Annual Report 2017

International Growth

nanogate

Nanogate Group at a glance

	2017	2016	2015
Sales	**186,231**	112,452	90,894
Overall performance	**190,919**	116,856	94,787
Gross profit margin (in % of sales)	**60.5**	62.7	62.2
EBITDA	**21,547**	12,378	10,201
EBIT	**7,258**	4,632	3,003
EBT	**3,862**	3,373	616
Consolidated net income/loss	**2,805**	2,498	521
Earnings per share (EUR, basic)	**0.64**	0.70	0.16
Balance sheet total	**235,104**	156,424	123,849
Equity	**93,728**	65,823	51,286
Equity ratio (%)	**39.9**	42.1	41.4
Cash and cash equivalents	**20,281**	22,578	22,743
Cash flow from continuing operations	**14,878**	10,794	12,344
Cash flow from investing activities (without external growth)	**-10,640**	-7,284	-9,620
Employees (average for the year)	**1,209**	690	586
Sales per employee	**154**	157	156
Market capitalisation at year-end*	**214,104**	143,799	108,019
Dividend** (in euros)	**0.11**	0.11	0.11

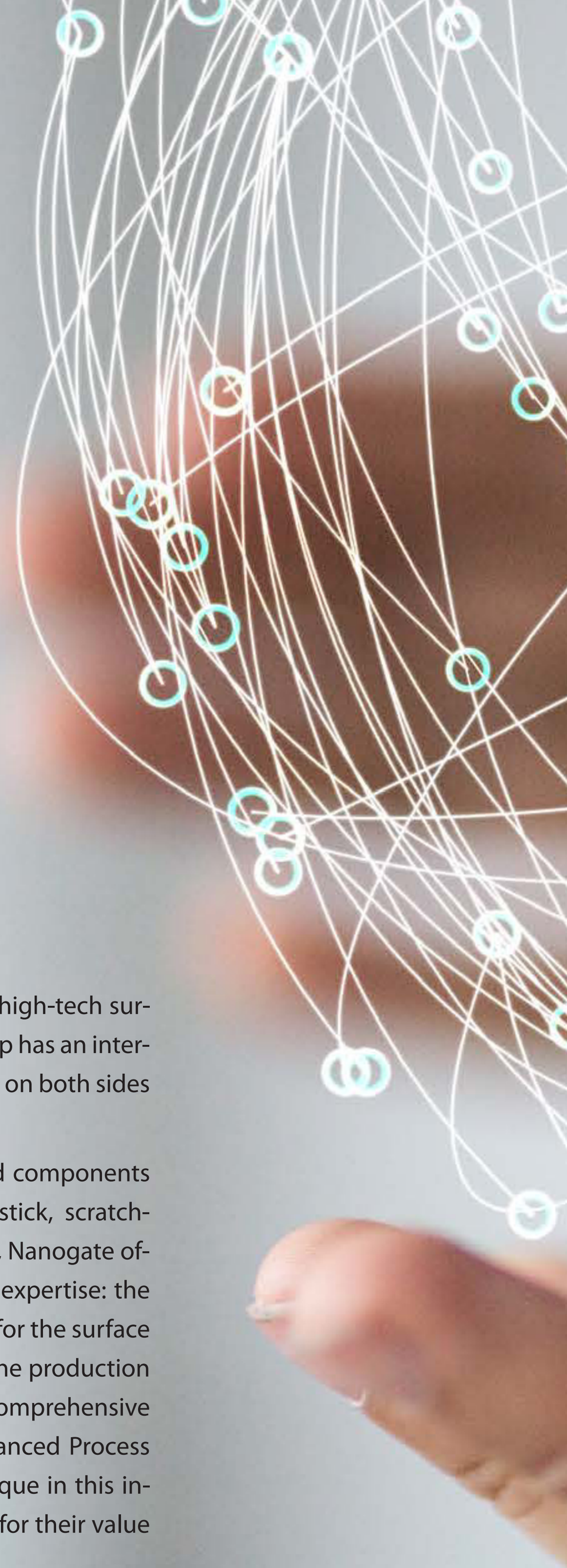
** Source: Bloomberg ** Proposal for 2017*
Refers to the Nanogate Group (in accordance with IFRS, figures in EUR ,000)

Sales
186 Mio. €

Export ratio
60 %

Employees
1,200

Competence Centers
9



NANOGATE SE –
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.

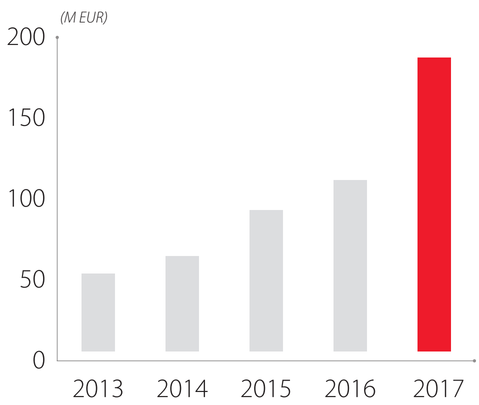
Nanogate develops and produces highquality surfaces and components and enhances them with additional properties (e.g. nonstick, scratch-proof, anticorrosive). As a long-standing innovation partner, Nanogate offers companies from a range of industries unique systems expertise: the development of complex 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

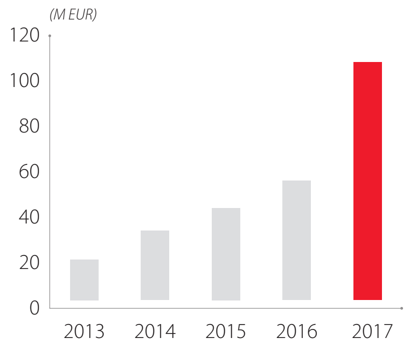
- electronics, multifunctionality and high-quality design are combined.
- surfaces are given new properties and additional functions.
- plastics are put to use in ground-breaking areas of application.
- products are given environmentally friendly properties.

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

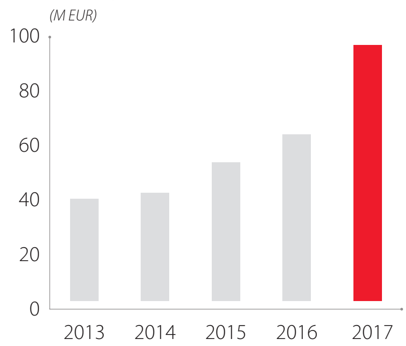
Sales



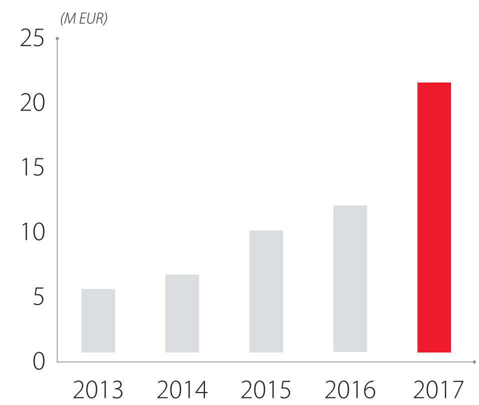
Gross revenue abroad



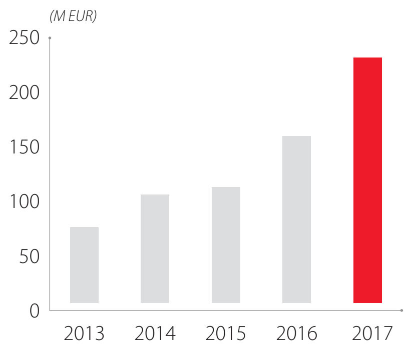
Equity



EBITDA

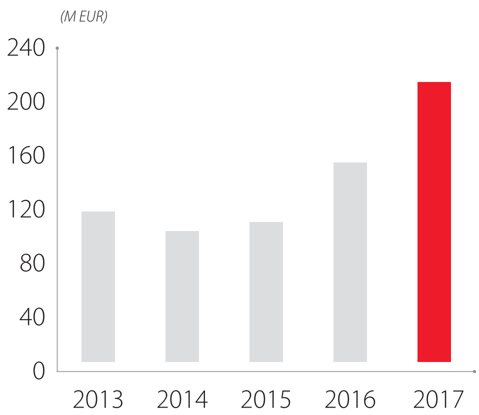


Balance sheet total



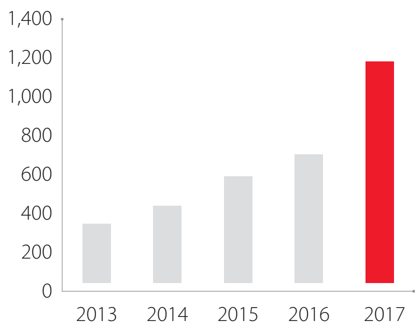
Market capitalization

(at year-end)



Employees

(average for the year)



ACHIEVING NEW GOALS TOGETHER.

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

Contents

Letter to Shareholders

Dear shareholders, customers, business partners and staff members,

Nanogate again more than earned its reputation as growth stock in 2017.
The Group developed further at all levels, expanding its position as a leading international specialist for design-oriented high-tech surfaces and components:

- Employee numbers, sales and profitability reached record levels.
- By acquiring the plastics operations of the Austrian company HTI High Tech Industries AG and rapidly integrating the new majority-owned subsidiary Nanogate Jay Systems, we enlarged our international presence and opened up new markets.
- In parallel, our technology portfolio was further strengthened and the innovation offensive was prepared, which has since been launched. We intend to use this to further increase our sales potential, primarily in industrial business.
- Our success was also viewed positively on the capital market, with the Group's market capitalization increasing over the reporting period by around 50 %.

Operating Result Showing Particularly Strong Improvement
In the past fiscal year, Nanogate continued its long-term success story, again achieving record figures in sales and earnings. At the same time, the forecast for the business development for the whole year which was raised in August 2017 was exceeded; the new U.S. subsidiary Nanogate Jay Systems also helped us to generate a leap in sales of around two thirds to EUR 186.2 million. Despite the costs of the expansion program, the operating result (EBITDA) increased at the same time particularly strongly compared to sales, by about 74 % to EUR 21.5 million. Without the expenses associated with the transaction and integration costs, the EBITDA margin of 11.6 % would have been higher. Although depreciation and financing expenses rose with the implementation of the Phase5 growth strategy, consolidated net income improved to EUR 2.8 million.

As growth stock, the Group invests continuously in expanding its market position. This includes additional capacities and new technologies, as well as international market development. Nanogate will therefore continue to direct the majority of its consolidated net income to its further expansion. Nevertheless, we would also like our shareholders to continue participating in our commercial success. The Management Board and the Supervisory Board will therefore propose to the shareholders' meeting in June to again pay a dividend of EUR 0.11 per share to our shareholders. This payment is intended both to meet the shareholders' desire for a dividend as well as investors' interest in seeing further significant growth. The Group is well positioned for its planned expansion. With an equity ratio of almost 40 % and cash and cash equivalents of around EUR 20 million (both at the end of 2017), Nanogate still retains a very strong financial position.

International Growth
Today, Nanogate is recognized by international corporate groups as an innovation partner for cutting-edge, multifunctional surfaces of the highest optical quality. Components based on our technology are now indispensable to the luxury models produced by the automotive industry. Aircraft manufacturers and other providers in the areas of interiors, leisure, home appliances and medical technology also rely on our expertise.

In this process, we support our customers along the entire value chain – starting with design and development of the components through to production and on to multifunctional enhancement of their surfaces to the highest optical quality. The Group focuses primarily on the area of plastic systems.

Nanogate significantly expanded its international presence in 2017, which included, above all, our growth move to the U.S. The Group is now present on both sides of the Atlantic with its own development, production and sales units. We are also intensifying our network in the Asian market via our subsidiary there. At the same time, we significantly extended our market position in Central and Eastern Europe with the agreement to acquire companies in Austria and Slovakia.

With its good business development, the Group now has a more global presence than ever before. The guiding theme of our annual report is therefore "International Growth", because despite the success achieved, the further expansion of our global market presence – together with an ever-growing technology portfolio – is a decisive driver of growth for the Group.

Expansion of the Technology Portfolio
Alongside the international market development, additional systems and applications based on new technologies are an important driver of sales. Significant funds are therefore flowing into our product portfolio. The Group achieved significant progress in the area of decorative metallization of plastics and has therefore bundled solutions across the Group under its N-Metals® Design brand. This also includes the application introduced in January for replacing stainless steel, which was developed by our subsidiary in the U.S. In our operating business, we are also benefiting from the start of production at our Neunkirchen plant.

Expansion Into the Market for Integrated Smart Surfaces
Beyond the applications under the N-Glaze® and N-Metals® brands, we see significant potential in the technology area of integrated smart surfaces over the medium term. It is our intention to play a key role in the associated revolution in the surfaces market. Our aim is to facilitate entirely new design and operating concepts for all kinds of devices. We are prepared for the integration of electronic functions into product surfaces alongside multifunctional properties. On the one hand, our most recent acquisition in Austria means that we already have far-reaching electronics and surfaces expertise, from development through to the production of surfaces and components. On the other hand, we have acquired a strategic noncontrolling interest in the Finnish technology specialist TactoTek Oy in order to flank our market entry. Nanogate is seeing major interest from prominent corporate groups in new concepts and solutions for the human-machine interface.

