, 2016, the approvals of the Supervisory Board on July 8 and 14, 2016 and entry into the commercial register on July 19, 2016, a capital increase from authorized capital was effected by issuing 331,454 new shares for cash. This increased share capital from EUR 3,377,716.00 to EUR 3,709,170.00.

Following a resolution of the Management Board dated June 20, 2016, the approval of the Supervisory Board on June 22, 2016 and entry into the commercial register on August 10, 2016, a capital increase from EUR 3,709,170.00 to EUR 3,784,178.00 from authorized capital was effected by issuing 75,008 new shares for subscription in kind.

At the same time, 9,055 new shares were issued in 2016 from conditional capital to holders of subscription rights. This increased share capital from EUR 3,784,178.00 to EUR 3,793,233.00. The capital increase from the conditional capital was entered in the commercial register on March 1, 2017. Subscribed capital was therefore set at EUR 3,793,233.00 as at December 31, 2016. It is divided into 3,793,233 no-par-value bearer shares with an arithmetical share of the company's subscribed capital of EUR 1.00 per share.

Conditional Capital

The conditional capital (pursuant to resolutions from previous years) was changed, i.e. new conditional capital was created (Conditional Capital I – IV) through resolutions of the shareholders' meeting of June 26, 2014 and June 19, 2012. The conditional capital increases serve to fulfill subscription rights from the issue of new no-par-value bearer shares. The subscription rights are granted to members of the management and employees of the company and with affiliated companies as part of stock option plans (see Note *23. Share-based remuneration*).

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.

As at December 31, 2016 the conditional capital totals EUR 258,126.00 (previous year: EUR 267,181.00). This comprises:

- Conditional capital I of EUR 0.00 (previous year: EUR 0.00)
- Conditional capital II of EUR 13,170.00 (previous year: EUR 17,325.00)
- Conditional capital III of EUR 55,200.00 (previous year: EUR 60,100.00)
- Conditional capital IV of EUR 189,756.00 (previous year: EUR 189,756.00).

The change from the previous year is exclusively the result of subscription rights actually exercised in 2016.

Authorized Capital

The authorization 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 1,597,993.00 in one or several stages up to June 17, 2020 was revoked by the resolution passed at the shareholders' meeting on June 29, 2016.

At the same time, with the agreement of the Supervisory Board, the company's Management Board was authorized by the shareholders' meeting held on June 29, 2016 to increase the company's share capital in one or more stages by June 28, 2021 by up to a total of EUR 1,688,858.00 by issuing a maximum of 1,688,858 new no-par-value bearer shares with a proportional share of EUR 1.00 in the share capital against contributions in cash or kind (Authorized Capital I). Shareholders must be granted subscription rights. However, subject to the approval of the Supervisory Board, the Management Board is authorized 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 coming into effect of authorized capital I or – if this is lower – of the available share capital resulting from the utilization of authorized capital I at the time of the resolution; the utilization of the 10 % limit and the preclusion of subscription rights must take account of other authorization 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.

Authorized capital 2016/I amounts to EUR 1,688,858.00 as at the reporting date.

Capital Reserves

The capital reserves reported are essentially capital reserves of TEUR 54,298 (previous year: TEUR 42,281), which were gradually built up through the business activities and which were reduced by the costs of the equity procurement of TEUR 1,821 (previous year: TEUR 1,725).

The capital reserves also include the carrying amount of the obligations arising from one of the stock option programs issued by Nanogate AG amounting to TEUR 746 (previous year: TEUR 631) (see also Note 23. Share-based remuneration).

Other Reserves

The other reserves include the reserve for the revaluation of property, plant and equipment amounting to TEUR 1,306 (previous year: TEUR 1,402) and the reserve for actuarial gains and losses from benefit obligations following termination of employment relationship amounting to TEUR -294 (previous year: TEUR -253).

The changes to other reserves during the 2015 fiscal year are shown below.

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 January 1, 2015	**244**	**-233**	**11**
Transaction with noncontrolling 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 December 31, 2015	**1,402**	**-253**	**1,149**
Transfer to retained earnings, net	-96		-96
Other comprehensive income/actuarial gains and losses, net	-	-41	-41
As at December 31, 2016	**1,306**	**-294**	**1,012**

Retained Earnings

For information on the changes to retained earnings during the fiscal year and the previous year, please refer to the consolidated statement of changes in equity.

Noncontrolling Interests

For more information on noncontrolling shares, please refer to the details in Note 3. Presentation of the Significant Accounting Methods (Changes to the Companies included in the Consolidated Financial Statements) and to the details in Note 34. Events after the Balance Sheet Date December 31, 2016.

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 2016 fiscal year as calculated in accordance with the principles of the German Commercial Code (HGB). This would result in a dividend payout totaling TEUR 417 (previous year: TEUR 372). A dividend of EUR 0.11 per share was paid for the 2015 fiscal year.

23. Share-based Remuneration

The shareholders' meetings of June 16, 2010 and June 19, 2012 agreed a stock option program, and in this connection the creation of conditional capital (Conditional Capital II) of EUR 75,910.00 (currently: EUR 24,850.00) ("2010 Stock Option Plan"), on the basis of which the Supervisory Board or Management Board is authorized, with the approval of the Supervisory Board, to issue subscription rights (stock options) in tranches on the subscription of up to 24,850 shares to holders of subscription rights. Based on this authorization, stock options to subscribe for a total of 24,850 shares were issued to entitled shareholders. 11,680 stock options from the 2010 Stock Option Plan have so far been exercised and none of the stock options issued has so far expired. As at the reporting date, there are therefore stock options to subscribe to the maximum of 13,170 (previous year: 17,325) no-par-value bearer shares from the 2010 Stock Option Plan.

The shareholders' meetings of June 19, 2012 and June 26, 2014 agreed by resolutions a stock option program, and in this connection the creation of conditional capital (Conditional Capital III) of EUR 133,082.00 (currently: EUR 60,100.00) (2012 Stock Option Plan), on the basis of which the Supervisory Board or Management Board is authorized, with the approval of the Supervisory Board, to issue subscription rights (stock options) in tranches on the subscription of up to 60,100 shares to holders of subscription rights. Based on this authorization, stock options to subscribe for a total of 60,100 shares were issued to entitled shareholders. 4,900 stock options from the 2012 Stock Option Plan have so far been exercised and none of the stock options issued has so far expired. As at the reporting date, there are therefore stock options to subscribe to the maximum of 55,200 (previous year: 60,100) shares from the 2012 Stock Option Plan.

