



Dear shareholders,  
ladies and gentlemen,

A successful and exciting year 2010 has finished. We are extremely satisfied with Nanostart operational business, and that is still an understatement. In the past year, we achieved the best semi-annual results in the history of the company and we can look forward to an equally good overall annual result and an even more exciting year in 2011.

As 2010 once again clearly demonstrated, we chose seven years ago exactly the right business model. We invested in nanotechnology at an extremely early stage as one of the first venture capital companies. Today we are witnessing an tremendous transformation: in past years, we have taken a large amount of money and invested our expertise by supporting companies with innovative technologies. We see outstanding opportunities to achieve exceptional returns on these investments in the coming years. Because we are no longer talking only about the future potential of nanotechnology, but instead about concrete applications with concrete added value, sales, and finally profits. Let me get right to the point: We can now gradually begin to reap the harvest of our work. And what we will harvest will surprise many in the best sense of the word.

#### Development detached from capital market

Despite the positive development of our business, Nanostart share price has nonetheless come under pressure in the second half of 2010. This is a development that for you as shareholders as well as for Nanostart is less than satisfactory. If one uses the share price development as an indicator for business success, then in the past months the actual development of Nanostart business has been completely detached from the perception of the capital market.

Of course, Nanostart management has no direct influence on share price development. But with our operational efforts, there is value emerging that serves the capital market as a basis for valuation. If you have followed Nanostart company announcements over the past year, then you have an impression of how well our portfolio has developed. This was also confirmed to us in the past year by analysts, who in some cases for weeks and months intensively studied our business model, our investments, and our financial numbers. Their assessments were all positive, and the company was regularly valued at a multiple of the current share price. So why has the Nanostart share price been declining since the middle of last year?

Allow me to address one aspect that in our view partially contributed to this development. It is paradoxically related to the German economy finally recovering from the economic crisis over the past year. This recovery was also clearly reflected in standard values on the German stock market, which provided investors with an abundance of lucrative investment opportunities. Especially values that came under pressure during the crisis have recovered with above-average results. Viewed on an annual basis, DAX values achieved an average return of nearly 17 percent. In the past year, it became possible to achieve attractive returns by investing in standard stocks with less risk – compared to a small cap such as Nanostart. This recovery came at the expense of investments in companies in lesser stock exchange segments. Smaller companies are traded at lower volume and garner less attention. Nanostart, which is currently listed in the Entry Standard segment of the





German Stock Exchange, is among such stocks. This reluctance among investors was demonstrated by the overall development of the Entry Standard. The segment was not able to retain a gain of nearly 20 percent from the first half of the year and also took significant losses in the second half of the year.

The circumstances of the company developing extremely well – while the stock is simultaneously developing in the opposite direction – are extremely disconcerting for us. Although this development has nothing to do with our operational business, we see it as our obligation to be active in terms of shareholder value. We are convinced that we can make an essential contribution with greater transparency, in order to make our strengths clear to the capital market. We are currently planning initial measures to be gradually implemented in the coming weeks and months. Among other things, this includes a quarterly published report, which will provide information on the current status of the company and our investment holdings.

Developments on the capital market are all the more exasperating, when Nanostart and its holdings have impressively proven over the past year that there is money to be earned with nanotechnology already today. Allow me to comment briefly on these developments.

### **Transformational phase of the portfolio**

Our portfolio is currently in a phase of transformation. The phase, in which companies are developing their products or processes, is largely completed with most of our current holdings. Virtually all of our holdings are now achieving initial sales or are poised to do so.

For example, what our holding ItN Nanovation has demonstrated in the area of environmental technology over the past year is superb. ItN has products on the market that now are gaining increased attention due to their unique technology and superior quality. In May, the first large contract came from Saudi Arabia for nanoceramic flat filter systems, CFM systems, used in drinking water purification. They proved to be so effective that the Saudi Arabian Ministry of Water sent a memorandum to water source operators recommending the installation of ItN flat filter membranes for prefiltration. And in November, the first follow-up order was placed. In June, the joint venture with WSC, the Maltese state water and wastewater utility, was concluded. The objective is to market ItN filter technology

throughout the entire Mediterranean region, including North Africa. In August, an exclusive agreement with a technology-leading Italian water treatment specialist followed, and in September a cooperative deal was concluded with a subsidiary of ThyssenKrupp for the coating of power plant tanks. In late October, the conditions for launching a joint venture for nanoceramic CFM filter systems from ItN in Saudi Arabia were agreed with a Saudi Arabian investor from Jeddah as well as a consortium of German industrial investors. This joint venture is a significant milestone. It represents the next level for ItN. The company's technologies are impressive throughout the entire line. With a view to ItN business, one can now definitively say that success breeds success.