2018 Forecast: Further Growth Leap Expected in 2018
Nanogate expects persistently dynamic business growth in the current fiscal year. Following a strong start to the year and thanks to both newly acquired subsidiaries, Nanogate Slovakia and Nanogate Electronic Systems, we are expecting a rise in sales to at least EUR 220 million. In parallel, the operating result (EBITDA) is expected to rise to over EUR 24 million despite transaction and integration costs. Given the innovation offensive that we launched, the Group is planning to invest over EUR 20 million during the course of this year in expanding its technology leadership and increasing its capacities. Accordingly,

Ralf Zastrau (CEO)

Michael Jung (COO)

Daniel Seibert (CFO)

consolidated net income will continue to be characterized by increasing depreciation and borrowing costs. Alongside this, we will be adjusting our organizational structure in accordance with the increased internationality.

The aim of our expansion strategy is to lay the foundation for growth over the coming years. As growth stock, we are therefore waiving the opportunity for short-term maximization of profitability so as not to weaken our medium and long-term prospects. We ensure that all our decisions and measures increase the value of the company in the long term.

We thank the shareholders of Nanogate SE for their confidence. Furthermore, we would like to thank our employees for their tireless commitment to further developing and propelling the Group forward.

As growth stock, Nanogate has positioned itself in a dynamic market with significant sales and earnings potential. As an established specialist for design-oriented high-tech surfaces and components that entirely covers the value chain, we are a long-term valued innovation partner for international corporate groups. Our systems and applications under the N-Glaze® and N-Metals® brands target lucrative markets and provide us with an ever-growing order base. The area of integrated smart surfaces could provide another sales boost over the medium term. Alongside the expansion of the technology portfolio and the further international market development, external growth remains one of the pillars of our expansion. Nanogate is optimally equipped to open up its target markets with a volume worth billions. Our Phase5 growth strategy continues to set the guiding principles of our further expansion, through which Nanogate would like to achieve its ambitious goals for sales and earnings. We are focusing on “International Growth” not only as the title for our annual report, but also as a strategic guideline for the coming years.

Yours,

Ralf M. Zastrau (CEO) Michael Jung (COO) Daniel Seibert (CFO)

NEW **HORIZONS**

A WORLD OF NEW SURFACES

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

Highlights 2017: New Markets and Technologies

JUNE

N-Metals® Design as Central Brand for Decorative Metallization

The Group bundles its broad expertise on both sides of the Atlantic in decorative metallization under its new N-Metals® Design brand. Its technology portfolio encompasses numerous solutions that have been developed at the U.S. and in European locations.

APRIL

Capital Base Strengthened

Nanogate extends its financial latitude with a cash capital increase. The Group generates gross proceeds of issue of EUR 14.2 million from the placement.

MARCH

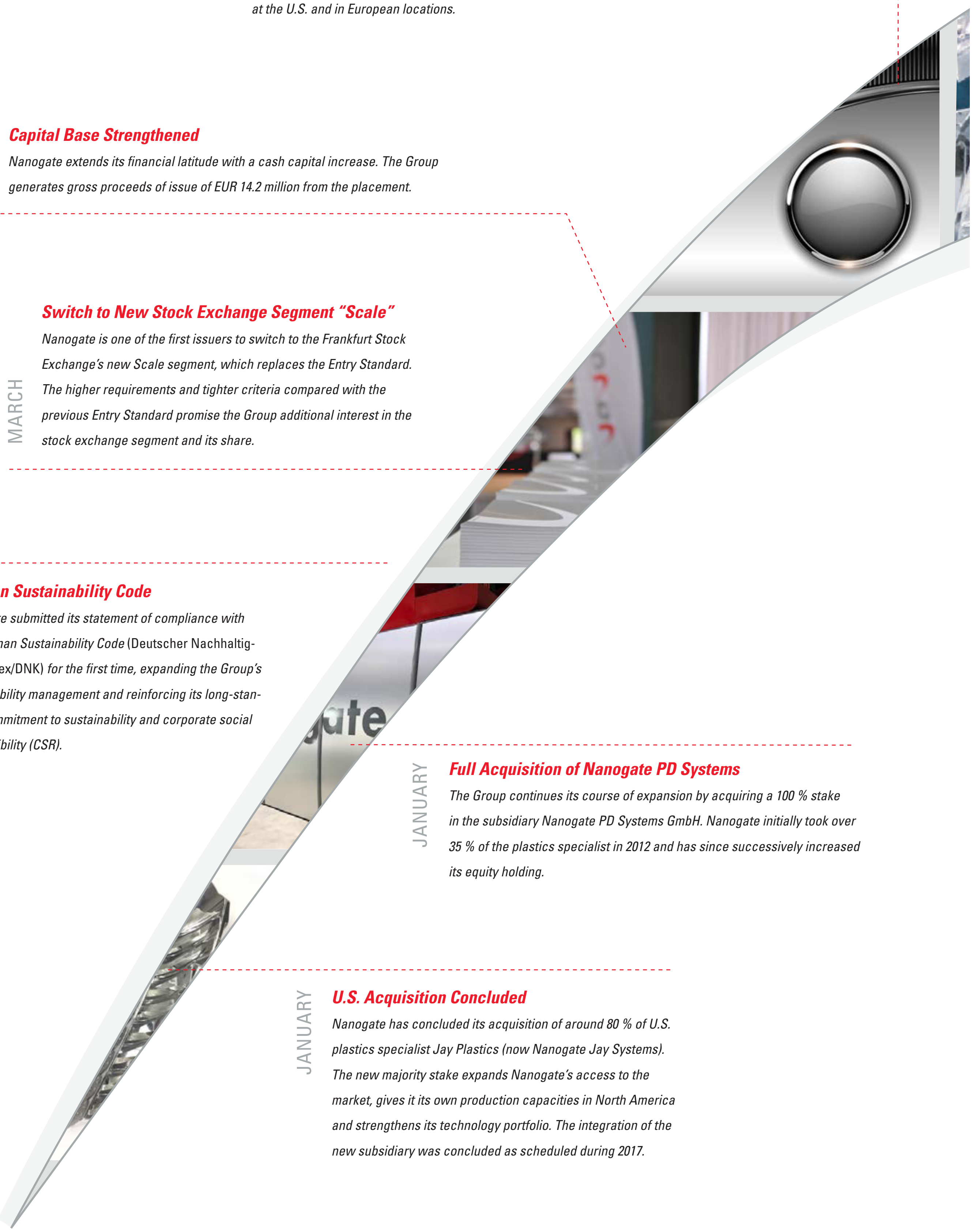
Switch to New Stock Exchange Segment "Scale"

Nanogate is one of the first issuers to switch to the Frankfurt Stock Exchange's new Scale segment, which replaces the Entry Standard. The higher requirements and tighter criteria compared with the previous Entry Standard promise the Group additional interest in the stock exchange segment and its share.

MARCH

German Sustainability Code

Nanogate submitted its statement of compliance with the German Sustainability Code (Deutscher Nachhaltigkeitskodex/DNK) *for the first time, expanding the Group's sustainability management and reinforcing its long-standing commitment to sustainability and corporate social responsibility (CSR).*



JANUARY

Full Acquisition of Nanogate PD Systems

The Group continues its course of expansion by acquiring a 100 % stake in the subsidiary Nanogate PD Systems GmbH. Nanogate initially took over 35 % of the plastics specialist in 2012 and has since successively increased its equity holding.

JANUARY

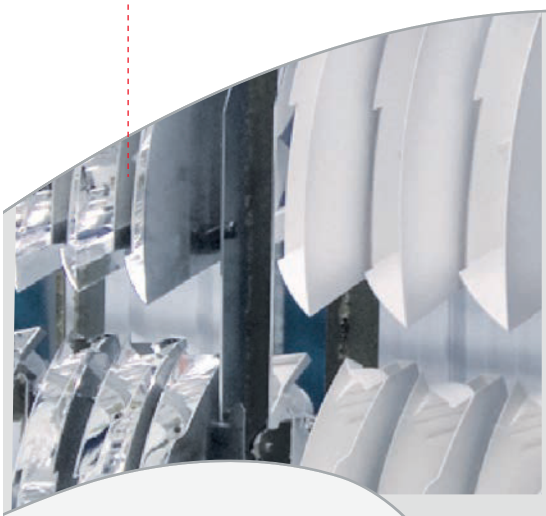
U.S. Acquisition Concluded

Nanogate has concluded its acquisition of around 80 % of U.S. plastics specialist Jay Plastics (now Nanogate Jay Systems). The new majority stake expands Nanogate's access to the market, gives it its own production capacities in North America and strengthens its technology portfolio. The integration of the new subsidiary was concluded as scheduled during 2017.

JUNE

New Orders in the U.S.

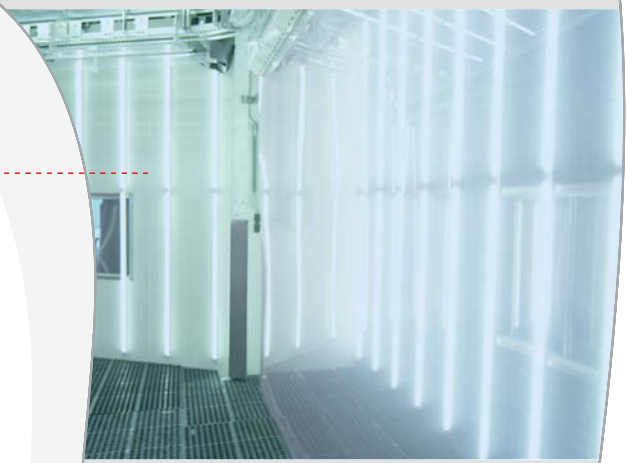
Growth in North America: Nanogate will be enhancing plastic components with high-quality decoration for another Japanese manufacturer in its N-Glaze® division. The Group already serves various automotive manufacturers' U.S. sites. Nanogate is also supplying components for an electric car for the first time as part of new orders with an aggregated order volume in the double-digit million range.



JUNE

Nanogate Receives German Brand Award

The Group receives a prestigious German Brand Award in the class "Excellence in Branding" in the category "Sports and Outdoor Activities" for the successful market introduction and positioning of its EMPIRE brand. The subsidiary Nanogate Textile & Care Systems markets an innovative care and protection system for sneakers under its new brand.



AUGUST

Partnership Intensified

Nanogate continues and intensifies its ongoing innovation partnership with an internationally leading technology and chemical group through another multimillion order.
The multiyear project sees Nanogate supplying high-quality coatings for transparent plastics.

AUGUST

Conversion to a Societas Europaea

With the approval of the shareholders' meeting in June 2017, Nanogate trades from August as a Societas Europaea (SE). The Group is aiming to strengthen its international focus with this move. Nanogate expects a higher profile in its sales markets and on the capital market.

DECEMBER

Further Internationalization

Nanogate continues its course of expansion, agreeing its acquisition of the Austrian company HTI High Tech Industries AG's plastics division, with which the Group intends to expand its strong market position, boost its international sales and strengthen its industry business. The agreed transaction allows Nanogate to benefit from cost advantages at a new location in Slovakia and from additional competence in the area of electronic applications. Closing of the acquisition was in January 2018.

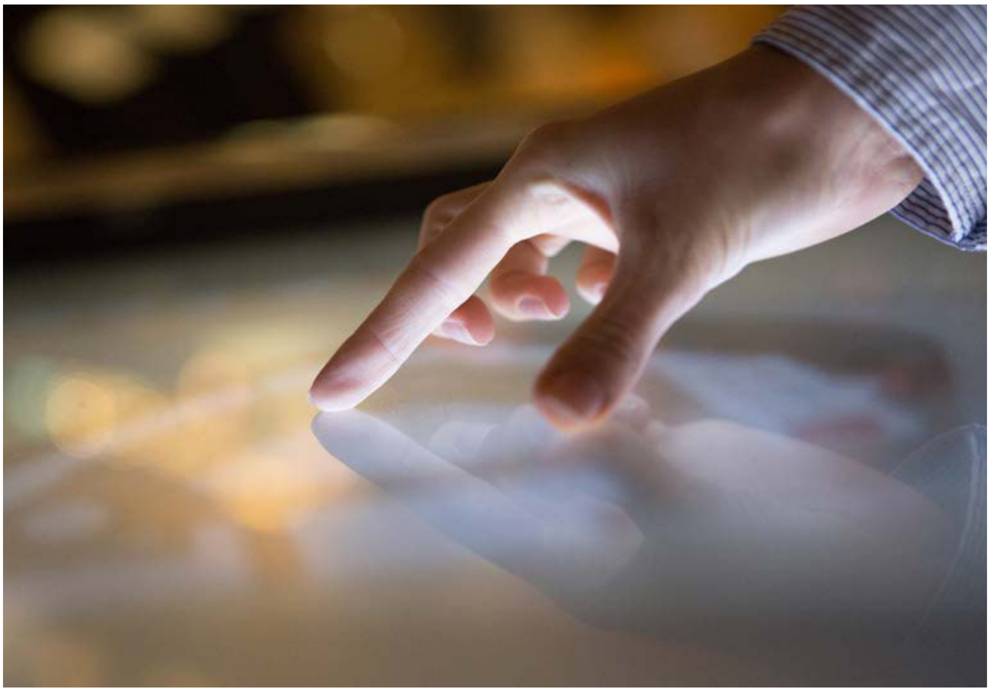
Strategy – Innovation Program Launched

The market for surfaces is continuously changing and is an important stimulus for new applications and products. Above all, we are currently seeing a trend toward new concepts for digitalization such as the Internet of Things – for example, with interactive user interfaces for various smart products – and increasing digital individualization. New designs are being created, additional functions are being made possible and innovative materials are opening up further areas of application. An important new market also includes driver assistance systems and autonomous driving in the area of new mobility, where innovative companies with many years of experience as forerunners can establish themselves in new markets. This is because integrated surfaces are contributing increasingly to the value of individual products and at the same time allowing differentiation from the competition. Especially in a world in which products are becoming increasingly interchangeable, high-end surfaces are gaining importance in buying decisions. As a leading global specialist for design-oriented high-tech services and components, Nanogate is well established as a long-term innovation partner for leading corporations. We ensure that luxury cars, medical devices, household electronics and many other products are equipped with new multifunctional surfaces and components in the highest optical quality.