The shareholders' meeting of June 26, 2014 agreed a stock option program, and therefore the creation of conditional capital (Conditional Capital IV) of EUR 189,756.00 (2014 Stock Option Plan), on the basis of which the Supervisory Board or Management Board is authorized, with the approval of the Supervisory Board, to issue subscription rights (stock options) in one stage or in tranches on the subscription of up to 189,756 shares to holders of subscription rights. 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 June 25, 2019 and must otherwise be during an issue period. Based on this authorization, 90,750 stock options were issued to entitled shareholders for the first time in 2016.

Stock options are issued to managers and selected employees. There are three extended and not yet expired tranches as at the reporting date. The exercise period per tranche was set at three years, although a four-year blocking or waiting period was agreed for all tranches. The changes to the number of outstanding stock options and the applicable weighted average exercise prices during the fiscal year are presented in the table below.

	2016		2015	
	Weighted average exercise price per option in EUR	Options	Weighted average exercise price per option in EUR	Options
As at: January 1	17.81	77,425	17.74	83,989
Granted	33.16	90,750	-	-
Expired	-	-	15.86	-2,677
Exercise waived	-	-	-	-
Exercised	18.80	-9,055	17.67	-3,887
As at: December 31	26.51	159,120	17.81	77,425

Of the 159,120 outstanding options (previous year: 77,425), 68,370 can be exercised (previous year: 17,325). Options exercised in 2016 resulted in the issue of 9,055 shares (previous year: 3,887) at an average price of EUR 18.80 per share (previous year: EUR 17.67). The weighted average share price at the time of exercising was EUR 34.38 (previous year: EUR 36.64). The corresponding transaction costs amounted to TEUR 3 (previous year: TEUR 6) and were offset against the revenues received.

The expiration dates and exercise prices of the stock options outstanding at the end of the 2016 fiscal year can be seen in the table below.

Granting/exercise	Expiry date	Exercise price per share in EUR	Shares 2016	Shares 2015
2011-2015	10/19/18	21.07	13,170	17,325
2012-2016	10/20/19	16.87	55,200	60,100
2014-2020	10/20/23	33.16	90,750	-
			159,120	77,425

90,750 new stock options were issued to entitled shareholders from the 2014 Stock Option Plan in the 2016 fiscal year. No new stock options were issued during the fiscal years 2013 through 2015. Significant parameters of the stock options issued in 2016 are the exercise price of EUR 33.16 (2012: EUR 16.87), a volatility of 42.0 % (2012: 44.0 %), a dividend yield of 0.33 % (2012: 2.0 %), a risk-free interest rate of 0.1 % (2012: 1.1 %) and an expected option period of 84 months (2012: 87 months). A period of five years (2012: five years) was set to determine the volatility of the standard deviation of stock yields with continuous interest. An employee fluctuation of 10 % (2012: 0 %) was assumed for the tranche issued. The fair value of the stock options granted during the 2016 fiscal year averaged EUR 14.29 per stock option (2012: EUR 7.67).

A total of TEUR 116 (previous year: TEUR 110) in expenses from share-based remuneration was recognized in personnel expenses during the 2016 fiscal year.

Significant Accounting Methods and Estimations and Assumptions:

Share-based remuneration for employees of the Nanogate Group comprises remuneration schemes that are settled with equity instruments. The stock option programs issued by Nanogate AG must therefore be classified as equity-settled transactions as defined by IFRS 2. According to IFRS 2, share-based remuneration programs that allow fulfillment in shares must be measured at fair value as at the grant date (direct measurement). Since the fair value cannot be reliably determined, the fair value of the equity instruments at the time they were granted (indirect measurement model using option price model) must be used. The Black Scholes model is used here as option price model. The associated expenses are recognized across the earning period in personnel expenses with effect on profit and loss and offset against the capital reserves.

24. Pension Provisions

Defined-benefit Pension Plans

The Nanogate Group operates defined-benefit plans relating to company pension entitlements for eligible employees of the subsidiary Nanogate GfO Systems AG. The company pension provision is financed by plan assets and by carrying a pension provision as a liability in the case of deficient cover. In the case of the subsidiary Nanogate GfO Systems AG, the defined-benefit plans concern Christmas payments for (future) pensioners, nonlapsable expectancies 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 September 30, 1993. The actuarial measurement of the present value of the defined-benefit obligations of subsidiary Nanogate GfO Systems AG was performed as at December 31, 2016 by Denneberg & Denneberg GbR, Heidelberg. The fair value of plan assets was substantiated by a confirmation of insurance as at December 31, 2016. The anticipated earnings were determined on the basis of the expected earnings of the assets in accordance with the current investment policy.

Pension obligations are as follows after being offset against plan assets as at the reporting date of the current fiscal year and of the previous year.

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Present value of defined-benefit obligations	1,530	1,471
Fair value of plan assets	510	479
Recorded provision	1,020	992

Changes to the pension obligations during the 2016 fiscal 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: 1/1/2016	**1,471**	**-479**	**992**
Ongoing service cost	8	-	8
Interest expense/interest income	35	-9	26
	43	-9	34
Revaluations:			
Income from plan assets excluding amounts included in the interest listed above	-	-10	-10
Actuarial gains arising from changes in the financial assumptions	67	-	67
	67	-10	57
Contributions:			
Employer	-	-26	-26
Ongoing payments made from the plan	-51	13	-38
As at: 12/31/2016	**1,530**	**-511**	**1,019**

The pension obligations changed during the 2015 fiscal year as shown below.

Development of pension obligations	Present value of obligation	Fair value of plan assets	Total
	EUR ,000	EUR ,000	EUR ,000
As at: 1/1/2015	**1,109**	**1,550**	**-441**
Ongoing service cost	9	9	-
Interest expense/interest income	20	31	-11
	29	40	-11
Revaluations:			
Income from plan assets excluding amounts included in the interest listed above	-4	-	-4
Actuarial losses arising from changes in the financial assumptions	-78	-78	-
Actuarial gains arising from empirical adjustments	-	-	-
	-82	-78	-4
Contributions:			
Employer	-32	-	-32
Ongoing payments made from the plan	-32	-41	9
As at: 12/31/2015	**992**	**1,471**	**-479**

As at the valuation date, the present value of defined benefit obligations encompassed TEUR 590 (previous year: TEUR 510) relating to active employees, TEUR 82 (previous year: TEUR 312) relating to former employees and TEUR 858 (previous year: TEUR 649) relating to employees in retirement. All pension commitments are nonlapsable.

