

## Dear shareholders, ladies and gentlemen,

Those who have supported us as investors for some time will know that the Nanostart share carries quite a degree of risk. As a venture capital firm, this goes with the territory. Our ventures are investments in young, up-and-coming companies that combine outstanding prospects with high risks. After making our investment, we start to help our holdings to establish their technologies on the market successfully. This is a long path with many obstacles. But 2012 showed more clearly than ever that venture always goes hand in hand with opportunity. At the start of the new year, I would like to show you how these opportunities progressed for our company last year.

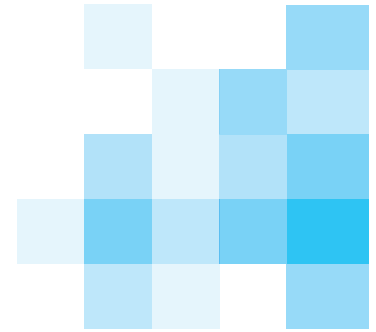
In terms of workload, we invested considerable resources in our German holdings

last year. One of the main reasons for this was that these holdings are in crucial phases of product commercialization. At our holdings ItN Nanovation and MagForce in particular, the products are on the home straight to commercial success with the relevance that entails for us as co-owners.

This particularly applies to our holding ItN Nanovation. The firm has developed nanoceramics that give rise to two potential applications in particular: Filtration and industrial coating. Under the "ItN Waterfiltration" brand name established in 2012, ItN focuses on the core business of water filtration. Water is one of the most economically significant issues of the future. In many regions of the world, supplying people with drinking water is a major challenge. Firms like ItN that have set themselves the task of offering sustainable, efficient methods of obtaining drinking water are tapping into attractive markets. The clear separation from the "Industrial Coatings" division was completed in April 2012 through the spin-off of activities into a separate company, Ceranovis GmbH.

As far as the filtration of surface water is concerned, an initial project is currently under development in Puerto Rico. ItN's first mobile containers for wastewater filtration are already well established in the US, and they are now being produced in collaboration with US partner firm Energy Independence Partners. However, the focal point of ItN Waterfiltration's activi-





ties is Saudi Arabia. Saudi Arabia has vast amounts of fossil groundwater. This is water from the last Ice Age, which accumulated in the cavities between the sedimentary rocks at depths of several hundred meters. Drinking water is now being extracted from this very warm and salty water in two filtration stages. The company has achieved significant success in the pre-filtration of the groundwater with its technology. In several months of trial runs and two subsequent test projects, the patented ceramic flat filters proved their vast superiority over the technologies conventionally used in pre-filtration – generally polymer filters.

For this reason, the Saudi authorities intend to convert the pre-filtration stage of 99 groundwater wells to nanoceramic flat membranes. The work required for the conversion process was put out to tender in 2011. ItN's technology precisely meets the requirements for the new pre-filtration method as set out in the tender documents. Contracts for four initial projects with seven-digit volumes in euros are to be awarded in the next months. ItN's management firmly expects to be selected for the projects. Winning the contracts would be a real commercial breakthrough for ItN.

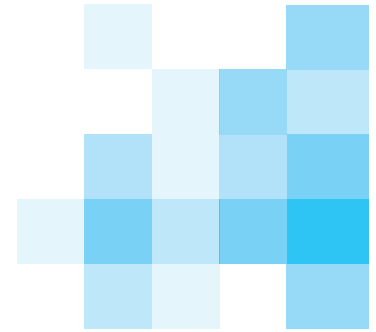
ItN is built around an outstanding technology, but faced delays in becoming successfully established on the market, a scenario that also applies to our holding MagForce AG. A lack of sales and associated capital requirements at the company also meant that Nanostart had to be

proactive here. Some painful steps had to be taken. However, MagForce is also showing signs of entering what we regard as finally being a key stage with regard to market success. This is because MagForce AG also overcame several crucial hurdles in 2012.

The company has developed a method for fighting tumors with the heat of injected, magnetic iron oxide nanoparticles. The particles heat up when they are made to vibrate in an alternating magnetic field by an external source. As a result of this, depending on the temperature and treatment duration, the tumor cells are either destroyed or sensitized to concomitant radiotherapy or chemotherapy. This NanoTherm therapy could complement the current standard treatment of specific cancers with an additional effective and well-tolerated form of treatment. The method constitutes a totally new therapeutic approach. EU approval was granted back in summer 2010.

However, contrary to expectations and plans, marketing of the treatment came to a standstill. By issuing statements too soon, the company made the mistake of raising expectations that have failed to materialize so far. We also passed this information on to you, our shareholders. The deviations from the announced marketing schedule led to a significant loss of trust among investors. It is now necessary to regain this lost trust by meeting and, ideally, exceeding the expectations raised by the announcements.





But why didn't the marketing take off? This is mainly because the medical opinion-formers, leading professors of neuro-oncology, spoke out against the treatment. Ultimately, this is understandable, as they were not involved in developing and approving the technology. They were not familiar with the technology, and therefore could not recommend it to the physicians providing treatment. Starting in mid-2011, MagForce entered into an active dialogue with the opinion-formers and sparked their interest in the NanoTherm treatment. The result: The opinion-formers will now be using and testing the MagForce technology themselves in a clinical post-marketing study on glioblastoma. For MagForce, the new study is the essential foundation for successful marketing.