New Opportunities Through Integrated Smart Surfaces and N-Metals® Design

To expand its strong technological position, the Group is currently implementing the largest innovation program in the company's history. In the 2018 fiscal year alone, the Group will invest over EUR 20 million in new technology and additional capacities and competencies. Our aim is to further expand the Group's leading competitive position and lay the foundation for further profitable growth.

The innovation program will partly focus on the development of the N-Metals® Design application portfolio for the decorative metallization of plastics at all sites. The aim is to offer numerous applications, for example, for replacing metals such as chrome and stainless steel and developing new solutions in the areas of decorative surface design and innovative lighting. To this end, Nanogate is establishing a new research and development (R&D) center at its site in Mansfield, Ohio, USA. The R&D center is expected to begin operations in the first half of 2019. At the same time, the capacities for N-Metals® Design are being comprehensively expanded. There has been great interest in our plastic metallization applications, especially in the U.S. In light of the dynamic developments on the market, our customers will very much appreciate our strong expertise and local presence.



As part of its innovation program, Nanogate will also expand its capacities in Europe and offer further surface technologies. In the future, particularly complex N-Glaze® components will be manufactured and expertly assembled at the site in Bad Salzuflen. The company is entering a new field of application with innovative plastic components with glass-like properties. Additional surface competencies, which are especially environmentally friendly and energy efficient, will be expanded in Lüdenscheid and Neunkirchen. Expansion investments are also planned in the Netherlands and at the newly acquired location in Slovakia, while the existing surface systems in Austria will also be expanded.

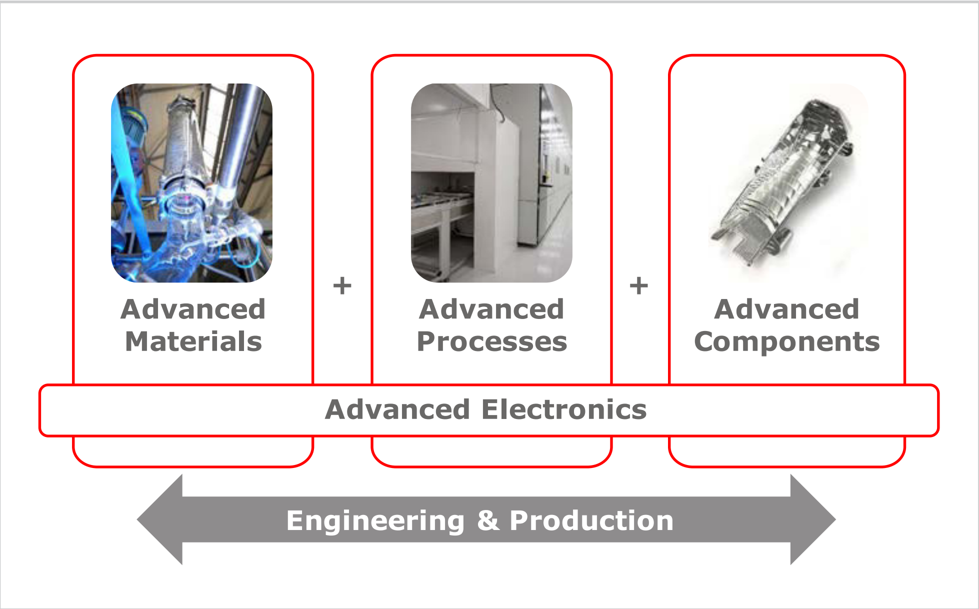
However, we also intend to play a key role in shaping the budding future market in integrated smart surfaces via the further development of our N-Glaze® and N-Metals® platforms. In the future, products of all kinds – from entertainment electronics to domestic appliances to cars – will be even more convenient and intuitive to operate. At the same time, completely new operating concepts will be possible, so that surfaces will more than ever before determine the function and look and feel of devices. In addition, integrated smart surfaces allow entire products to be redesigned and also produced more efficiently, smaller and more lightweight. Knowledge of innovative materials, the integration of innovative functions in combination with high-end surface technologies and efficient production are decisive competitive advantages in this market, leading to numerous application possibilities beyond just the controls.

High-Performing Technology Portfolio

The overarching objective of our efforts is to expand our technology leadership and to facilitate the next generation of innovative plastic components and surfaces. Nanogate is established as an innovation partner with international corporate groups and is known worldwide as one of the first ports of call in the surfaces market. We benefit from our many years of experience and cover the value chain from development to supply of manufactured components – including multifunctional coating in the highest optical quality. The Group is now represented with its own production facilities in several European countries as well as in the U.S. It also has other sales locations in Italy and the United Kingdom.

Our unique one-stop offer is based on three strong pillars:

1. Advanced Materials Engineering with broad knowledge of new materials
2. Advanced Process Engineering with our wide-ranging expertise in production and coating processes
3. Advanced Component Engineering with many years of experience in mass production



Our know-how and system expertise in the interdisciplinary area of Advanced Electronics supplements these three pillars. Our most recent acquisition in Austria also means that we have far-reaching electronics and surfaces know-how, which is important because close integration of electronics and plastics is playing an important role in ever more products.

Phase5 Growth Program

In its international expansion, Nanogate is continuing the Phase5 growth program launched in 2014. Since then, its sales and operating result have more than tripled, and exports have increased significantly. Alongside its innovation program, the Group will be focusing above all on its further organizational development in fiscal 2018. The strong growth is associated with the addition of new locations and target markets, and the international business is also characterized by its own particular opportunities and challenges.

We will therefore be connecting our locations even more closely in order to even better utilize synergies in sales, development and production. To this end, Nanogate will be further developing its internal structures and processes, also taking action in matrix structures, for example. These promise positive effects with regard to an improved international profile, overall decision-making processes and greater efficiency.

Promising Outlook

As growth stock, we are focusing on the global sales markets in a dynamic and ever-increasing overall market for surfaces. In so doing, we intend first and foremost to grow in the business with manufactured components and systems. To this end, we are relying on new technologies such as integrated smart surfaces and N-Metals® Design, as well as international market development. In addition, we will enter into selected new participations or collaborations in order to further complement our service portfolio or set up a presence in other regions.

New projects and orders will underpin our success story and strengthen the Group's market position. With its technologies and solutions, Nanogate is becoming a fixture of everyday life – in line with our vision "Touch us every day!®"

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®!

Expanding the Market Position

With its new subsidiaries in Neudörfl, Austria, and Vráble, Slovakia, Nanogate is continuing its growth strategy and the internationalization of the Group. Expanding the portfolio with forward-looking technologies is improving the sales potential by way of numerous products with access to new markets. The Group will benefit significantly from its expanded market position and is already expecting an increase in Group sales to over EUR 220 million for 2018.

New Market Opportunities in Central and Eastern Europe

In addition to many years of experience in the automotive business, the newly acquired Nanogate Slovakia also has a strong industrial business with first-class references. It focuses on systems expertise for producing and enhancing components with its own development and design capacities. Nanogate Slovakia supplies plastic solutions for the automotive industry, primarily for interiors and exteriors, and customers in the electronics industry and the white goods industry also rely on the center of excellence. Nanogate is also gaining a new, high-performance and also cost-efficient location, which reinforces the consistent continuation of the international expansion by way of the geographical expansion to Eastern Europe and paves the way for new market opportunities in that region.

Nanogate Electronic Systems in Neudörfl is a leading provider of special plastic components, with a broad product range in the industry and special expertise in electronic applications. The subsidiary serves the entire value chain, from engineering to production and logistics. The location has high development potential and will collaborate with the Group companies on new hybrid solutions requiring the combination of electronics, metal and plastics expertise.

The strategic partner HTP High Tech Plastics is specialized in producing lightweight components for the automotive industry. In addition, it will, in the future, take over further and complementary manufacturing steps from the Nanogate Group and will provide further capacities as part of joint projects, which will be supplemented with additional, forward-looking technology competencies.

Nanogate has extensive experience in acquiring new subsidiaries and therefore expects a quick process of integration into the Group. The individual companies will also continue the current management of the sites in the future. In many areas, for example, in the area of accounting or sales, the employees are in an intensive dialogue that strives to define mutual potential and synergies for market cultivation. In parallel, the order and product mix is being optimized in order to exploit synergies at the Group level and to further increase the profitability of the Group over the medium term.

Quality – A Core Company Value

The highest quality along all parts of the value chain and in all additional areas of the company is a crucial factor for success in Nanogate SE's course of growth. It is the only way to efficiently produce design-oriented, multifunctional surfaces and components in the highest quality, so that we can give our customers a competitive advantage. That is why "quality and personal responsibility" are twin core values within Nanogate's corporate culture, which is reflected in our products and in our conduct. A comprehensive quality management system that has a sustained impact on a variety of processes in our day-to-day work is a central aspect of our real aspiration to quality: Optimal raw materials, technologically sophisticated coating equipment and elaborate technical and manual testing procedures ensure that companies receive the best possible products and technologies from Nanogate.

Numerous certifications for quality, environment and energy management, as well as additional quality management standards for the high demands of the automotive industry and medical technology, underline our ongoing pursuit of outstanding solutions.

Material Test Center Established
An intra-Group Material Test Center was launched in 2017 to further professionalize production. In the future, this should support the sites in developing and adjusting their own or external product and process optimizations. The focus of the Material Test Center will be on industry-specific inspections, adapting inspection procedures with customers, generating inspection reports and planning and implementing internal and external testing.

Automation for Optimal Quality
The Group is also working on numerous projects to improve its quality controls. For example, to further optimize the coating services, the use of an automated camera testing system was evaluated and adjusted to Nanogate's needs. An internal CMM system (Coordinated Measuring Machines) and customer-specific programs for automated quality control are other initiatives that aim to automate quality testing. Automation is also increasingly playing an important role in manufacturing, where optical camera and physical sensor systems are used to identify deviations. By using new technology applications such as 3D printing for design and prototype development, Nanogate is already trying to ensure optimal quality in the development phase and to support customers with feasibility studies.

Responsibility as Part of the Corporate Strategy
A value-oriented governance and the assumption of overarching responsibility are inseparable from this understanding of quality for Nanogate. This is demonstrated both internally and externally, as Nanogate reports on its sustainability and corporate social responsibility on a voluntary basis, in its declaration of compliance to the German Sustainability Code. Since it started operations in 1999, Nanogate has been committed to sustainability and social responsibility, both in its core business and in its surroundings. We are convinced it is primarily companies who meet their social responsibilities, focus on respect and integrity and are ready to show diligence that increase their value over the long term; this understanding is a core component of our company strategy. Not least because of this, the company also undertook numerous internal activities in 2017 to further anchor its company values in the Group, to provide a stimulus for managers and to promote a culture of open dialogue using the idea of the "Two Values for the Month".

The share

Nanogate performed well on the stock exchange in the past fiscal year. Over the course of the year, its share went up 23.6 %, performing significantly better than the leading DAX index over the year. The SDAX and TecDAX grew even stronger. The share was listed at EUR 47.88 on average for the year (compared with EUR 32.55 in 2016), also reaching a record high of EUR 53.98. With the increased share price and the increased investor interest in Nanogate, the daily trading volume virtually doubled at all stock exchanges compared to 2016, to an average of 10,273 shares.

Coverage Extended

Analysts continue to recommend buying the Nanogate SE share; the Nanogate share price targets stood at between EUR 57.00 and EUR 63.30 in the first quarter of 2018, and were therefore significantly above its actual share price in this period. The prestigious private bank Berenberg initiated coverage in the previous year. Due to the listing on the newly created "Scale" market segment of the Frankfurt stock exchange, London-based analysts Edison Research now also produce regular research reports. In addition, Hauck&Aufhäuser, Landesbank Baden-Württemberg, SMC Research and Warburg Research also regularly monitor the share. Nanogate maintains an ongoing dialogue with the research institutes.

Dividend Proposal for 2018

Nanogate is positioning itself as growth stock and is investing significant funds in its expansion, for example, with new technologies and its further international market development. Nevertheless, in view of the good operating and financial development, the Management Board and the Supervisory Board will be proposing to the shareholders' meeting in June 2018 to again pay a dividend of EUR 0.11 per share to our shareholders. This moderate payment ensures that our shareholders will participate in the company's success, while at the same time securing the financial strength of the company with a view to its planned course of growth.

Shareholders' Meeting 2017

One of the most important items on the agenda at last year's shareholders' meeting was the resolution to convert Nanogate into a Societas Europaea (SE). In doing so, the Group intends to express its greater level of internationalization, promising a higher profile with customers and shareholders. In June 2017 (in Saarbrücken), the shareholders also approved the dividend proposal of EUR 0.11 per share and elected Dr. Peter Merten as a new member of the Supervisory Board. The conversion to an SE meant that all Supervisory Board members were subject to reelection and were confirmed in their posts by the shareholders.

Ongoing Dialogue

Over the reporting period, Nanogate intensified its contact with investors and expanded its presence in the capital market. Discussions also took place in the U.S. for the first time. The most important platform remains November's German Equity Forum in Frankfurt, held annually by Deutsche Börse. The Management Board held numerous talks with interested investors over two days at what is considered to be Europe's largest investor conference. Numerous other roadshows and presentations at important investment conferences also took place.