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

The material actuarial assumptions made can be seen in the table below.

	12/31/2016	12/31/2015
	%	%
Discount rates	1.90	2.40
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 December 31, 2016 is 13.8 years (previous year: 13.8 years).

The actual income from plan assets is TEUR 19 (previous year: TEUR 14).

TEUR 107 is expected to be paid into defined benefit plans in the 2017 fiscal 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 sensitivity analysis below clarifies the effect of singular parameter changes on the present value of the defined benefit obligation.

	Effect on the defined-benefit obligation	
	2016	2015
	EUR ,000	EUR ,000
Assumptions for the pension plan		
Discount rate:		
Increase of 0.5 %	-95	-90
Decrease of 0.5 %	105	100
Future pension increases:		
Increase of 0.25 %	49	46
Decrease of 0.25 %	-47	-44
Life expectancy:		
Increase of 1 year	55	50
Decrease of 1 year	-55	-50

The sensitivities for the relevant actuarial assumptions are calculated using the same method (determining the present value according to the projected unit credit method) as that used to calculate the pension obligations as at the reporting date. The sensitivity calculations are based on the average term of the pension obligations determined as at the reporting date. The sensitivity analysis is based on a change to one of the significant actuarial assumptions where all other assumptions remain the same. It is therefore possible that the sensitivity analysis is not representative of the actual change to the defined-benefit obligation, since it is unlikely that changes to the assumptions occur in isolated cases.

Defined-contribution Plans

Payments of TEUR 2,175 (previous year: TEUR 1,664) were made to the statutory pension scheme in the reporting year as well as TEUR 354 (previous year: TEUR 282) to the company pension scheme. These are defined-contribution pension plans.

Significant Accounting Methods and Estimations and Assumptions:

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 (exclusively the interest on the net debt), are recognized directly in other comprehensive income. The revaluations recognized in other income are a component of other reserves and are reclassified in the subsequent periods in the consolidated statement of income no longer with effect on profit and loss. Past service cost is recognized as personnel expenses if the plan amendment occurs.

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 gains or losses from the plan amendment, curtailment or settlement)
- Net interest expenses or income on the net debt or the net asset value
- Revaluation of the net debt all the net asset value

The Nanogate Group reports the service cost in the consolidated statement of income within personnel expenses, and the net interest expenses are reported in financial income and expenses. Profit or losses from plan curtailments or plan settlements are recognized directly in profit and loss.

The payments for contribution-based pension plans are recognized as personnel expenses with effect on profit and loss, if the work has been performed by the eligible employee.

The reserves for pension obligations reported in the balance sheet are determined in line with actuarial models relating to material assumptions such as discounting factors, mortality rates, salary and pension trends.

25. Other Provisions

The short and long-term other provisions reported in the Nanogate AG consolidated statement of financial position are constituted as shown in the table below.

	As at: 12/31/2016			As at: 12/31/2015		
	Total	Non-current	Current	Total	Non-current	Current
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Cost of personnel*	222	201	21	220	199	21
Customers and suppliers**	3,816	-	3,816	2,101	-	2,101
Litigation	1,280	-	1,280	500	-	500
Removal and dismantling obligations	94	94	-	92	92	-
Other provisions	1,212	119	1,093	1,328	89	1,239
	6,624	414	6,210	4,241	380	3,861

** primarily includes provisions for anniversaries*

*** primarily includes provisions for warranties*

The changes in the individual provision categories (summarized as short and long-term provisions) during the 2016 fiscal year are shown below.

	Cost of personnel	Customers and suppliers	Litigation	Removal and dismantling obligations	Other provisions	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
As at 1/1/2016	**220**	**2,101**	**500**	**92**	**1,328**	**4,241**
Changes to companies included in the consolidated financial statements	-	465	-	-	27	492
Utilisation	-5	-700	-30	-1	-1,053	-1,789
Addition / creation	7	2,214	812	-	1,065	4,097
Interest effects	-	-	-	3	-	3
Reversal	-	-264	-2	-	-154	-420
As at 12/31/2016	222	3,816	1,280	94	1,212	6,624

The provisions for legal disputes result essentially from possible payment obligations arising from claims for damages as part of ongoing proceedings as well as from the associated court costs and legal expenses.

In addition to the provisions for bonus and commission payments, the provisions for obligations arising from customers and suppliers essentially include provisions for warranty issues.

Other provisions essentially include provisions for annual accounting and auditing costs, the safekeeping of annual financial statement documents as well as for costs of the shareholders' meeting.

Significant Accounting Methods and Estimations and Assumptions:

According to IAS 37, a provision is then recognized if the Nanogate Group has a current obligation (legal or effective) due to a past event, the outflow of resources with economic benefits required to settle the obligation is likely, and a reliable estimation of the amount of the obligation is possible. The amount to be recognized as a provision in liabilities represents the best estimate of the expenditure required to settle the present obligations at the reporting date. Provisions which do not already 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. Interest rates before taxes, which take into account the current market expectations with regard to the interest effect and the risks specific to the obligation, are used to calculate the present value of a provision. In the case of discounting, the increase in the provisions over the course of time is recognized as financial expenses.

Provisions are not set off against rights of recourse. The provisions for guarantees are recognized on the basis of past experience. Provisions for dismantling and removal are recognized at the discounted amount necessary to settle the obligation, and property, plant and equipment is increased by the same amount (leasehold improvements). The capitalized removal and dismantling costs in the subsequent periods are amortized over the expected (residual) useful life of the leasehold improvements. In addition, the provision is discounted on an annual basis and the corresponding interest effects recognized in financial expenses.

The creation of other provisions such as for litigation, taxes, rebates, and guarantees may be largely associated with assumptions. The Nanogate Group 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.