As with ItN, Nanostart AG has mainly been operating with an eye on costs and financing since the MagForce technology was approved. We have held talks with investors, carried out reorganizations of the company and stepped in with finance. For instance, Nanostart AG stepped up its lending to MagForce starting in 2010 – including interest, loans ultimately totaled around €6 million – to keep the company afloat. We took the associated risk because we have always believed in the company and are convinced of the potential of its outstanding technology. We have also faced a lot of criticism for this, partly based on fears that we would have to write-off our loans if the technology failed.

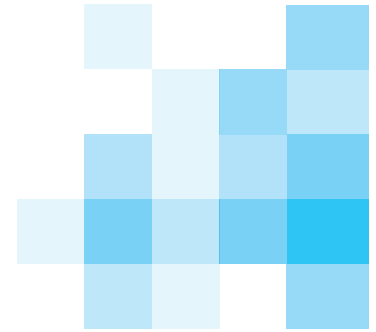
We defused this criticism when we sold our loans in full, including interest, to a financial investor at the end of last year. Measured against the overall portfolio, the investment in MagForce accounted for around 70% due to the high volume of loans. We have evened out this imbalance with this transaction. At the same time, the significant potential of the technology has been confirmed by investors, who are impressed with MagForce and its technology after studying them closely.

A capital increase to secure long-term financing is now to be adopted at an extraordinary general meeting of MagForce. MagForce will then be able to focus on marketing the NanoTherm therapy and perform the important post-marketing study in conjunction with the medical opinion-formers. Everything now points to MagForce being able to go its own way without further financing from Nanostart in future.

However, venture can also lead to a loss. In 2012, we ended our Russia business before it had really started, and we had to write off our Holmenkol equity investment because we ultimately failed to reach agreement with our co-investor. In such cases, it is important to act with damage limitation in mind. I believe we achieved this in both cases.

Dear shareholders, many things – including unforeseeable events – can happen on the road to market success for a new





technology. Delays are a normal part of business at technology companies in particular. Nanostart goes down this road with its holdings because we can see the great opportunities that arise when a new technology is launched successfully. These new technologies play a key role in overcoming the major challenges of a growing global population. And it is the associated commercial success of these new technologies that makes our work and your commitment as investors worthwhile.

Nanostart has regained more flexibility following the sale of the receivables relating to MagForce. Selling the loans has increased our cash flow. At the same time, our energies are no longer so heavily invested in working on our ItN and MagForce holdings as in previous years. Consequently, we have the resources and opportunities to take on new projects to an increased extent. Our main focal point here is Asia. We still believe that Asia has the regions with the best conditions in the world for young nanotechnology companies to become successfully established on the markets.

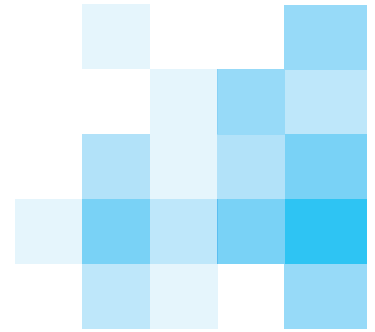
In Singapore, our holding Nanostart Asia Pacific manages the Nanostart Singapore Early Stage Venture Fund. Through this fund, Nanostart Asia Pacific and the Singapore government invest in young nanotechnology companies in Singapore on a 50:50 basis. The fund entered into a further equity investment in Stella Specialty Chemicals Pte Ltd in 2012, and currently has four holdings.

In the past, we enabled strategic partners from Asia to invest in Nanostart Asia Pacific. In doing so, we secured the experience and expertise of high-caliber partners with a strong network. We are currently preparing to step up our presence in Asia with a wholly-owned subsidiary. This gives us the opportunity to invest in nanotechnology companies in Asia independently and at our own pace as Nanostart either directly or through new fund structures. The plan is to structure our existing Asia activities as an independent unit under this new Nanostart subsidiary.

Besides Singapore, Taiwan and South Korea are also very active in the field of nanotechnology. However, developments are at another level entirely in China, where nanotechnology now receives state subsidies of around €1.8 billion per year, as it has been identified as a cornerstone of economic development. The Nanopolis nanotechnology park has been built in Suzhou. Hundreds of nanotechnology firms from China and all over the world are expected to come to this site, which covers around one square kilometer. It provides the perfect infrastructure for research and development work as well as for manufacturing laboratory series and small series through to mass production. After all, the main aim is to commercialize nanotechnology products and methods. The prevailing sense of excitement is almost tangible.

Dear shareholders, we have done our homework in Germany to such an extent





that Nanostart AG can become active in the nanotechnology hotspots of Asia. This is where we see the best opportunities to benefit from the growth in nanotechnology. We look forward to taking on this challenge in the year ahead. I would like to thank you for your confidence in us, and invite you to stay with us on our exciting journey.

Sincerely,  
Yours

A handwritten signature in black ink, which appears to read 'M. Beckmann'. The signature is fluid and cursive.

Marco Beckmann