Basic Data on the Share

Stock exchange segment	Scale (since 3/1/2017, previously Entry Standard)
Index	Scale 30
WKN / ISIN	A0JKHC / DE000A0JKHC9
Number of issued shares (as of 12/31/2017)	4,552,395
Designated sponsor	equinet Bank AG

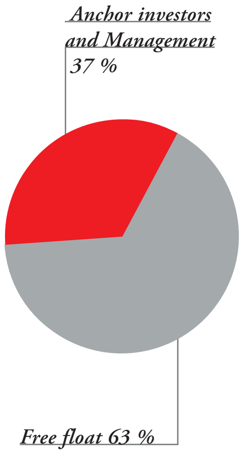
Share Capital Increased

The company's share capital increased significantly in the reporting period to EUR 4,552,395. The main contributor to this was a noncash capital increase of 382,947 shares as part of the transaction for the acquisition of around 80 % of what is now known as Nanogate Jay Systems. In addition, the Group placed 337,771 new shares as part of a cash capital increase with the exclusion of subscription rights, generating gross proceeds of issue of approximately EUR 14.2 million. The share capital also rose to lesser extent due to a noncash capital increase as part of the purchase price for the majority stake in Nanogate Goletz Systems as well as through share options exercised by Nanogate employees. After the end of the reporting period, the share capital increased as a result of a noncash capital increase of 275,000 shares – as part of the transaction for the acquisition of business units of the Austrian company HTI High Tech Industries AG – to EUR 4,827,395.

Shareholder Structure

As a consequence of the capital measures, the free float as of the end of March 2018 stood at 63 %. Investment company QInvest (Qatar), which had taken over its shares as part of the acquisition in Austria, was gained as an additional anchor shareholder. QInvest intends to hold the shares over the long term and also to provide financial support for Nanogate's further future growth. Other anchor investors remain Heidelberg-Capital and Luxembourg-based Luxempart, as well as Jay Industries from the U.S., the former sole proprietor of Nanogate Jay Systems. In tandem, the company has gained other new, long-term oriented investors, for example, well-known family offices and international investment companies. The largest institutional investors within the free float include, among others, German and French fund management companies.

Shareholder Structure



As at: 17/4/2018, figures rounded

Switch to the Scale Segment of the Stock Exchange

In March 2017, Nanogate was one of the first issuers in the newly created stock exchange segment "Scale", which replaced the previous Entry Standard. In the selection index "Scale30" that has since been launched, Nanogate SE's share is one of the strongest. Deutsche Börse's new SME segment promises greater awareness of the listed companies and of Nanogate as a reference and testimonial for its marketing. Nanogate has already been holding the annual analyst conference required in the new segment voluntarily for many years, thus exceeding the earlier requirements. In any case, the Group orientates itself toward the greater transparency standards of the Prime Standard and publishes its financial statements more quickly than required by the regulations; its annual report will already be published at the end of April and its half-year report at the end of September. In addition, all publications will be voluntarily translated into English. Important standards of the regulated market, such as ad hoc publicity and the publishing of directors' dealings, are now also applicable in the "Scale" segment.

Particularly thanks to the increased transparency regulations and improved marketing compared with the Entry Standard, the Management Board still believes that the "Scale" segment is a suitable stock exchange platform. The company nevertheless continuously reviews whether or when a change is advisable. Alongside this, internal processes – for example, in accounting – are further professionalized. In view of its long-term and comprehensive social engagement, the company has published its declaration of compliance with the German Sustainability Code for the first time and on a voluntary basis.

Share Details

Source: Bloomberg	2017	2016
Average price (Xetra)	EUR 47.88	EUR 32.55
Share price at start/end of year (Xetra)	EUR 38.00 / EUR 47.00	EUR 31.50 / EUR 38.00
Share price high/low for the year (Xetra, intraday)	EUR 53.98 / EUR 37.52	EUR 38.44 / EUR 24.30
Market capitalization at year-end	EUR 214.1 million	EUR 143.8 million
Average trading volume (daily, all trading centers aggregated)	10,273 shares	5,320 shares

Report of the Supervisory Board

Dear shareholders, ladies and gentlemen,

In the 2017 fiscal year, Nanogate SE once again expanded its good market position. Alongside its good financial development, the important business events of the past fiscal year include the integration of the U.S. subsidiary Nanogate Jay Systems LLC and the agreement for the acquisition of business units of the Austrian company HTI High Tech Industries AG. Overall, Nanogate has stable foundations for further business development.

As part of good corporate governance and control, the Supervisory Board attaches great importance to the ongoing and trusting collaboration with the Management Board. It followed the company closely over the reporting year, continuing its good collaboration with the Management Board. The Supervisory Board carried out its duty as a supervising body with great care, as defined by the German Stock Corporation Act and the company's articles of association and rules of procedure. The Board was involved at an early stage in all fundamental developments and decisions. In continuous critical dialogue with the Management Board, the Supervisory Board was provided with regular, 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. Alongside the official Supervisory Board meetings, the monthly reporting contributed to this. 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).

Supervisory Board Agenda
Five regular Supervisory Board meetings took place during the reporting period. The members of the Supervisory Board were all present at all meetings, and the members of the Management Board were invited accordingly. In advance of each meeting, the members received detailed written documents relating to each topic on the agenda.

The Supervisory Board met for the following regular Supervisory Board meetings in 2017:
- February 21 in Göttelborn
- April 26 in Frankfurt/Main
- June 29 in Saarbrücken
- September 26 in Frankfurt/Main
- November 29 in Geisenheim-Johannisberg

In addition to the regular Supervisory Board meetings, a strategy workshop and other meetings took place on September 27. In order to discuss and decide on important topics relating to the company at short notice, the Supervisory Board and Management Board also communicated via numerous telephone conferences. Resolutions of the Supervisory Board were also made in individual cases by circular resolution. There are no apparent conflict of interests among members of the Supervisory Board or Management Board.

The Supervisory Board meetings and other meetings during the reporting period focused on the following issues:
- Operational performance as well as liquidity and financing
- Corporate planning
- Risk situation and management, as well as compliance and controlling
- Further strategic development of the Group and its international focus
- Consolidated and annual financial statements for 2016 and proposal for the appropriation of profits

- Preparation of the shareholders' meeting
- Additions and equity investments (M&A activities), particularly the agreed acquisition of HTI High Tech Industries AG's plastics division
- Further development of the Supervisory Board
- Extension of contract with Ralf Zastrau (CEO)
- Execution of the cash capital increase in April 2017
- Switch to the Scale stock exchange segment
- Conversion of legal form to a Societas Europaea (SE)

Members of the Supervisory Board
At the shareholders' meeting in June 2017, Dr. Peter Merten, former long-term CFO at Rheinmetall Automotive AG, was elected as a new member of the Supervisory Board. He succeeds Sebastian Reppegather, member of the Management Board of the Luxembourg-based investment company Luxempart S.A.

The conversion of Nanogate AG into a Societas Europaea meant that all other members of the Supervisory Board had to face reelection at the shareholders' meeting. Dr. Clemens Doppler, Hartmut Gottschild, Oliver Schumann, Klaus-Günter Vennemann and Dr. Farsin Yadegardjam were 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 the 2017 fiscal year.

The Supervisory Board formed two committees to discuss selected topics in detail:
- The Audit Committee deals primarily with the Group's accounting and risk management. It also prepares the approval of the annual and consolidated financial statements. The Committee met three times in 2017 and also held telephone conferences. Its members are currently Dr. Peter Merten as the 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. The committee met six times in the reporting period 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 Management Board of the company remains unchanged. In the reporting period, the contract with Ralf Zastrau as CEO was extended until March 2021. The other Management Board members in the reporting period were Michael Jung (COO, appointed until December 2020) and Daniel Seibert. For personal reasons, Daniel Seibert will be taking on new responsibilities outside the Nanogate Group during the 2018 fiscal year. Nevertheless, he will continue to provide support to Nanogate as the Chief Financial Officer, beyond the end of his original term (April 30, 2018), until his successor assumes the role. His successor has been appointed by the Supervisory Board with effect from September 1, 2018.

Consolidated and Annual Financial Statements 2017
The auditing company 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 the 2017 fiscal year. The audit focused on the topics of sales accruals, inventories measurement and personnel obligations, as well as the recoverable value of intangible assets (including goodwill and brands).

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. The Audit Committee subsequently informed all members of the Supervisory Board of its advice and recommendations.

All members of the Supervisory Board received the necessary audit reports in good time before the meeting to adopt the financial statements on April 25, 2018. The auditor was available at the meeting to answer questions and to 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.

The Supervisory Board would like to thank the Group's employees for their work and dedication. At the same time, the Supervisory Board would like to thank the members of the Management Board for their full commitment. We thank our shareholders and all our customers and business partners for their continued confidence.

Quierschied, Germany, April 25, 2018

Oliver Schumann
Chairman of the Supervisory Board

Group Management Report 2017 of Nanogate SE, Quierschied, Germany

1 Fundamental Principles of the Group

The Nanogate Group (Nanogate) is a leading global specialist for design-oriented high-tech surfaces and components. The Group develops and produces surfaces and components of the highest optical quality and enhances them with additional properties.

Nanogate launched its Phase5 growth program in 2014 and has since significantly increased its business volume and profitability. With its slogan, "A world of new surfaces", Nanogate reinforces its aspiration of using intelligent surfaces and components to give products a competitive edge and to help companies generate additional value. It stands for Nanogate'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 opens up the diverse possibilities offered by multifunctional and design-oriented surfaces and sophisticated components for companies in a wide range of industries. The focus is on applications for plastics as a particularly demanding substrate. Nanogate also offers systems and applications for other substrates, such as metal or glass. Innovative materials, as well as new designs and functions, are intended to increase the competitiveness and profitability of Nanogate customers and to reap environmental benefits. Nanogate's solutions and expertise can give companies a technological advantage and improve their products and processes.

To this end, Nanogate adopts the strategic approach of serving its customers as a long-term innovation partner. 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. As a result, Nanogate is also continuously developing its profitable components business, assuming – in partnership with major corporate groups – overall responsibility for selected complete components (high-tech components). At the same time, the Group is enlarging its technology portfolio in order to expand 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. The value chain was at the same time continuously supplemented with further services.

Nanogate primarily focusses on attractive target industries such as the automotive, aviation, home appliance, interior, leisure and medical sectors. The company sees continued significant sales and margin potential across all of these markets for systems in the areas of N-Metals® Design (decorative metallization of plastics) and N-Glaze® (innovative plastics with glass-like properties). Significant funds have flowed into expanding both areas and the associated brands over recent years. The Group is also developing the future market for smart surfaces. To do this, Nanogate is using its broad technology portfolio and will in the future also integrate electronics expertise in innovative plastic surfaces. This allows Nanogate to offer companies opportunities for revolutionary design and operating concepts.

Nanogate's operating business is based on three strong pillars, which means the Group is covering the entire value chain.

I. Advanced Materials Engineering

Since it commenced operations, Nanogate has concentrated on exploiting the benefits of new materials for companies in the form of commercially successful products. Nanogate therefore occupies the crucial interface between the manufacturers of source materials and the manufacturers of industrial and consumer goods across various sectors. With its many years of chemical expertise, Nanogate develops, produces and integrates surface systems based on its own as well as external source materials for the enhancement of numerous substrates. An important basis for this is its comprehensive experience in the use of new materials. Its existing expertise in the area of nanotechnology as a cross-sectional technology is an essential cornerstone of its innovative and comprehensive application and technology portfolio.

II. Advanced Process Engineering

Nanogate's numerous production and coating processes cover a wide range of functions and substrates. Its engineering expertise ranges from its own process development to plant construction and to patented enhancement processes in ongoing mass production. The Group operates under clean-room conditions on many projects in order to ensure the highest optical quality. In doing so, high-performance PVD processes and wet chemical coating processes of various kinds are used and its technology expertise is continuously developed. The wide range of systems includes, for example, ink-jet processes, flat-spray facilities and the use of robot-assisted flow-coat systems. The combination of many years of experience and leading technologies ensures low reject rates and high levels of efficiency.

III. Advanced Component Engineering

In its operating subsidiaries, the Group has experience spanning decades in the development and production of components of the highest optical quality as well as in the multifunctional enhancement of surfaces. This primarily includes experience in the design process and the efficient manufacture of large volumes in plastic forming processes of the highest quality, and associated services such as laser etching, pressure mounting or pre-assembly. Nanogate is therefore able to meet the requirements of many customers for a complete, enhanced component. In the Advanced Polymers application area, in particular, companies benefit from its integrated expertise: Nanogate has a mastery of almost every plastic and a wide range of surface types.

1.2 Group Structure and Operating Subsidiaries

The Nanogate Group consists of the parent company Nanogate SE, Quierschied, and the consolidated subsidiaries Nanogate Industrial Systems GmbH, Quierschied, Nanogate GfO Systems GmbH, Schwäbisch Gmünd, Nanogate Textile & Care Systems GmbH, Quierschied, Nanogate PD Systems GmbH, Bad Salzuflen, Nanogate Vogler Systems GmbH, Lüdenscheid, as well as Nanogate Goletz Systems GmbH and Nanogate Medical Systems GmbH, both in Kierspe. The shares in Nanogate Eurogard Systems B.V. and Nanogate Glazing Systems B.V. – both in Geldrop, the Netherlands – are pooled in the intermediate holding company Nanogate Nederland B.V. The acquisition of around 80 % of the shares in the present Nanogate Jay Systems LLC (formerly the plastics division of Jay Industries Inc., Mansfield, Ohio, U.S.) was subsequently concluded in January 2017. In addition, Nanogate announced its acquisition of selected business units of the Austrian company HTI High Tech Industries AG in November 2017. This transaction, intended to strengthen internationalization and plastics competence, was concluded in January 2018 (see Report on events after the balance sheet date, Note 34).