26. Financial Liabilities

The financial liabilities reported are liabilities to banks amounting to TEUR 37,137 (previous year: TEUR 38,266) in total. Of these, financial liabilities of TEUR 6,379 (previous year: TEUR 6,589) have a residual term of up to one year.

Total financial liabilities include secured liabilities to banks in the amount of TEUR 35,928 (previous year: TEUR 36,466).

Significant Accounting Methods and Estimations and Assumptions:

Financial liabilities are reported in the consolidated statement of financial position if the Nanogate Group is contractually obliged to transfer cash or other financial assets to a third party. All financial liabilities are measured at fair value on first-time recognition; less the directly allocable transaction costs in the case of loans and liabilities.

The subsequent measurement of financial liabilities is dependent upon their classification in the measurement categories of IAS 39 on their first-time recognition. Financial liabilities measured at fair value recognized as income are measured here at fair value with effect on profit and loss; all other financial liabilities are measured at amortized cost using the effective interest method.
Financial liabilities are derecognized if the obligation underlying liability is fulfilled, eliminated or ceases to exist.

For information on the treatment of liabilities in foreign currency, please refer to the relevant details on currency translation in Note *3. Presentation of the Significant Accounting Methods*.

27. Trade Payables

The trade liabilities reported of TEUR 7,524 (previous year: TEUR 5,192) all have a residual term of up to one year.

Significant Accounting Methods and Estimations and Assumptions:

Trade liabilities represent financial liabilities.

For information on recognition of trade payables, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *26. Financial Liabilities*.

28. Other Financial Liabilities

Of the other financial liabilities of TEUR 26,042 (previous year: TEUR 14,676) reported as at the reporting date, TEUR 11,615 (previous year: TEUR 8,782) is attributable to obligations from finance leases, of which TEUR 8,407 (previous year: TEUR 6,477) have a residual term of over one year. The other financial liabilities also include obligations carried as liabilities for the acquisition of the remaining shares in Nanogate PD Systems GmbH and purchase price obligations totaling TEUR 11,379 (previous year: TEUR 4,768) associated with the 2014 acquisition of Vogler GmbH & Co. KG (now: Nanogate Vogler Systems GmbH) and with the acquisition of Walter Goletz GmbH (now: Nanogate Goletz Systems GmbH) carried out in the reporting year. The current other financial liabilities essentially include provisions for outstanding bills of TEUR 2,566 (previous year: TEUR 962).

Of the other financial liabilities reported, TEUR 10,705 (previous year: TEUR 4,483) have a residual term of up to one year.

As at December 31, 2016 other financial liabilities do not include loans secured with machinery and equipment (previous year: TEUR 0).

Significant Accounting Methods and Estimations and Assumptions:

For information on recognition of other financial liabilities, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *26. Financial Liabilities*.

29. Other Liabilities

As at the reporting date, there are other liabilities of TEUR 6,113 (previous year: TEUR 5,583), of which TEUR 4,432 (previous year: TEUR 4,420) have a residual term of up to one year.

The noncurrent other liabilities include the special item for investment grants for assets of TEUR 84 (previous year: TEUR 104), accruals and deferrals from interest advantages associated with loans of TEUR 63 (previous year: TEUR 127) and personnel obligations of TEUR 1,534 (previous year: TEUR 932).

The current other liabilities mainly include personnel obligations of TEUR 3,308 (previous year: TEUR 3,016), liabilities for sales tax and other taxes of TEUR 640 (previous year: TEUR 596) and social security liabilities of TEUR 178 (previous year: TEUR 117). The current other liabilities also include payments received for customer projects of TEUR 244 (previous year: TEUR 626).

Significant Accounting Methods and Estimations and Assumptions:

Accruals and deferrals, advance payments and other nonfinancial liabilities are recognized at amortized cost. Other nonfinancial liabilities are reversed or derecognized as the performance obligation is discharged.

D. Other Notes

30. 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, liquidity and market risks (currency and interest rate risks). The Nanogate Group uses derivative financial instruments to hedge against certain risks.

The financial risk management system is presented, with its aims, methods and processes, in the risk report, which is part of the Group management report.

Default Risk

The default risk is the result of the danger that a contractual partner cannot meet its obligations in a transaction via a financial instrument, leading to financial losses for the Nanogate Group.

The amount of financial assets indicates the maximum default risk. If default risks are identifiable for financial assets, these risks are recognized 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 table below gives details of the financial liabilities according to their maturity periods, based on their residual terms at the balance sheet date. The analysis relates exclusively to financial instruments and liabilities from finance leases. These are nondiscounted cash flows, and it is therefore not possible to reconcile them with the sums included in the consolidated statement of financial position.

2016	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	6,440	7,490	19,891	3,522
Trade payables	7,524	-	-	-
Derivative financial instruments	-	-	-	-
Liabilities from finance leases	3,451	2,955	4,915	1,149
Other financial liabilities	7,498	1,900	5,300	-

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

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
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	-	-

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. The market risk includes currency risk and interest rate risk.

The sensitivity analysis is a method for quantifying the risk. Sensitivity analyses enable 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.

The Nanogate Group uses sensitivity analyses as they enable reasonable risk estimates to be made on the basis of direct assumptions. In its risk estimate, the Nanogate Group has assumed a parallel shift of 100 basis points in the yield curves for all currencies.

Currency Risk

The currency risk is caused by the fact that the value of a financial instrument can change as a result of fluctuations in the exchange rate. Both the Nanogate 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. This means that the fair values fluctuate in line with the capital market 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 2016. A hypothetical change in these interest rates of 100 basis points or 1 percentage point p.a. from January 1, 2016 onward would have either increased earnings by TEUR 354 or decreased earnings by TEUR 359 as at December 31, 2016.

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 optimizing the capital structure and cash flows from financing activities.

The valuations of the equity and the financial liabilities as at the reporting date of the fiscal year and of the previous year are listed in the table below.

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Equity	**65,823**	**51,286**
Share of total capital	42,1%	41,4%
Non-current financial liabilities	46,093	41,870
Current financial liabilities	17,085	11,072
Financial debt total	**63,178**	**52,942**
Share of total capital	40,4%	42,7%
Total capital	**156,424**	**123,849**

Risk Management

Due to the persistent good market and industry situation in the area of high-performance surfaces, the opportunities and risks policy is in particular oriented to achieving and securing sustainably profitable growth. For this to be achieved, prompt and timely reactions to changing market conditions are essential.