Allow me to clarify the transformational phase in which our portfolio currently finds itself in terms of further developments, MagForce Nanotechnologies for example:

Last year, our subsidiary received EU approval for its nanotechnological cancer treatment, NanoTherm therapy. MagForce Nanotechnologies AG is the first company worldwide to receive European approval for a medical product using nanoparticles. The principle of the therapy is injecting magnetic nanoparticles into a tumor and subsequent heating within an alternating magnetic field. Depending on the temperature reached and length of treatment, the tumor cells are either directly destroyed or sensitized for the accompanying chemotherapy or radiation. The therapeutic potential of NanoTherm therapy to extend patient survival has been shown in recurrent glioblastoma multiforma, a malignant brain tumor. Following treatment with NanoTherm and accompanying radiotherapy, the median survival time was extended from 6.2 months to 13.4 months compared to a historical control group. The results of the efficacy study were published in a renowned medical publication, the Journal of Neuro-Oncology. The MagForce vision is to establish NanoTherm therapy as a fourth pillar alongside the three standard treatments surgery, radiotherapy, and chemotherapy.

MagForce is now transforming into a market-aligned commercial enterprise. Management is currently preparing market introduction and plans to make NanoTherm therapy available to leading cancer centers in Germany in the first quarter of 2011. MagForce has now entered a business





phase, in which positioning NanoTherm therapy on the market is essential.

But the achievements of the two Nanostart holdings listed on the stock exchange should not detract from the successes of others: companies in our portfolio such as Holmenkol in Heimerdingen as well as Nanosys and Lumiphore in the United States also generated sales or experienced very good development. The record winter and high demand for products related to winter sports resulted in our holding Holmenkol achieving an extraordinary growth in sales.

With the two US holdings, the emphasis is primarily on cooperative deals with industry partners, who rely on the exceptional technologies provided by these companies. Lumiphore concluded a cooperative agreement with a leading oncology company, and Nanosys launched a subsidiary company in Korea. I will say more about the successes of the Asian holdings BioMers and our new holding there Microlight Sensors within the framework of our Asian business.

The positive development at Nanostart is palpable: As I previously mentioned, the trend for the first half of the year will continue for overall 2010. For example, the exit from our holding BioMicro will not affect the balance sheet until the second half of the year. BioMicro sold a large share of its assets in the form of its main product line in March to the global market leader Roche Diagnostics and an additional product line to IRIS International in late November, a company from the life sciences industry. BioMicro is a good example of our business model: a company develops a superior technology, brings it to market maturity, and then sells it to the industry that is prepared to pay an appropriate price for it. Here it should be added that we had our first exit in Singapore at the end of last year and sold our shareholding in Curiox Biosystems at a profit to a strategic investor.

### **Nanostart expansion**

In the past year I have presented Nanostart at approximately twenty nanotechnology and investor events in Europe, the United States, and Asia. These conferences are an indispensable component of our networking activities. They promote relationship management, information exchange, anticipation of developments and trends, and meeting new candidates for investment. In addition, such events open doors to private discussions with representatives from government and industry. Among others, late

last year I was invited to Suzhou in China for the Chinano Forum to report on key success factors in the area of nanotechnology venture capital, particularly the successful development of new technology leaders. Especially in Asia, our experiences at the highest levels are extremely valuable. Because governments there have recognized the potential of nanotechnology and are now making great efforts to promote and support nanotechnology. During conversations with government representatives in Suzhou, a city of over a million whose name you are perhaps reading for the first time, it became very clear to me that the future of Nanostart is to be found in Asian markets.

Consequently, two years ago we established our Asian presence in Singapore and launched our subsidiary Nanostart Asia. Singapore not only has a lively nanotechnology scene that is supported by the government, but also according to the World Bank, regularly ranks among the most business-friendly economies in the world. Together with the government, we have started a fund that invests our money alongside government money in local nanotechnology companies. We are currently involved with two companies: BioMers and Microlight. And of course, we are now actively seeking new investments. You can look forward to new announcements soon.

There were very welcome developments in 2010 in our Asian portfolio. BioMers is worldwide the first company that offers fully transparent dental braces based on patented nanotechnologically optimized synthetic wire. These dental brace systems from BioMers are the only in the world that have not only transparent fastening elements – the brackets that attach to the teeth – but also a transparent archwire. Previously, only metal wire could be used for braces because of the tension required, which aesthetically is less than satisfactory. With transparent braces, the aesthetic requirements of patients can now be accommodated. This is significant when one considers that braces must be worn permanently visible to everyone for months. In late November, BioMers brought its core product to the market – completely transparent dental braces that can also correct significantly misaligned teeth. Meanwhile the company has begun worldwide marketing at a rapid pace: Asia, Europe, and the United States are now all being tackled simultaneously. You can learn more about the expansion by visiting the company's corporate website





(www.biomersbraces.com). Don't be surprised by the images of smiling people that you will see. They are testimonials: only at second or third glance, do you notice that they are wearing transparent dental braces. Enthusiasm for the braces is shared by the company's employees: our colleague Sidra Sehar Ahmed, an investment associate at Nanostart Asia, has been wearing transparent braces from BioMers for several months now. You can read more about her genuine enthusiasm on the website. We are convinced of BioMers and its potential to revolutionize the dental braces market and increased our share of the company in the Singapore fund to 25 percent in the previous fiscal year.