1.2.1 Nanogate SE

The parent company now trades as a Societas Europaea (SE), with the approval of the shareholders' meeting in June 2017. The change was recorded in the commercial register in August 2017. As the holding company, the parent company Nanogate SE is responsible for the strategic and operational management of the Group and its operating subsidiaries. Central material development and production, 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, particularly on the market for metal surfaces, for example, surfaces made of aluminum or stainless steel, as well as metallization, especially of plastics. This is in addition to energy efficiency applications, among others, but also increasingly in addition to other applications, such as coatings for products using stainless steel. The company also has a center of excellence for N-Metals® at its Neunkirchen site, which encompasses applications under the N-Metals® Design brand.

1.2.3 Nanogate Textile & Care Systems GmbH

Nanogate Textile & Care Systems GmbH targets various markets, including the sport/leisure market, involving do-it-yourself (DIY) systems for improved cleaning, as well as care and protection of textiles that also feature hygienic properties, for example. Some of the solutions are also sold under their own brands, such as "feldten" and "Empire". The company received the German Brand Award in 2017 for the successful branding of the "Empire" products. Nanogate Textile & Care Systems also implements applications for functional textiles.

1.2.4 Nanogate GfO Systems GmbH

Nanogate GfO Systems GmbH specializes in the technical and optical enhancement of complex plastic and metal surface geometries. In addition, the company has an ink-jet technology that is unique in Europe. The company is celebrating 40 years of trading in 2017. In order to simplify the Group structure, the company has been trading as a GmbH rather than as a stock corporation since last year.

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 specialist sector of coating transparent plastics. The company, which began operations in 1992, concentrates on the buildings/interiors, aviation and special-purpose vehicles and machinery sectors. 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. A center of excellence for N-Glaze® applications is operated at Nanogate PD Systems GmbH's headquarters in Bad Salzuflen. With this center of excellence, Nanogate offers the integrated development, production and subsequent enhancement of transparent and colored N-Glaze® components in one location. Nanogate concluded the acquisition of the outstanding shares in the company in January 2017, making it the sole shareholder.

1.2.7 Nanogate Glazing Systems B.V.

Nanogate Glazing Systems B.V. 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.

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 acquisition of the plastics specialist significantly expanded Nanogate's systems expertise in 2016 in the area of high-demand plastic components. The company supplies customers from the automotive, electronics and domestic appliances industries. The company was founded in 1969. Nanogate Goletz Systems GmbH cooperates closely with Nanogate Vogler Systems GmbH as part of its integration into the Group.

1.2.10 Nanogate Medical Systems GmbH

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

1.2.11 Nanogate Jay Systems LLC

The subsidiary Nanogate Jay Systems LLC is a leading, integrated provider for the high-quality enhancement of plastic surfaces and components. The acquisition of around 80 % of the shares was completed in January 2017. The shares in the company are pooled in the intermediate holding company Nanogate Technologies Inc. Both companies have been included in the consolidated financial statement since January 2017 due to their full consolidation.

With around 400 employees, Nanogate Jay Systems has been active on the market since 1968. The majority-owned subsidiary, integrated into the Group in 2017, improves Nanogate's access to the U.S. market, giving it its own development and production capacities there and expanding its technology portfolio. 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 its strategic focus, the new subsidiary ideally complements the Nanogate Group's existing technology portfolio, meaning that processes and procedures can be exchanged efficiently between all of the companies in the Group. Customers of its new majority-owned U.S. subsidiary 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.

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 business volume and increased profitability. Design-oriented, high-performance surfaces and components based on new materials and of the highest optical quality 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 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 the automotive, aviation, home appliance, interior, leisure and medical sectors. The focus is on systems that support value preservation (e.g. scratchproof coatings, UV protection and chemical stability), reduce the need for cleaning ("easy-to-clean"), have hygienic properties or contribute to energy efficiency. Design-oriented surfaces and components made from innovative materials and the decorative metallization of plastics are also in particular demand. The Group is opening up the market for smart surfaces as a new field of application.

According to a forecast from 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 expects, on the other hand, that the market for plastic surfaces could increase to a volume of more than USD 7.7 billion by 2021. Analysis firm Markets and Markets forecasts that the automotive industry will be the primary source of increasing demand; the market volume for glazing applications in the automotive industry alone is expected to grow to almost USD 4 billion by 2021, and they expect the global market for surfaces in the automotive industry to increase to over USD 16 billion. Nanogate itself sees for the future an accessible global market worth considerably more than EUR 1 billion 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.

In sales, the Group depends on two strong brand worlds:

- The Group produces and sells systems and applications in metals under its N-Metals® brand. These include, for example, energy efficiency solutions for heat exchangers in heating systems. The Group also sees significant opportunities for decorative metallization of plastics, which are sold under the N-Metals® Design brand. This market is also driven by increasing demand for chrome replacement solutions, where Nanogate is targeting an attractive market and offering a broad portfolio with numerous solutions. Nanogate has the relevant expertise and production capacities at several locations such as Mansfield (U.S.) and in Neunkirchen and Schwäbisch-Gmünd (Germany).
- The Group sells applications with innovative plastics mainly under the N-Glaze® brand. The management sees major growth potential 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, for example. The Group therefore has its own production capacities for the integrated manufacture of plastic components, the enhance-

ment 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.

The Group's companies also manufacture and sell traditional applications, for example, in the leisure, home appliance, interior and medical sectors.

Across all target industries, Nanogate attaches great importance to developing and distributing environmentally friendly systems and processes. The intention is to gain new customers and distribution partners – if possible, internationally active market leaders in their fields – with both existing and new technologies. Beyond this, Nanogate's focus is on further opening up international markets and new areas of application, including by means of new subsidiaries 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 management strives to find a balance between investing in growth and optimizing its cost structure. The Group is managed using the two important performance indicators of sales and EBITDA. Further performance indicators 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 are 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.

Nanogate has shown strong growth internationally in previous years and now has locations in several countries, including USA. Sales in North America and in Asia have, at the same time, increased significantly. To take into account the enlarged internationality, in the future, the Group will review the development of its course of business in the national and international segments, in accordance with the various risk profiles and complexity of the various markets. In this way, the Group will further increase the transparency of its reporting.

1.5 Research and Development

Expanding the technology portfolio is a fundamental component of the expansion strategy and part of the Phase5 growth program. For this reason, significant funds and investment continue to flow into the development of new applications and solutions. The most important new areas include innovative solutions for the metallization of plastics marketed under the N-Metals® Design brand. For this purpose, the Group has numerous projects at its European and U.S. sites. In addition, production at the Neunkirchen site began with sampling for initial projects. The Group also launched a comprehensive innovation program. The aim is to develop numerous new applications and systems. The focus here is on the areas of N-Metals® Design and integrated smart surfaces, as well as new mobility.

Furthermore, Nanogate began marketing a platform for the replacement of stainless steel in January 2018. The new technology is based on innovative forming processes and subsequent multifunctional enhancement. The process involves the use of heat-resistant plastic, which is metallized with a stainless steel look in a PVD process developed by Nanogate. Various surface variations are possible.
Building on its previous activities, Nanogate has been expanding into the market for smart surfaces since 2018. The integration of electronic functions into product surfaces, together with

multifunctional properties, will allow completely new design and operating concepts for devices of all kinds in the future. Another advantage is that the corresponding components can be designed differently, i.e., produced to be more efficient, smaller and more lightweight. New designs for buttons are in particular demand in the target markets of automotive, aerospace, home appliances and consumer electronics. The conception of interfaces between human and machine, and new solutions in the area of structural electronics and multifunctionality, are likely to be mega-trends in product development over the coming years. Our most recent acquisition in Austria also means that the Group can now access further-reaching electronics and surfaces expertise, through to the production of surfaces and components. The Group uses its comprehensive and long-standing expertise in developing and producing multifunctional high-performance surfaces for plastic components in the highest optical quality.

The capitalized development costs amounted to EUR 0.9 million (PY: EUR 0.4 million) in the reporting period. The amortization of capitalized development costs stood at EUR 0.7 million (PY: EUR 0.9 million). The expenses for research and development across the Group amount to EUR 7.6 million (PY: EUR 5.8 million). For reasons of efficiency, the focus is 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, so Nanogate 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

According to the International Monetary Fund (IMF), the global economy grew 3.7 % in the previous year, i.e., stronger than in 2016, at 3.2 %. The IMF's expectations of October 2017 were therefore also exceeded. Germany, on the other hand, achieved its strongest growth since 2011, as reported by the Federal Statistical Office in January 2018. It reported that gross domestic product in Germany increased by 2.2 % in the reporting year, compared with 1.9 % in 2016.

Development of Economic Growth

in %	2017	2016
Global (world output)	3.7	3.2
Germany	2.2	1.9
Europe (euro area)	2.4	1.8
U.S.	2.3	1.5
China	6.8	6.7

Sources: IMF, Federal Statistical Bureau (for Germany)

The industries relevant to Nanogate performed positively in 2017. The automotive industry recorded a pleasing course of business, with the German Association of the Automotive Industry

(VDA) reporting that "overall, 2017 was a good year for the automotive industry". In Europe, sales rose 3 % and reached their highest level since 2007. While the sales figures fell 2 % in the U.S., however, the Chinese market (with regard to the sales figures) increased by 2 %. The chemical-pharmaceutical industry in Germany also recorded strong growth. According to the German Chemical Industry Association (VCI), production rose 2.5 %, and sales even increased by 5.5 %. According to the VDMA industry association, German mechanical and plant engineering companies achieved production growth of 3 %. According to an announcement in November 2017 from industry association SPECTARIS, German manufacturers of medical equipment were expecting growth in sales of almost 5 % for 2017. With reference to the Federal Statistical Office, the GfK market research institute announced mid January that, according to initial estimates, private consumer spending – particularly significant for the development of target markets such as home appliances or leisure – had increased by around 2 %. The market researchers had originally expected a rise of at least 1.5 %.

2.2 Course of Business

Nanogate continued its long-term profitable growth course in the reporting period, again achieving record figures for business volume and profitability. The Group generated a leap in sales of around 66 % to EUR 186.2 million. The new U.S. subsidiary Nanogate Jay Systems contributed significantly to this. Despite the costs of the course of expansion, the operating result (EBITDA under the consolidated statement of income) increased particularly strongly compared to sales, by about 74 % to EUR 21.5 million. Operating business in 2017 focused on integrating the newly acquired U.S. business, further internationalization and the expansion of the technology portfolio. The Group's balance sheet total therefore increased by over 50 % to EUR 235.1 million.

Since closing the transaction for the acquisition of around 80 % of the shares in today's Nanogate Jay Systems in January 2017, it has been rapidly integrated into the Group. Nanogate is now concentrating on the technology transfer between its sites and on developing a cross-selling structure. The aim is to market and possibly produce all the Group's applications on both sides of the Atlantic.

As part of its course of expansion, Nanogate also acquired the remaining shares in its subsidiary Nanogate PD Systems in January 2017. The company was fully consolidated in previous years using the "anticipated acquisition method". The company, based in Bad Salzuflen, has significantly increased its sales and profitability since joining the Group.

Nanogate continued its growth strategy in November 2017 and contracted the acquisition of business units in the Austrian company HTI High Tech Industries AG. With this step, Nanogate is further expanding its market position in the area of high-quality plastic components and surfaces. Nanogate particularly sees great potential in the industrial and plastic components divisions, as well as in hybrid solutions with the combination of electronic, metal and plastics expertise. Surface competency and internationalization are also being strengthened. The transaction was completed in January 2018 after the signing in the previous year. The companies Nanogate Slovakia (formally HTP Slovakia in Vráble, Slovakia) and Nanogate Electronic Systems (formally HTP Electronics in Neudörfl, Austria) are being completely integrated into the Nanogate Group with a total of around 300 employees. In addition, Nanogate has acquired a 50 % stake in HTP Austria (Fohnsdorf, Austria) as part of a strategic partnership (including a later purchase option). The shares in the companies are pooled in the holding company Nanogate Central and Eastern Europe GmbH (Neudörfl, Austria) (see also the Report on events after the balance sheet date in the Notes to the consolidated financial statements).

The Group continued its expansion in 2018, investing in the Finnish company TactoTek Oy. The Finnish company, established in 2011, is a leading provider in the area of Injection Molded

Structural Electronics (3D) and is specialized in the integration of printed circuits and electronic components in injection molding plastics. Nanogate is acquiring a stake of 4.43 % in TactoTek Oy for a low single-digit million amount and is signing an extensive cooperation agreement. The aim is to rapidly open up the market for smart surfaces together. Both design and development expertise and capacities will be shared as part of the comprehensive collaboration. Nanogate should also be directly involved in setting up production processes for current projects. The Group is already seeing a high level of interest in new interactive surfaces that combine design, function and electronics in the area of integrated smart surfaces.

Nanogate received numerous new orders in the reporting year that will support future business growth. These include, for example, several new projects in the U.S. The total sales volume for the majority-owned subsidiary Nanogate Jay Systems' additional orders is in the double-digit million range and extends over several years. The projects include, for example, the supply of components with high-quality decorative enhancement to a Japanese manufacturer. The U.S. company is already serving various Japanese and South Korean automotive manufacturers' U.S. sites. The new project is also an important element for the Group-wide standardization and marketing of all applications in the area of N-Glaze®. In the North American market, Nanogate has additionally been awarded major new orders for design-oriented metallization. These orders encompass LED light systems for SUVs for two major brands. Nanogate will, for the first time in the U.S., also be supplying components for an electric automobile. Nanogate is also manufacturing and enhancing components based on the N-Metals® Design technology portfolio for a well-known U.S. manufacturer's model.