In the Nanogate Group, the risk management consists of a range of integrated planning, controlling and reporting systems. These encompass every area and segment of the company, including the portfolio companies, and are adjusted constantly to the changing underlying conditions. Risk management is an inseparable component of value-oriented corporate management 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. The Nanogate Group therefore identifies opportunities and risks within the Group relating to all material transactions and processes and strives to avoid risks in advance.

Information on Financial Instruments by Category

The financial assets and liabilities broken down into the measurement categories are shown in the table below.

Financial instruments in the balance sheet as at 12/31/2016	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
2016	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Financial assets						
Equity holdings not included in the consolidated financial statements *)	-	-	55	-	-	-
Loans	999	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Other financial assets	1,777	-	-	-	-	-
Trade receivables	10,739	-	-	-	-	-

Financial instruments in the balance sheet as at 12/31/2016	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
2016	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Cash and cash equivalents	22,578	-	-	-	-	-
Total	**36,093**	-	**55**	-	-	-
Financial liabilities						
Financial liabilities	-	-	-	-	37,137	-
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	4,198	10,229
Trade payables	-	-	-	-	7,524	-
Total	**-**	**-**	**-**	**-**	**48,859**	**10,229**

*) measured alternatively at cost pursuant to IAS 39.46 c

Financial instruments in the balance sheet as at 12/31/2015	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	-	-	-
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

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 at floating rates the carrying amounts correspond to the fair values. The fair values of the other financial liabilities were determined on the basis of the interest rates applicable on the reporting date for corresponding residual maturities, subject to available market information.

The fair value of fixed-interest liabilities is calculated as the present value of the future expected cash flows. The discounting is conducted on the basis of the interest rates applicable on the reporting date.

The carrying amounts and the fair values of the financial liabilities are presented in the table below.

	Carrying amount as at 12/31/2016	Fair value as at 12/31/2016	Carrying amount as at 12/31/2015	Fair value as at 21/31/2015
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Financial liabilities				
Financial liabilities	37,137	37,343	38,267	38,578

The table below contains a subdivision of the assets and liabilities recognized at fair value according to rating levels as defined by IFRS 13 (fair value hierarchy). The rating levels shown in the table are defined as follows:

Level 1: Financial instruments traded on active markets, whose prices were assumed 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.

2016	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	-	-	-	-
Financial assets available for sale				
Total assets	**-**	**-**	**-**	**-**
Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Contingent consideration	-	-	-10,229	-10,229
Total liabilities	**-**	**-**	**-10,229**	**-10,229**

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:				

2015	Level 1	Level 2	Level 3	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Contingent consideration	-	-	-4,831	-4,831
Derivative financial instruments	-	-27	-	-27
Total liabilities	**-**	**-27**	**-4,831**	**-4,858**

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

	2016	2015
	EUR ,000	EUR ,000
Financial assets and liabilities (balance)		
Net carrying amount of assets / liabilities (-) 1.1.	-4,801	-4,738
Additions to assets / liabilities (-)	-8,138	-
Disposals of assets (-) / liabilities	473	-
Gains / losses recognised in profit or loss (-)	1,237	-63
of which assets / liabilities held as at the balance sheet date	*1,237*	*-63*
Gains / losses recognised without effect on profit or loss (-)	-	-
of which assets / liabilities held as at the balance sheet date	-	-
Reclassifications	1,000	-
Net carrying amount of assets / liabilities (-) 12/31	-10,229	-4,801

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

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

	2016	2015
	EUR ,000	EUR ,000
Loans and receivables	-564	-217
Financial assets measured at fair value through profit or loss	-	-2
Financial assets available for sale	-30	-25
Financial assets held to maturity	-	-
Other financial liabilities at cost	-1,449	-1,759
Financial liabilities measured at fair value through profit or loss	1,271	-64
Total	**-772**	**-2,067**

Interest expenses for financial instruments amount to TEUR 1,646 (previous year: TEUR 1,662) for the 2016 fiscal year; the interest income amounted to TEUR 22 (previous year: TEUR 47).

The impairments of financial instruments measured at amortized cost amount to TEUR 638 (previous year: TEUR 283) in the 2016 fiscal year. The impairments of financial instruments held for sale amount to TEUR 30 (previous year: TEUR 25) in the 2016 fiscal year.

Significant Accounting Methods and Estimations and Assumptions:

For information on recognition of financial instruments, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *16. Other Financial Assets* and Note *26. Financial Liabilities*.

31. Notes on the Consolidated Statement of Cash Flows

Cash Flow from Operating Activities

Cash flow from operating activities amounts to TEUR 10,794 (previous year: TEUR 12,344) in the 2016 fiscal year. The decline is essentially due to the rise in tool orders not yet completed as at the balance sheet date.

Cash Flow from Investing Activities

The cash flow from investing activities is determined on a cash basis and amounts to TEUR -11,854 for the 2016 fiscal year (previous year: TEUR -9,620). The increase in cash flow from investing activities of EUR is essentially the result of payments occurring during the 2016 fiscal year, which did not occur in the previous year, for the acquisition of fully consolidated subsidiaries (TEUR -4,570), while the payments for investments in property, plant and equipment declined.

Cash Flow from Financing Activities

The cash flow from financing activities is determined on a cash basis and amounts to TEUR 895 for the 2016 fiscal year (previous year: TEUR 2,223).

For the breakdown of cash and cash equivalents, please refer to the details in Note *21. Cash and Cash Equivalents*.

Significant Accounting Methods and Estimations and Assumptions:

The cash flows of the fiscal year are recognized in the consolidated statement of cash flows in order to present information about the movements of cash and cash equivalents of the Nanogate Group during the fiscal year. Three areas are differentiated: ongoing business, investing and financing activities.

Cash flow from operating activities is determined using the indirect method by adjusting earnings before tax for noncash transactions and transactions allocable to the investing and financing area. Like cash flow from financing activities, the cash flow from investing activities is also calculated using the indirect method, i.e. by comparing gross receipts and expenditures.

32. Other Financial Obligations

As part of its business activities, the Nanogate Group has acquired working capital by concluding lease agreements, which are essentially limited to buildings and equipment. To a smaller extent, this also includes lease agreements for vehicles and hardware and software.