Our latest Singapore holding, Microlight Sensors, is already successfully selling its products on the domestic security market in the Asia-Pacific region. It is our first Asian holding in the field of optoelectronics. Electromagnetic waves, including light and heat waves are transformed into electronic data. This makes it possible to obtain images in conditions where the human eye cannot see, for example at night. The special Microlight systems are primarily used for security monitoring within the framework of domestic security. The company possesses enormous expertise, already has products on the market, and is currently developing highly sensitive sensors based on nanomaterials. The domestic security market in the Asia-Pacific region, which the company is targeting, is worth billions and showing an annual growth rate of 8.5 percent. In a first step, we have secured 10 percent of Microlight through our Singapore fund, and we are planning to expand this position to as much as 31 percent.

But expansion also means opening up to new groups of investors. We launched an ADR program in the United States for this purpose in late October 2010. With this program, US investors receive access to ADRs or American Depository Receipts, which are certificates for Nanostart stock. This allows American investors, who often have an affinity for technology issues, to obtain an interest in Nanostart. Although demand among US investors was present, we were not able to trade any ADRs for the first several weeks. It turns out that the American clearing company DTCC experienced delays. Consequently, the final technical infrastructure necessary for trading was not in place until nearly two months later. It is now essential to reawaken existing investor interest in 2011. But these challenges are enthusiastically tackled by those who actively manage their business and are constantly searching for new chances and opportunities.

### **Applying strengths in a rapidly growing market**

As you can see, we are on a very good path to achieving sustainable profits from the development of nanotechnology and to grow rapidly. When you look at our area of activity and observe what we have achieved in the last few years – we have so far acquired 19 holdings, completed 10 successful exits, and were forced to write off only three holdings completely – one must say that we not only got on the „right horse“ with nanotechnology but it is also proof that we have the right employees, who provide a high level of professionalism and commitment to fulfilling maximum potential. Now the task is to effectively apply the strengths we have acquired and continue expanding in this rapidly growing market. Although we have experienced more success in our business than any of our competitors, we remain a relatively small player.

Capital market indicators tell us that still too few people are aware of what nanotechnology is and what potential it is currently contributing to technological developments. And probably even fewer people know that the most successful holding company in this sector is from Germany. We want to change this. Ultimately, we are obliged to regularly inform our shareholders about what is happening in the company and which values are emerging.

We have already begun increasing our transparency, but we are still a good distance from fulfilling the transparency requirements of a DAX corporation. The reason is because in our current situation it would consume a disproportionate amount of resources, which we prefer to invest in our core business.

But even this will change in the medium term, because it is critical that Nanostart continues to grow. In the last few years, we have worked tirelessly to create a foundation of processes and structures on which we can now grow. I have demonstrated that our portfolio is currently in a transformational phase. This phase impacts the entire Nanostart company. There are transactions planned for the coming fiscal year that will give the company an extraordinary surge in growth and are appropriate for excitement in the best sense of the word. In addition to greater transparency criteria, cooperative agreements are also attractive to us. We have agreements with governments and





quasi-governmental organizations on the table but cannot finalize them until Nanostart has achieved the appropriate size and geographic presence.

**Personal objective: Nanostart as a dividend stock**

I believe, this letter to you as shareholders is the right place to share one of my most important personal goals for the company. Since founding, we have achieved a profit every year. This is even more noteworthy as we are still in a cost-intensive phase of developing an international portfolio. This past fiscal year was extremely successful, and in 2011 we will also tackle important projects for the company. Nanostart management proved itself during the challenging business environment of 2008 and 2009 that it can also achieve a profit in difficult times. Not least of all due to this sustained positive development of Nanostart, it is my personal goal that Nanostart – no later than for fiscal year 2011 – issues dividends by resolution of the annual shareholder assembly next year and on a regular basis thereafter. This would delight me for the shareholders who invested early in Nanostart. Based on my experiences, we would then also be interesting for shareholders for which holdings in Nanostart were previously too speculative. As a possible dividend stock with attractive returns, the stock would of course have a different character.

In conclusion, I would like to thank you as shareholders. I know from numerous conversations that we have tested your trust quite a lot during these last months. I know you will understand that due to compliance reasons we have exciting things currently underway that we cannot yet share with you. I would like to express my heartfelt gratitude for this trust. I am certain that we will be able to demonstrate in 2011 why it was a very good decision to invest in Nanostart.

I wish you and your family a healthy, happy, and prosperous new year.

Frankfurt, January 5, 2011

*Sincerely,*

A handwritten signature in black ink that reads 'M. Beckmann'. The signature is fluid and cursive, with a large, looping 'M' and 'B'.

Marco Beckmann