In addition, Nanogate is strengthening its order base with another multimillion order, continuing its innovation partnership with an internationally leading technology and chemical group. As part of the multiyear project, the Group company Nanogate Eurogard Systems will be supplying high-quality coatings for transparent plastics used in numerous applications, including, for example, noise protection glazing and safety glazing.

In expanding its technology portfolio, Nanogate focused primarily on the development of new applications in the area of N-Metals® Design. Applications for the decorative metallization of plastics, which are developed in the U.S. and at the European sites, are pooled under this brand name. This includes the metallization platform at the Neunkirchen plant, which was launched last year, the existing expertise at the Schwäbisch Gmünd site and other expertise in decorative metallization solutions at the Mansfield (U.S.) site. At the same time, the Group prepared the implementation of its new innovation program, with which Nanogate intends to expand its technology leadership, from the second half of 2017 onward. The focus is on new solutions and technologies, for example, for the new mobility target market and for the N-Metals® Design technology platform. The new applications will contribute to the expansion of the existing long-term innovation partnerships with international groups.

The other projects in 2017 included the company's conversion to a Societas Europaea (SE). The Group intends to use this to increase its international presence among customers and in the capital markets, with the expectation of an expansion in its business activities. The Nanogate SE share was also switched to the newly created Scale segment of the Frankfurt Stock Exchange. In connection with the expansion of its sustainability management, Nanogate submitted its first Declaration of Compliance with the German Sustainability Code (see Chapter 2.5.2.2), published on the homepage of the German Sustainability Code, which is maintained by the office of the German Federal Government's Council for Sustainable Development. Numerous measures were put in place as part of the Phase5 growth program to strengthen internal connections between development, marketing and production as well as to open up synergies within the corporate group. For example, this included setting up a central Material Test Center that aims to support the operating subsidiaries in developing and adjusting their own and external product and process optimizations. The focus of the Material Test Center will be on industry-specific inspections, adapting inspection procedures with customers, generating inspection reports and planning and implementing internal and external inspections. In parallel, the Nanogate Academy for internal training was launched. Nanogate participated in several specialist trade fairs during the reporting year, for the first time also in the U.S.

The Management Board is satisfied with the development over the fiscal year. Despite additional expenses related to investment, growth and integration, the objectives set in the previous year were achieved or even exceeded. For further analysis, please refer to the details under 2.5.1.

2.3 Net Assets, Financial and Earnings Position

2.3.1 Earnings Position

In the 2017 fiscal year, the Nanogate Group was able to achieve the highest sales and the highest operating result (EBITDA) in the Group's history. The Group therefore once again recorded strong business growth in the reporting period.

Sales- and EBITDA-Development

In EUR million	2016	2017
Sales	112.5	186.2
EBITDA	12.4	21.5

Thanks to the high level of demand, primarily in the strategic growth fields of advanced metals and advanced polymers, as well as the newly acquired U.S. subsidiary Nanogate Jay Systems, sales rose 65.5 % from EUR 112.5 million to EUR 186.2 million. Export sales increased 90 % to EUR 112 million (PY: EUR 59 million), equivalent to an export rate of 60 % (PY: 52 %). Please refer to the relevant risk reporting for information on the hedging of foreign currency risks. The U.S. is the most important foreign market, where Nanogate has a physical presence in the form of its own subsidiary. In addition, the Group also continued to see a pleasing level of demand in Europe and in Asia. Deliveries to customers based in Germany but who sell their products abroad are not included in the export sales figures.

Changes in inventories stood at EUR 1.2 million in 2017 (PY: EUR 2.4 million) and own work capitalized came to EUR 0.9 million (PY: EUR 0.6 million). Other operating income increased to EUR 2.5 million (PY: EUR 1.4 million). The overall performance (sales, changes in inventories, own work capitalized plus other operating income) increased accordingly by 63.3 % to EUR 190.9 million (PY: EUR 116.9 million).

In view of the strong growth, including the new U.S. subsidiary Nanogate Jay Systems, the cost of materials rose to EUR 78.2 million (PY: EUR 46.4 million). The gross profit margin reflects the Group's strategy of focusing increasingly on the business in developing and producing high-quality components. The gross profit margin (in relation to sales) therefore stood at 60.5 % in the reporting period (PY: 62.7 %). Personnel expenses amounted to EUR 58.7 million (PY: EUR 33.7 million). Compared with the sales growth, the other operating expenses increased at a lower rate, by 33.2 % to EUR 32.5 million (PY: EUR 24.4 million) and reflect transaction and integration costs for several acquisitions, primarily in the U.S. and in Austria (including Slovakia).

Nanogate continued its profitable course of growth in the reporting period. EBITDA rose particularly strongly (compared to sales) by 73.4 % to EUR 21.5 million, after reaching EUR 12.4 million in the previous year. Despite the costs involved in the course of expansion and significant transaction and integration costs, the EBITDA margin improved to 11.6 % (PY: 11.0 %). An adjusted EBITDA margin would have been significantly higher without these costs. The anticipated increase in depreciation and amortization reflects the high level of investment. Consolidated EBIT nevertheless grew, rising by 56.7 % to EUR 7.3 million (PY: EUR 4.6 million).

In addition to the increasing interest expense anticipated as a result of investments, the financial result also includes exchange rate effects. The previous year's figure was positively influenced by changes in the valuation of subsidiaries and their obligations (IAS 8). In total, the earnings before tax increased to EUR 3.9 million (PY: EUR 3.4 million).

In addition to taxes on the current result, the tax expenses of EUR 1.1 million (PY: EUR 0.9 million) also include income from the reversal of deferred tax liabilities as a result of the reduced income tax rates in the U.S. from 2018 and expenses from the valuation allowance of deferred tax assets.

Despite the costs related to the course of expansion and the investments, the consolidated net income increased to EUR 2.8 million (PY: EUR 2.5 million). In view of the higher number of shares, the earnings per share (undiluted, based on an average number of 4,402,223 shares) rose to EUR 0.64 per share (PY: EUR 0.70). Overall, Nanogate SE was able to continue its pleasing business development.

2.3.2 Financial Position

The Group's economic situation and liquidity remain good. Despite its expansion strategy and the acquisition of around 80 % of shares in Nanogate Jay Systems, the Group still has cash and cash equivalents of EUR 20.3 million (PY: EUR 22.6 million). Here, Nanogate benefited from its improved profitability and a successful cash capital increase.

The statement of cash flows is impacted by the expansion program, in particular, the financing of the majority-owned subsidiary in Nanogate Jay Systems. The cash flow from investing activity stood at EUR -51.4 million (PY: EUR -11.9 million), of which EUR 10.6 million (PY: EUR 7.3 million) was attributable to investments in innovation, capacities and equipment, as well as EUR 40.8 million to M&A activities (PY: EUR 4.6 million). The cash flow from financing activity amounted to EUR 34.4 million (PY: EUR 0.9 million). This primarily includes the fund inflow from new bank loans, which were primarily used to finance the majority-owned subsidiary in Nanogate Jay Systems, and from the cash capital increase in April 2017, as well as the repayment of existing obligations and the dividend payout to the shareholders of Nanogate SE and external shareholders at subsidiaries. Given the greater business volume and the implementation of the growth strategy, the cash flow from operating activities increased to EUR 14.9 million (PY: EUR 10.8 million).

2.3.3 Assets Position

With the new majority-owned subsidiary in Nanogate Jay systems in the U.S. and other investments, the Group's balance sheet total increased as of the reporting date December 31, 2017, by 50.3 % to EUR 235.1 million (PY: EUR 156.4 million). Despite the course of expansion, equity remained at a high level at 39.9 % (PY: 42.1 %).

The noncurrent assets increased to EUR 166.8 million (PY: EUR 105.7 million), primarily as a result of the new U.S. majority-owned subsidiary. Intangible assets amounted to EUR 77.5 million (PY: EUR 51.2 million), while property, plant and equipment totaled EUR 84.3 million (PY: EUR 47.4 million). The increased business volume also led to a rise in current assets to EUR 68.3 million (PY: EUR 50.8 million). In connection with this, the inventories increased to EUR 21.4 million (PY: EUR 12.5 million). As of the reporting date, the Group had cash and cash equivalents of EUR 20.3 million (PY: EUR 22.6 million) and unused financial commitments in the form of open current account credit lines of over EUR 20 million.

The Group's equity increased to EUR 93.7 million (PY: EUR 65.8 million). This is primarily a reflection of the capital increase against contributions in kind as part of the transaction for the majority-owned subsidiary in Nanogate Jay Systems and the successful cash capital increase. 337,771 new shares were placed as part of the cash capital increase without subscription rights in April 2017, with the result that the Group generated gross proceeds of issue of EUR 14.2 million. There was also a noncash capital increase (EUR 8,824.00, representing 8,824 new shares) in connection with the equity investment in Nanogate Goletz Systems, which was acquired in 2016. In addition, options for the subscription of shares were exercised by employees (EUR 29,620.00, representing 29,620 new shares). As of the reporting date, the share capital amounted to EUR 4,552,395 (PY: EUR 3,793,233). As a consequence of the borrowed capital required to finance the growth strategy, noncurrent liabilities increased to EUR 91.4 million (PY: EUR 53.7 million). The debt ratio (net bank liabilities/EBITDA) amounted to 2.3 as of December 31, 2017 (PY: 1.5) and underscores the Group's financial strength.

The Group companies are financed predominantly through Nanogate SE. There are, however, some short and long-term bank liabilities.

Control and profit and loss transfer agreements exist with the subsidiaries Nanogate Goletz Systems GmbH, Nanogate GfO Systems GmbH and Nanogate PD Systems GmbH.

2.4 Earnings Performance at Nanogate SE and Appropriation of Profits

The Group continued its positive performance in the reporting period. Sales and the operating result (EBITDA) reached new highs. Consolidated net income also continued to rise. Nevertheless, Nanogate SE's result, as a parent company with numerous holding and service functions, is negatively impacted by expenses for the implementation of the Phase5 growth strategy. The largest cost items include opening up new international markets, comprehensive M&A activities and business development. The result in Nanogate's separate financial statements, pursuant to the German Commercial Code (HGB), is negatively impacted by this. This development is also due to greater transaction and integration costs for external growth, the expected weaker development of subsidiaries, as well as rising costs related to additional responsibilities of the holding company, which has optimized its structures and processes in light of the sharply increasing business volume. The profit and loss transfer agreements with other subsidiaries that were concluded and executed in the fiscal year positively impacted the net result for the year, which totals EUR 0.3 million (PY: EUR 4.1 million). The significantly better net result for 2016 was influenced by higher profit distributions from subsidiaries.

Given the Group's positive overall operational development and its continued good prospects and financial strength, the Management Board again proposes 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 leeway for taking the forthcoming expansion steps has been maintained. Following a successful 2017, Nanogate also expects continued pleasing development in the current 2018 fiscal year. Sales and the operating result (EBITDA) are expected to further increase.

2.5 Financial and Nonfinancial Performance Indicators

2.5.1 Financial Performance Indicators and Comparison With the Previous Year

Nanogate manages the Group using the two important performance indicators of sales and EBITDA. Further performance indicators such as gross profit margin, EBIT, cash flow, working capital, investments and equity ratio are also used for operational and strategic management.

In the 2017 fiscal year, Nanogate significantly exceeded its forecast, which had already been raised in August, both in terms of sales and in terms of the operating result (EBITDA). This reflects the good strategic alignment and the strong operating development.

Business Development Comparison and Forecast for the 2017 Fiscal Year

In EUR million	ACTUAL 2016	Forecast 2017	Forecast August 2017	ACTUAL 2017
Sales	112.5	>160.0	>170.0	186.2
EBITDA	12.4	>18.0	>20.0	21.5

Based on the expectation at the start of the fiscal year of sales of over EUR 160 million and an EBITDA of over EUR 18 million for the 2017 fiscal year, the Management Board increased its forecast for 2017 in August, after strong business growth in the first half of the year. The forecast predicts sales of more than EUR 170 million and an operating result (EBITDA) of at least EUR 20 million. The pleasing course of business subsequently continued, and the Group ultimately exceeded even the raised forecast, with EUR 186.2 million in sales and an operating result (EBITDA) of EUR 21.5 million. This is particularly due to the growth of the foreign subsidiaries, which was greater than expected.

2.5.2 Nonfinancial Performance Indicators

2.5.2.1 Employees

As of the reporting date on December 31, 2017, the number of employees rose to 1,208 (PY: 776). The annual average for the number of employees was 1,209 (PY: 715). The rise is mainly the result of the acquisition and consolidation of Nanogate Jay Systems. Sales per employee remained at TEUR 154. There were 29 trainees (PY: 22) as of the reporting date.

2.5.2.2 Sustainability

Nanogate improved its sustainability management and voluntarily submitted its Declaration of Compliance with the German Sustainability Code (DNK) for the first time. In doing so, the Group is professionalizing its CSR reporting and is meeting a recognized standard. The Declaration of Compliance includes numerous aspects and criteria, and is published on the homepage of the German Sustainability Code, which is maintained by the office of the German Federal Government's Council for Sustainable Development.

Nanogate's business model should be secured over the long term with forward-looking and responsible corporate development. Sustainability is therefore a core component of the company's strategy and is embedded in all aspects of its business activity.

With a view to sustainable development, Nanogate sees the following opportunities and risks for its essential activities.

Opportunities are offered, in particular, in environmentally friendly applications, systems and processes. This is apparent both in the increasing numbers and in the growing customer interest. For example, Nanogate offers energy efficiency applications for heating systems, design advantages in automotive manufacturing that contribute to decreasing weight and therefore to lowering CO_2 emissions, and the transition from solvent-based to water-based material systems. At the same time, the Group is currently working on alternative, recyclable technologies sold under the N-Metals® Design brand to replace electroplating processes that are harmful to the environment. Overall, the development of environmentally friendly products and applications represents an important measure in implementing the sustainability strategy. The companies of the Nanogate Group also have various certifications in quality, environment and energy management.