The contractual obligations (operating lease agreements and order commitments) of the Nanogate Group to third parties as at December 31, 2016 are as follows.

12/31/2016	Due			
	< 1 year	2 - 5 years	> 5 years	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Building rental agreement	3,102	11,420	5,955	20,477
Other rental/lease agreements	576	332	4	912
Order commitments	9,588	-	-	9,588
	13,267	11,752	5,959	30,977

The contractual obligations (operating lease agreements and order commitments) of the Nanogate Group to third parties in the previous year (December 31, 2015) were as follows.

12/31/2015	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
Order commitments	6,217	-	-	6,217
	9,794	8,626	5,080	23,499

In determining the terms of other financial obligations, the earliest possible notice periods were assumed for the unlimited rental and lease agreements.

Payments of TEUR 2,852 (previous year: TEUR 2,630) under leases and sub-leases were recognized as expenses in the reporting period in accordance with IAS 17.35.

Significant Accounting Methods and Estimations and Assumptions:
For information on recognition of operating lease agreements, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *15. Property, Plant and Equipment*.

33. Obligations from Finance Leases

The obligations from finance leases include obligations from finance leases for intangible assets, technical equipment and machinery as well as office and plant equipment. The periods of validity 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 7.2 % p.a. Obligations from finance leases are reported within other financial liabilities. Purchase and extension options at the end of the contractual term were agreed for some the existing lease agreements. Premature termination of the contracts is generally not envisaged. There are rights of tender for some of the finance leases entered into.

The obligations arising from finance leases (present value) are subdivided according to their residual term as shown in the table below.

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Due within one year	3,214	2,305
With a remaining term of more than one year and up to five years	7,678	6,258
With a remaining term of more than five years	723	219
	11,615	8,782

The minimum lease payments from the finance leases entered into are as follows as at the reporting date of the current fiscal year and of the previous year.

	12/31/2016	12/31/2015
	EUR ,000	EUR ,000
Due within one year	3,357	2,631
With a remaining term of more than one year and up to five years	7,563	6,109
With a remaining term of more than five years	620	203
	11,540	8,943
Less as yet unrealized interest expenses	-855	-770
Plus remaining lease liability	929	609
Present value of the minimum lease payments to be made	11,615	8,782

Significant Accounting Methods:
For information on recognition of finance leases, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *15. Property, Plant and Equipment*.

34. Events after the Reporting Date December 31, 2016

The Nanogate Group closed its acquisition of a majority stake in Jay Plastics, a division of the U.S. Jay Industries corporation, in January 2017. With the new acquisition, the Nanogate Group is expanding its access to the market, acquiring its own production capacities in North America and strengthening its technology portfolio. The company is a leading specialist in the U.S. for the high-quality enhancement of plastic surfaces and components. The company also has comprehensive expertise in the metalization of surfaces (PVD technologies) and in lighting systems. As an integrated provider, the company covers the entire value chain from the development of components to their production. Customers include well-known U.S. automotive groups and suppliers, as well as manufacturers from Japan and South Korea. Aside from the automotive industry, Jay Plastics also operates in other industries e.g. the domestic appliances industry. The existing management will continue to direct the company in the future. In addition, the Nanogate Group has established an advisory board for its new subsidiary. Jay Plastics was split off from its previous parent company Jay Industries and now operates under the name of Nanogate Jay Systems LLC.

The Nanogate Group also concluded the acquisition of the remaining shares in its subsidiary Nanogate PD Systems GmbH in January. Nanogate AG initially took over 35 % of the plastics specialist in 2012 and has since successively increased its equity holding in view of the favorable economic development. The subsidiary is already fully consolidated.

35. Number of Employees

The average number of employees of the Nanogate Group during the 2016 fiscal year and during the previous year is shown in the table below.

	2016	2015
Blue-collar employees	499	414
White-collar employees	198	158
	697	572
Apprentices	18	14
	715	586

The average number of employees was determined pro rata temporis, taking into account the date of first-time full consolidation of subsidiaries newly added to the companies included in the consolidated financial statements. The Management Board was not included in determining the average number of employees.

As at the reporting date, the Nanogate Group employed a total of 776 industrial employees and salaried staff (previous year: 593 industrial employees and salaried staff) and 22 trainees (previous year: 17 trainees).

36. Business Combinations

Majority Acquisition of Walter Goletz (now: Nanogate Goletz Systems) GmbH, Kierspe, Germany (75 %)

At the beginning of April 2016, Nanogate AG acquired 75 % of shares in Walter Goletz GmbH, a surfaces specialist from Kierspe (NRW) and indirectly 75 % of shares in Goletz Medical GmbH, also headquartered in Kierspe (NRW) as part of a share deal with participation agreement witnessed by notary. When the agreed closing conditions came into effect on May 18, 2016, Nanogate AG obtained a controlling influence on Walter Goletz GmbH, Kierspe, and over Goletz Medical GmbH, Kierspe (Goletz Group) from this date. Consequently, the companies were to be included in the consolidated financial statements of Nanogate AG from this date. For the purposes of first-time inclusion in the consolidated financial statements as part of the full consolidation, a revaluation of the assets, liabilities and contingent liabilities was carried out as at the acquisition date as part of the purchase price allocation.

Due to the contractual arrangement, the Management Board assumes that full consolidation is appropriate without disclosure of minority interests. A corresponding purchase price obligation of 25 % for the shares, which have not yet been legally transferred, has been recognized as a liability.

The fair values of the identifiable assets and liabilities of the Goletz Group as at the date of first-time inclusion are as follows.

Company acquisition Goletz group *The assets and liabilities acquired consist of the following:* *(as at April 30/May 1, 2016)*	Fair value (for 100 % shares)
	EUR ,000
Goodwill	12,306
Patents/technology/expertise	800
Other intangible assets	63
Property, plant and equipment	2,156
Inventories	2,375
Trade receivables and	3,963
other receivables	330
Cash and cash equivalents	3
Deferred tax assets	72
Total of assets acquired	**22,068**
Tax liabilities	-460
Other provisions	-790
Financial liabilities	-2,433
Trade payables and	-1,809
other liabilities	-1,393
Deferred tax liabilities	-226
Total of liabilities acquired	**-7,111**
Net assets acquired	**14,957**
Purchase price	**14,957**
of which paid for with cash and cash equivalents	4,500
of which equity instruments	2,319
of which purchase price liabilities	8,138

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 of the acquisition directly allocable to the acquisition of 75 % amount to TEUR 328. These were recognized as expenses in profit and loss. Cash and cash equivalents (TEUR -70) have been received as part of the acquisition, which increased the payment amount according to the consolidated statement of cash flows by TEUR 70 for the acquisition of consolidated companies.

The equity instrument used comprises 75,008 common shares issued in Nanogate AG. The fair value of the common shares, which represent a part of the consideration transferred for the acquisition of the Goletz Group, was determined using the publicly quoted price as at the date of issue of the shares.

The purchase price obligations recognized are conditional considerations of TEUR 4,334 for future payments to the former shareholders of the Goletz Group for the 75 % of the shares acquired and TEUR 3,804 for the 25 % of shares not yet legally transferred. If in the years 2016 through 2019 the acquired companies achieve a contractually defined, generated average EBITDA, the purchase price will be adjusted upwards to a nondiscounted maximum amount of TEUR 8,500. The fair value of this contingent consideration was recognized at the discounted expected value of TEUR 8,138. This is a measurement of the third rating level of the fair value hierarchy as defined by IFRS 13 (see also Note *30. Disclosures on Financial Instruments* for information on the rating levels).

Including the effects from the purchase price allocation and the integration costs, the acquired group contributed sales of TEUR 12,498 and net profit of TEUR 350 to Nanogate AG from the acquisition date through December 31, 2016. If the Goletz Group had already been fully consolidated by January 1, 2016, sales of TEUR 18,803 and profit of TEUR 590 would have been reported in the consolidated statement of income of Nanogate AG.

Majority acquisition of Nanogate Jay Systems LLC, Mansfield/Ohio, U.S. (80.01 %) after the balance sheet date December 31, 2016.

The Nanogate Group closed its acquisition of a majority stake in Jay Plastics, a division of the U.S. Jay Industries corporation, in January 2017. At this point in time, the Nanogate Group obtained a controlling influence, and consequently the company is to be included in the consolidated financial statements of Nanogate AG from this date. The acquired equity holding now operates as Nanogate Jay Systems LLC.

With the new acquisition, the Nanogate Group is expanding its access to the market, acquiring its own production capacities in North America and strengthening its technology portfolio. The purchase price for 80.01 % of the shares amounts to USD 57,436,604.12. USD 14,402,753.76 of this were paid in Nanogate shares. The associated capital increase against contributions in kind was implemented in January 2017, so that the share capital increased by EUR 382,947.00 to EUR 4,167,125.00, accordingly divided into 4,167,125 shares. The new shares will only be entitled to profits from the 2017 fiscal year. The purchase agreement for Jay Plastics includes performance-based components as part of a graduated pricing model for acquiring the outstanding shares. In the event that the outstanding shares are acquired, and taking into consideration the performance-related components, this may result in further purchase price components.

For the purposes of first-time inclusion in the consolidated financial statements as part of the full consolidation, the assets, liabilities and contingent liabilities are revalued in the amount of the newly acquired shares as at the acquisition date of January 2017 as part of the purchase price allocation. The purchase price allocation had not yet been concluded at the time the consolidated financial statements were prepared. This is primarily because of the complexity of the transaction. This is known as a carve-out. This means that essential components, in the form of assets, products, customer relationships etc. from an existing company were incorporated, in the first step, into a new company, in which the Nanogate AG then indirectly acquired 80.01 %. Due to the materiality of the transaction, the Management

Board of Nanogate AG commissioned a major auditing company, in addition to a neutral auditing firm that audited the opening balance, with an expert report for the purchase price allocation underlying the acquisition. This work has not yet been finally concluded. No disclosures pursuant to IFRS 3.B64 (e) and (h) through (k) and (o) can therefore yet be made. The duties to disclose pursuant to IFRS 3 B.64 (l) through (n) as well as (p) and (q) are not applicable.

The assets and liabilities of Nanogate Jay Systems LLC will be measured as part of the purchase price allocation in the first step temporarily pursuant to IFRS 3.45 through IFRS 3.47.

Significant Accounting Methods and Estimations and Assumptions

The capital consolidation is carried out using the purchase method. The acquisition costs of the business combination will therefore be distributed across the identifiable assets acquired and the identifiable liabilities and contingencies taken over according to their fair values at the date of acquisition. The acquisition costs of a company acquisition are calculated as the total of the transferred consideration, measured at the fair value as at the acquisition date, and the shares without controlling influence on the company acquired. If the acquisition costs of the equity holding exceed the proportional net present values of the identifiable assets, liabilities and contingencies, the surplus is recognized in the balance sheet as goodwill. If the fair value of the net assets acquired exceeds the total consideration transferred, the Nanogate Group will re-evaluate whether all assets acquired and all liabilities assumed have been correctly identified. Furthermore, the Nanogate Group reviews the methods with which the amounts have been determined. Should the fair value of the net asset acquired still exceed the total consideration transferred following the revaluation, the difference is recognized with effect on profit and loss in the consolidated statement of income. Costs incurred as part of a company acquisition are recognized as expenses.

Following first-time recognition, the goodwill is measured at amortized cost less accumulated impairment losses. For the purpose of the impairment test, the goodwill acquired as part of the business combination from the date of acquisition is allocated to the cash-generating units of the Nanogate Group that are expected to benefit from the business combination. This applies independently of whether other assets or liabilities of the company acquired are allocated to these cash-generating units.

For information on impairment of goodwill, please refer to the relevant details on the significant accounting methods and estimations and assumptions in Note *14. Intangible Assets*.

The shares without controlling influence on the company acquired are measured at the corresponding share of the identifiable net worth of the company acquired and reported under the item noncontrolling interests in the consolidated statement of financial position of Nanogate AG. Transactions with noncontrolling interests that do not lead to a loss of control are recognized as equity transactions without affecting operating result.

37. Auditor's Fees

The fees listed in the table below for services rendered by auditing firm Ernst & Young GmbH, Stuttgart, were recognized in expenses.

	2016
	EUR ,000
Auditing services	148
Other certification services	-
Tax advisory services	-
Other services	415
	563

38. Relationships with Associated Persons and Companies

The total amount of the transactions with associated persons are presented in the table below.