The opportunities stand in contrast to risks in the area of nanomaterials. Even if a risk to humans and to the environment as a result of nanomaterials, according to the current state of knowledge, is completely ruled out, there may be unknown errors or defects in the future. Since its establishment, Nanogate has collaborated on creating as much transparency as possible regarding opportunities and risks in the new discipline of nanotechnology. Nanogate participates in various research projects for this purpose. In order to ensure maximum product safety in the future, collaboration is to be intensified with well-known independent testing institutes, institutions and laboratories. In addition, Nanogate COO Michael Jung is a member of the Management Board of the German Nanotechnology Association (e.V.) and Chairman of the Management Board of the network cc-NanoBioNet e.V., after previously being a member of the Federal Government's former Nano Commission.

Nanogate's sustainability program is oriented towards the three main goals of sustainable business, occupational health and safety and social responsibility. In the future, strategic goals will be defined by Nanogate SE, from which the operating goals of the individual companies are derived.

1. In order to achieve the first goal – sustainable business – the Group is relying primarily on energy efficiency in production and on innovative, environmentally friendly products. We aim to reduce energy consumption in production at all Nanogate Group sites. A Group-wide objective is the improvement of energy related services by at least 10 % over the next 5 years. To be able to test progress in a better way, an energy management system certified pursuant to ISO 50001 was implemented at the European sites that existed at the time. The Group is also focusing across all target industries particularly on developing and distributing environmentally friendly systems and processes, whose proportion of total sales should increase significantly over the coming years.
2. Occupational health and safety includes ensuring the safety of our employees at all stages of the value chain at Nanogate. The measures comprise, among others,

regular safety training, contingency plans and adequate protective equipment. Comprehensive information on occupational safety is provided on the intranet at the Göttelborn site and will be gradually transferred to all sites.

3. The third objective is to anchor, professionalize and increase the effectiveness of commitment to social responsibility in SME business practice over the long term. For this purpose, Nanogate is active in various networks in Saarland and across the Federal Republic of Germany that support entrepreneurs in the region with social responsibility.

2.6 Overall Statement on Business Development

As a leading international specialist for design-oriented high-performance surfaces and components, Nanogate is pursuing a clear course of growth. Its aim is to open up additional markets with new technologies and applications. There is generally a high level of interest globally in innovative surfaces of the highest optical quality.

To extend its market position, the Group has been pursuing its strategic Phase5 growth program since 2014. Since then, sales and the operating result have more than trebled. Both organic growth and acquisitions contributed to the significant growth of the business volume. New equity investments have been followed by conversion and optimization of the order and product mix to increase profitability and leverage synergies within the Group. At the same time, significant funds are flowing into the internationalization and expansion of capacities and the technology portfolio. The Group deliberately focuses on expansion in order to generate significantly more business and profitability over the medium and long term.

Nanogate has significantly expanded its product portfolio in previous years. The Group covers the entire value chain with additional expertise and other competencies in order to meet customer needs and, as an innovation partner, to assume all tasks relating to the development of production of complete components. Internationalization was also strengthened with new locations. The Management Board therefore believes that the Group is well positioned strategically and operatively to continue its long-term profitable course of growth.

3 Forecast, Risk and Opportunities Report

3.1 Forecast

3.1.1 Future Economic and Industry Development

In January 2018, the International Monetary Fund (IMF) forecast that the global economy will gain momentum in 2018 and grow stronger than in the reporting period. In its most recent World Economic Outlook Update, it increased its expectations for numerous countries for 2018 and 2019 compared with its forecast of October 2017. Drivers of the growth include, among others, the U.S. tax reform. However, while the IMF expects slower growth for Germany, Germany's leading economic research institutes anticipate accelerated economic development in their 2017 Fall Report.

Development of Economic Growth

In %	2017	2018 Forecast
Global (world output)	3.7	3.9
Germany	1.9	2.0
Europe (euro area)	2.4	2.2
U.S.	2.3	2.7
China	6.8	6.6

Source: IMF, Fall Report (for Germany)

The companies in the target markets that Nanogate primarily addresses are optimistic for 2018. The German industrial association VDA expects growth of 1 % for the global automotive market to 86 million vehicles. The German Chemical Industry Association (VCI) announced in December 2017 that the chemical industry expects a rise in production of 2 %, while sales are expected to increase by 3 %. In December 2017, the VDMA industry association forecast further production growth of 3 % for mechanical and plant engineering, putting it at the same level as 2017. Industry association SPECTARIS announced in November 2017 that German manufacturers of medical equipment expect sales growth of around 5 % in 2018. According to statements from the market research institute GfK, private consumer spending in Germany, which is crucial for the development of the target markets of home appliances and leisure, is expected to increase by 2 %.

3.1.2 Future Development of the Nanogate Group – Forecast for 2018

Sales and Earnings Forecast for 2018

In EUR million	2016	2017	2018 Forecast
Sales	112.5	186.2	>220.0
EBITDA	12.4	21.5	>24.0

Nanogate will continue its profitable course of growth in the 2018 fiscal year. The Group is likely to benefit from the start of production of important orders as well as from the acquisition of business units of the Austrian company HTI High Tech Industries AG. Overall, the Group has an order base in the three-figure million range. Thanks to its good order situation, Nanogate is able to assess its business development well. Alongside implementing the orders, the Group is concentrating on integrating the new units and expanding capacities and its technology portfolio. In order to strengthen its position as a long-term technology partner for international corporate groups, Nanogate launched a comprehensive innovation program. Given the pleasing order base and the integration of the Austrian and Slovakian subsidiaries acquired in 2018, the Group expects a further leap in sales of EUR 186.2 million to over EUR 220 million for the 2018 fiscal year. This planning is based on the assumption of a euro/U.S. dollar exchange rate of EUR 1.20 per dollar. Order and product mix are being adjusted, above all in the case of newly acquired subsidiaries, in order to further increase the profitability over the medium term. The gross profit margin will also be impacted in the future by the increasing importance of the components business. Despite the transaction and integration costs, as well as the further development of the internal organization, the operating result (EBITDA) is expected to increase from EUR 21.5 million to at least EUR 24 million. In parallel, Nanogate is planning an investment volume of over EUR 20 million to increase capacities and to expand its technology portfolio, as well as to implement its comprehensive innovation program. Consolidated net income is likely to remain negatively impacted by increased depreciation and amortization and by financing costs.

Following the strong start to the year, the Management Board is optimistic that Nanogate will further expand its market position in the future. In operational terms, the Group recorded persistently strong demand. For example, Nanogate extended its market position in the area of new mobility with several new orders. The total sales volume for the new multi-year projects is worth millions. In parallel, the launch of a technology for substituting stainless steel further improved the sales potential. In addition, production began for the N-Metals® Design at the Neunkirchen site, including sampling for initial projects. Nanogate sees significant potential over the long term in the future market of integrated smart surfaces. Interactive buttons transform smart surfaces into a new user experience with a revolutionary design. Here, electronics, multifunctionality and high-quality design are combined into high-performance surfaces. This allows for the development of entirely new kinds of operating concepts for devices of all types. In order to open up this profitable new market more rapidly, Nanogate has also acquired a strategic noncontrolling interest in the Finnish company TactoTek Oy.

As a leading global specialist for design-oriented high-tech surfaces and components, Nanogate believes it is well positioned to exploit the opportunities offered by the growing market and to turn them into profitable business. As a growth company, it is focusing on expansion. Nanogate will continue to invest significantly. It is focusing on new applications and markets in order to lay the foundation for greater profitability over the medium and long term. In addition to organic growth, new applications and technologies, as well as further internationalization, the Group will also focus on external growth in the future, in the form of acquisitions or equity investments. Its objective is to set the course for further expansion over the next ten years. As regards this objective, Nanogate is in promising negotiations with international commercial banks, at the time of preparing its Group management report.

3.2 Risk Report

In order to grow profitably, Nanogate takes (in the assessment of the Management Board) 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.

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 the assumption of 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 also 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 and risks that arise internally are taken into consideration. The Group does not enter into risks that endanger the company's existence.

The Group's risk management is an integral part of its management system. The process steps of risk management include the identification and assessment of risks, the management of measures and monitoring them.

Risk categories have been defined centrally and individual risk areas have been allocated for the identification of risks. Priorities have been set as a result. The Group's essential risk categories comprise strategic risks, market risks, financing and 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 managers of the individual 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 to the Management Board and the Supervisory Board takes place on this basis. The system is continually maintained and is subject to ongoing improvements both qualitatively and quantitatively when new Group companies are integrated. In order to communicate risks relevant to the capital market, the regular risk analysis was supplemented with ad-hoc reporting from 2016. This is partly accomplished while fulfilling the requirements of the European Market Abuse Regulation (MAR).

In addition, the compliance management system was further expanded and a GRC project committee for governance, risk management and compliance were formed to regularly discuss both the formal and substantive development of Group-wide compliance requirements, as well as the potential effects of risk scenarios and their avoidance at a Group-wide level. In addition, a Group-wide Code of Conduct was introduced in 2017. Numerous training sessions also took place. The newly appointed Chief Compliance Officer is responsible for managing and monitoring the compliance management and reports to the Management Board.

3.2.2 Overview of the Risks

Economic situation: Demand for high-performance surfaces and innovative plastic components in the highest optical quality is partly dependent on the macroeconomic development as well as the sector economy in the target markets. Companies' willingness to invest might be adversely affected by a slowdown in domestic demand. In light of this fact, the possibility of demand 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 of core expertise, such as in materials manufacture or nanotechnology, special chemical companies or manufacturers of end products, as well as suppliers of major corporate groups, such as automotive 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, Authorization 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 the procurement and sales markets. In addition, suppliers being unable to deliver certain primary products in good time or being unable to deliver any of them on time 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 the risk that the acceptance of new materials will be insufficient in general.

With the increasing internationalization of the business outside of the European Union, political developments and changing economic conditions may affect Nanogate's sales. 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 subsidiary in the U.S. and thus indirectly also on the Group. The same applies to a weakening of the US dollar exchange rate against the euro. This would have a significant negative impact on the consolidated net income and the consolidated statement of financial position. Nanogate is therefore monitoring political developments in the U.S. very closely and is currently reviewing possible options to effectively counter such developments.

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, there could still be dependencies on individual customers or industry developments in the future. In the 2017 fiscal year, Nanogate generated around 49 % (PY: 47 %) of its sales with its ten largest customers. Although it is usually the case that many individual projects are implemented with individual customers, sales fluctuations in relation to individual customers due to economic developments in individual markets cannot be ruled out. Nanogate usually works 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 in mass production plants, in opening up new international markets and in new subsidiaries. Funds are only committed when the marketing opportunities are sufficient or when business plans of subsidiaries 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, and neither can problems that delay the integration of acquired companies or increase the cost of doing so. 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.

Cooperation: 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 or raising subsequent unexpected claims.

Products: Nanogate SE and selected subsidiaries have certified a quality management system pursuant to ISO 9001. In addition to this, there are other certifications pursuant to ISO 14001, ISO 50001 and IATF 16949 as well as other certifications and audits held by customers, some of which significantly exceed the ISO requirements. Many 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 the current state of knowledge, nanomaterials permanently embedded in a matrix throughout their life cycle (comparable to a paint or lacquer system) do not constitute a danger to people or to 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 contain 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 using factoring in selected divisions. In addition, the Group has good liquidity and a high equity ratio. There is also the risk that changes to economic conditions, exchange rates and regulations may be to Nanogate's detriment and may negatively impact its order and earnings position. As part of its planned innovation offensive, Nanogate is holding talks with several banks in order to structure the corresponding financing under the best conditions.

Information technology (IT): The Group relies on standardized programs and high-quality hardware with a redundant design, as well as software for all business-critical IT applications. Data security is ensured by appropriate standardized procedures such as the virtualization of all key servers. Appropriate security facilities are also 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. Nevertheless, it is apparent, also from Nanogate's recruiting measures, that there is currently a skills shortage in Germany.

Financial risks: Nanogate bills the majority of its sales in euros, so that only in the case of sales of Nanogate Jay Systems is there a currency fluctuation risk. However, this was greatly limited with appropriate measures, such as active hedging transactions and natural hedging.

In relation to customer default risks, Nanogate also successfully implements risk prevention measures such as factoring, commercial credit insurance and comprehensive credit checks.

3.2.3 Assessment of the Risk Situation

With the increasing internationalization and the significantly greater business volume, as well as the growth of the Group structure, the risk situation that Nanogate can influence has also become more complex compared with the previous year. After concluding the acquisition of the majority-owned subsidiary in Nanogate Jay Systems, the Group continued its course of growth and agreed the acquisition of business units of HTI High Tech Industries AG in November 2017. This transaction was completed in January 2018. With this step, Nanogate is further strengthening its plastics competence and its international orientation. Its integration into the Group was started and is likely to be concluded in the 2019 fiscal year. Several projects, for example, the introduction of the Group guidelines in the Tax, Controlling, Accounting and Risk Management departments, are currently being implemented.

The risks are currently seen as manageable. These risks are already closely monitored and accounted for by risk management.

The specified risks, which could negatively impact the forecast, are those that are identified today. Existing risks from pending legal proceedings and asserted claims 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 that 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 aforementioned risks do not endanger the continued existence of the Group or subsidiaries, either individually or as a whole. The aforementioned market and financing risks are identified, addressed as part of the risk management and appropriate countermeasures are implemented where necessary.