	Acquisition of assets		Assumption of liabilities		Services rendered		Services received	
	2016	2015	2016	2015	2016	2015	2016	2015
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Subsidiaries – not consolidated	-	-	-	-	1,160	-	-	-

The balances presented below were outstanding as at the end of the fiscal year and of the previous year.

	Liabilities		Receivables	
	2016	2015	2016	2015
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Subsidiaries – not consolidated	-	56	1.249	216

With the exception of Nanogate Teknoloji AS, Istanbul (Turkey) and Nanogate Technologies Inc. (Delaware, U.S.), transactions between Nanogate AG and its subsidiaries were fully eliminated within the consolidated financial statements for the 2016 fiscal year in the course of the consolidation and are therefore not part of these Notes disclosures.

There were no other relationships to associated persons and companies not recorded in the companies included in the consolidated financial statements during the 2016 fiscal year. There were also no major transactions with other companies or related parties having a significant influence over the Nanogate Group during the 2016 fiscal year.

Shares and Stock Options Held by the Boards of Nanogate AG

As at the reporting date of the current fiscal year and of the previous year, the shares and stock options in Nanogate AG listed below were held directly or indirectly by the board members.

	12/31/2016		12/31/2015	
	No. of shares	No. of options	No. of shares	No. of options
Management Board				
Michael Jung	6,824	43,741	18,724	21,541
Daniel Seibert	-	23,550	150	10,000
Ralf M. Zastrau	56,400	49,059	56,400	21,559
Supervisory Board				
Oliver Schumann	8,175	-	7,175	-
Dr. Farsin Yadegardjam	10,000	-	9,375	-
Klaus-Günter Vennemann	2,500	-	2,500	-
Dr. Clemens Doppler	1,000	-	-	-
Sebastian Reppegather	-	-	-	-
Hartmut Gottschild	2,000	-	2,000	-

The shares or stock options held by the Supervisory Boards were privately acquired by the Board Members.

Management Board Remuneration

The remuneration of members of the Management Board as defined by Section 315a HGB together with Section 314 (1) (6a) HGB totaled TEUR 934 during the fiscal year as current payments. In addition to remuneration in the form of basic salary, bonuses, company pension and use of company vehicle, there are also noncash benefits from the stock option programs approved by the shareholders' meeting totaling TEUR 12. Furthermore, other long-term benefits amounting to TEUR 602 were granted.

Significant Accounting Methods and Estimations and Assumptions:

IFRS demands information on relationships with associated persons from all companies. IAS 24 defines associated persons as those that control Nanogate AG, control Nanogate AG together with other companies or exercise significant influence over Nanogate AG. Subsidiaries, joint ventures and associated companies are also seen as associated with Nanogate AG, as is the relationship between subsidiaries and associated companies. The same also applies to subsidiaries not fully consolidated. Associated persons are also key management personnel, their close family members and companies over which these persons exercise control, joint control or significant influence.

39. Company Boards

Supervisory Board of Nanogate AG

Oliver Schumann, Bad Soden,
Chairman of the Supervisory Board, Managing Director at Capital Dynamics GmbH

Dr. Farsin Yadegardjam, Roßdorf,
Deputy Chairman of the Supervisory Board, Management Board at EVP Capital Management AG

Klaus-Günter Vennemann, Waldring (Austria),
Management Consultant,

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

Hartmut Gottschild, Aalen, Management consultant.

Katrin Wehr-Seiter, Bad Homburg,
Managing Director BIP Investment Partners S.A. (until June 29, 2016)

Sebastian Reppegather,
Düsseldorf, Management Board of Luxempart S.A. (since June 29, 2016)

The remuneration of the members of the Supervisory Board amounts to TEUR 153 for the 2016 fiscal year (previous year: TEUR 114). As in the previous year, these are exclusively current payments.

Management Board

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

Michael Jung, Riegelsberg, COO

Daniel Seibert, Rüsselsheim, CFO

Querschied, Germany, April 10, 2017

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

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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, Germany, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the financial statements, together with the Group management report for the fiscal year from January 1 to December 31, 2016. It is the responsibility of the company's statutory representatives to prepare the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU and the additional requirements of commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB). Our responsibility is to express an opinion of the consolidated financial statements and the Group management report based on our audit.

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

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the assets, financial and earnings position of the Group in accordance with IFRS as applicable in the EU and the additional requirements of commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB). The Group management report is consistent with the consolidated financial statements, complies with the legal requirements and altogether provides a correct view of the Group's position and correctly presents the opportunities and risks for future development.

Saarbrücken, Germany, April 10, 2017

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)

	2016	2015
Net sales	6,594	3,748
Overall performance	7,916	6,188
Gross earnings	6,523	5,084
Earnings before taxes	4,511	-2,055
Net income/loss	4,132	-2,060
Balance sheet total	101,190	78,363
Balance sheet profit	5,356	1,596
Equity	64,088	47,599
Equity ratio (%)	63.3	60.7
Cash and cash equivalents	12,017	13,332
Dividend in euros*	0.11	0.11

** proposal for 2016*

The Group again reported a positive performance in the 2016 fiscal year. Sales and the operating result (EBITDA) as well as net profit for the year rose to a new record level. Nevertheless, the expense involved in implementing the Phase5 growth strategy continued to adversely affect 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, comprehensive M&A activities and business development. For reasons of transparency, the parent company has borne the vast majority 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 due to the consolidation. This has a considerable negative impact on the operating result reported in the individual financial statements pursuant to HGB. This development is also due to greater costs related to additional responsibilities of the holding company, which has optimized its structures and processes in view of the sharply increasing volume of business, the expected weaker development of subsidiaries as well as transaction and integration costs for external growth. By contrast, the net result for the year amounted to EUR 4.1 million (previous year: EUR -2.1 million) after profit distributions from the subsidiaries to the parent company. Given the Group's positive overall operational development and its continued good prospects and financial strength, the Management Board and Supervisory Board again propose paying a dividend of EUR 0.11 per share. Nanogate would thereby like its shareholders to continue participating in its success. Despite the dividend payment, the financial latitude for the forthcoming expansion steps remains assured, meaning that the Group will continue its growth strategy as announced, while expecting a jump in sales and earnings for 2017. The good business performance in the previous year, with a significant sales increase and a rise in net income for the year, confirms this course.

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