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

Economic situation: 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 competitors, 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 various advantages: Existing products are given additional properties, production is made more efficient and more 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 estimates made by the market researchers at Future Markets Inc., around two thirds of the market as a whole relate to the sectors of 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 for the future an accessible global market worth more than a billion euros for its products and applications. In view of the industry's growing demand for complete systems and components, as well as comprehensive one-stop shopping, Nanogate sees considerable growth opportunities in the market for design-oriented, multifunctional high-performance surfaces and components of the highest optical quality. Furthermore, the Group has entered into a strategic noncontrolling interest in the Finnish company TactoTek Oy in order to position itself in the attractive future market for smart surfaces and to strengthen its medium-term sales potential in this area.

Customers: Nanogate's primary aim is to acquire new international customers. The growing foreign business, above all in the U.S. and in 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. Since 2017, the newly acquired subsidiary Nanogate Jay Systems has also been 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. Since closing the transaction for the acquisition of business units of HTI High Tech Industries AG, Nanogate is now also represented in Austria and Slovakia.

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. Further equity investments are also options that the Group can use to speed up growth. Significant funds are currently flowing into expanding capacities and the development of new systems and applications, primarily in the areas of N-Metals® Design and integrated smart surfaces.

Cooperation: 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 the relevant 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 the relevant customer. Since 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 has a good level of liquidity and a high equity ratio. The share of equity is an important performance indicator for the Group. At the end of 2017 and the beginning of 2018, the company has sufficient liquidity and, additionally, sufficient unused credit lines for its corporate financing. In addition, Nanogate strengthened its financial position once again in April 2017 with a capital increase without subscription rights. Changing conditions, such as new tax systems, which are currently being implemented in the U.S., may positively influence the Group's financial position, increasing companies' willingness to investment and thus boosting Nanogate's sales.

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

4 Other Reporting Duties

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

Nanogate SE prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and pursuant to Section 315e (3) HGB. The risks in Group accounting comprise accounting, valuation and reporting risks. To counter these risks, the accounting of Nanogate SE, as well as of Nanogate Textile & Care Systems GmbH and Nanogate Industrial Systems GmbH, is conducted centrally at the headquarters in Quierschied, Germany. The accounting of the other subsidiaries according to local regulations is usually conducted in a decentralized manner in their own commercial departments. Our subsidiaries are supported by the central accounting department and equity holding controllers of Nanogate SE in preparing accounts in accordance with the International Financial Reporting Standards. Local tax advisers are also involved where required.

Accounting guidelines applicable across the Group also support the fundamentally uniform treatment of business transactions.

The annual financial statements and the consolidated financial statements as of 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 audit committees set up in the respective divisions for review within their scope of responsibility.

The IT systems used for this are protected, as far as it is technically possible and at a very high level, against unauthorized access and data loss with appropriate security systems. The entire Group accounting process has a systematic and multilevel structure and includes various supervisory bodies.

The parent company, Nanogate SE, 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 holding 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 (but at least once a year), which serves as an orientation for the management as regards 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 13, 2018

Ralf M. Zastrau	Michael Jung	Daniel Seibert
Chief Executive Officer	Chief Operating Officer	Chief Financial Officer

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Consolidated income statement of Nanogate SE

for the fiscal year from January 1 to December 31, 2017

	Note	2017	2016
		EUR ,000	EUR ,000
Sales	5	186,231	112,452
Change in inventories of finished goods and work in progress		1,221	2,376
Other own work capitalised		927	617
Other operating income	6	2,540	1,411
Cost of materials	7	-78,193	-46,360
Personnel expenses	8	-58,712	-33,691
Other operating expenses	9	-32,467	-24,427
EBITDA		**21,547**	**12,378**
Amortization of intangible assets and depreciation of property, plant and equipment	10	-14,289	-7,746
EBIT		**7,258**	**4,632**
Financial income	11	4,730	1,472
Financial expenses	11	-8,126	-2,731
Earnings before taxes (EBT)		**3,862**	**3,373**
Tax expenses	12	-1,057	-875
Net result for the period		**2,805**	**2,498**
Earnings per share (EUR)	13		
Earnings per share, basic (EUR)		0.64	0.70
Earnings per share, diluted (EUR)		0.63	0.69

Consolidated statement of comprehensive income of Nanogate SE

for the fiscal year from January 1 to December 31, 2017

	Note	2017 EUR ,000	2016 EUR ,000
Net result for the period		**2,805**	**2,498**
Other comprehensive income/loss			
Items that will not be reclassified to P&L in the future			
Actuarial gains/losses from defined-benefit pension commitments and similar obligations	24	76	-58
Income taxes on items that are not retrospectively reclassified to P&L		-22	17
		54	**-41**
Items that will be reclassified to P&L in the future under certain conditions			
Foreign operations and foreign currency translation		-3,996	-
Income taxes on items that are not retrospectively reclassified to P&L		-	-
Other comprehensive income/loss		**-3,942**	**-41**
Total net income/loss		**-1,137**	**2,457**

Consolidated statement of financial position of Nanogate SE

as of December 31, 2017

Assets	Note	12/31/2017 EUR ,000	12/31/2016 EUR ,000
Noncurrent assets			
Intangible assets	14	77,527	51,161
Property, plant and equipment	15	84,299	47,387
Other financial assets	16	297	646
Deferred tax assets	17	4,105	6,097
Other assets		581	359
		166,809	**105,650**
Current assets			
Inventories	18	21,380	12,446
Trade receivables	19	21,634	10,739
Other financial assets	16	1,337	2,186
Income tax receivables		931	12
Other assets	20	2,732	2,813
Cash and cash equivalents	21	20,281	22,578
		68,295	**50,774**
		235,104	**156,424**

Equity and liabilities	Note	12/31/2017 EUR ,000	12/31/2016 EUR ,000
Equity	22		
Subscribed capital		4,552	3,793
Capital reserves		82,266	53,223
Other reserves		-3,025	1,012
Retained earnings		9,935	7,795
		93,728	**65,823**
Noncurrent liabilities			
Pension provisions	24	916	1,020
Other provisions	25	484	414
Financial liabilities	26	50,409	30,757
Other financial liabilities	28	28,738	15,336
Deferred tax liabilities	17	10,252	4,514
Other liabilities	29	594	1,681
		91,393	**53,722**
Current liabilities			
Other provisions	25	7,813	6,210
Financial liabilities	26	16,044	6,380
Trade payables	27	12,260	7,524
Other financial liabilities	28	6,624	10,705
Income tax liabilities		956	1,628
Other liabilities	29	6,286	4,432
		49,983	**36,879**
		235,104	**156,424**

Consolidated statement of cash flows of Nanogate SE

for the fiscal year from January 1 to December 31, 2017

	Note	1/1/–12/31/2017 EUR ,000	1/1/–12/31/2016 EUR ,000
Earnings before income taxes		3,862	3,373
Amortization of intangible noncurrent assets and depreciation of property, plant and equipment		14,289	7,746
Increase in provisions		1,313	1,918
Result from the disposal of noncurrent assets		2	-22
Other noncash income and expenses		-1,653	-767
Interest income		-53	-44
Interest expenses		4,373	2,197
Increase in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		-4,250	-5,393
Increase in trade payables and other liabilities that cannot be allocated to investing or financing activities		-368	2,684
Cash flow from operations before taxes		**17,515**	**11,692**
Income tax payments		-2,637	-898
Cash flow from operating activities		**14,878**	**10,794**
Proceeds from the disposal of property, plant and equipment		102	589
Payments for investments in intangible assets		-840	-1,120
Payments for investments in property, plant and equipment		-10,452	-6,182
Proceeds from investments in financial assets		378	18
Payments for investments in financial assets		-116	-573
Payments for the acquisition of consolidated companies	36	-40,792	-4,570
Proceeds from investments in other assets		340	-
Payments for investments in other assets		-61	-44
Interest received		9	28
Cash flow from investing activities		**-51,432**	**-11,854**
Proceeds from capital increases		14,271	9,975
Dividend payments		-1,176	-371
Payments in connection with consolidated companies		-2,875	-473
Proceeds from the raising of loans		48,281	3,699
Payments for the redemption of loans		-17,340	-7,296
Payments for the redemption of finance lease liabilities		-3,599	-2,762
Interest payments		-3,165	-1,877
Cash flow from financing activities		**34,397**	**895**
Changes in cash and cash equivalents		-2,157	-165
Changes due to the companies included in the consolidated financial statements, cash and cash equivalents		113	-
Changes due to exchange rates, cash and cash equivalents		-281	-
Cash and cash equivalents at the beginning of the period		22,578	22,743
Cash and cash equivalents at the end of the period*	31	**20,253**	**22,578**

* Transferred to balance sheet: credit lines from bank overdrafts totalling TEUR 28 (PY: TEUR 0).

Consolidated statement of changes in equity of Nanogate SE

for the fiscal year from January 1 to December 31, 2017

	Note	Subscribed capital	Capital reserves	Other reserves	Retained earnings	Group equity
		EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
As of January 1, 2016		**3,378**	**41,187**	**1,149**	**5,572**	**51,286**
Capital increases by issuance of new shares		415	11,920	-	-	12,335
Dividend distribution to shareholders		-	-	-	-371	-371
Share-based payments		-	116	-	-	116
Revaluation of property, plant and equipment (reclassification)		-	-	-96	96	-
Total net income/loss						
Net result for the period 2016		-	-	-	2,498	2,498
Other comprehensive income/ loss 2016		-	-	-41	-	-41
As of December 31, 2016	22	**3,793**	**53,223**	**1,012**	**7,795**	**65,823**
Capital increases by issuance of new shares		759	28,852	-	-	29,611
Dividend distribution to shareholders		-	-	-	-417	-417
Changes to Group companies/ companies included in the consolidated financial statements Initial consolidation of subsidiaries that were not previously consolidated due to immateriality		-	-	-	-343	-343
Share-based payments		-	191	-	-	191
Revaluation of property, plant and equipment (reclassification)		-	-	-95	95	-
Total net income/loss						
Net result for the period 2017		-	-	-	2,805	2,805
Other comprehensive income/ loss 2017		-	-	-3,942	-	-3,942
As of December 31, 2017	22	**4,552**	**82,266**	**-3,025**	**9,935**	**93,728**

Notes to the consolidated financial statements of Nanogate SE for the 2017 Fiscal Year

Notes to the Consolidated Financial Statements of Nanogate SE for the 2017 Fiscal Year

A. Accounting Principles and Methods

1. Principles of Preparation

The consolidated financial statements of Nanogate SE, Quierschied, Germany (hereafter also "Nanogate SE" or "the company") for the fiscal year ending on December 31, 2017, were prepared using Section 315e 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 2017 fiscal year were taken into account. All legal duties of disclosure and explanation according to the German Commercial Code (HGB) that exceed the scope of the IASB standards were fulfilled, particularly those pertaining to the preparation of a Group management report.

Nanogate SE is a company based in Germany, domiciled in Quierschied (Zum Schacht 3, 66287 Germany), and listed in the commercial register at the Saarbrücken district court under HRB 104141. The object of Nanogate SE 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 parent company now trades as a Societas Europaea (SE) with the approval of the shareholders' meeting in June 2017. The change was recorded in the commercial register in August 2017.

The shares of Nanogate SE are included in open market trading on the Frankfurt Stock Exchange. With the restructuring of the stock exchange segments in the open market of the Frankfurt Stock Exchange, Nanogate SE switched to the newly created "Scale" SME segment in March 2017. Nanogate SE's listing in the Scale segment obliges the company to publish audited consolidated financial statements, including a Group management report, in accordance with either the prevailing national accounting standards or the International Financial Reporting Standards, no later than six months after the reporting period ends. The Management Board of Nanogate SE has decided to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards.

The consolidated financial statements of Nanogate SE for the fiscal year from January 1, 2017, through December 31, 2017, were approved for publication by the Management Board and forwarded to the Supervisory Board for approval on April 13, 2018.

The reporting currency of the consolidated financial statements of Nanogate SE is the euro (€). Unless otherwise specified, all amounts are in thousands of euros (TEUR). 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 2017 Fiscal Year

The accounting methods applied in the consolidated financial statements comply with the mandatory standards and interpretations as of December 31, 2017. The following new or amended standards and interpretations that are important from the viewpoint of Nanogate SE were applied for the first time during the 2017 fiscal year.

New and Amended Standards and Interpretations to be Applied for the First Time in the 2017 Fiscal Year		Endorsement	Mandatory from financial years beginning	Effects on Nanogate SE's consolidated financial statements
Amendments to IAS 7	Disclosure Initiative (issued on January 29, 2016)	Endorsed on November 6, 2017	January 1, 2017	No significant effects
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (issued on January 19, 2016)	Endorsed on November 6, 2017	January 1, 2017	No significant effects
Annual Improvements to IFRS 2014 – 2016 Cycle	Annual Improvements to IFRS 1, IFRS 12 and IAS 28 (issued on December 8, 2016)	Endorsed on February 7, 2018	January 1, 2017 / January 1, 2018	No significant effects

These accounting standards, which are applicable for the first time in the 2017 fiscal year, have no material influence on, or are not relevant to, the presentation of the assets, financial and earnings position of the Nanogate Group. However, the first-time application of the Amendments to IAS 7 led to additional disclosures in the Notes to the Consolidated Financial Statements.

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, 2017 onward. Nanogate SE will not be voluntarily and prematurely applying the new or amended standards and interpretations below.

New and Amended Standards and Interpretations Requiring Mandatory Application in the Future		Endorsement	Mandatory from financial years beginning	Effects on Nanogate SE'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
Clarifications to IFRS 15	Revenue from Contracts with Customers (issued on April 12, 2016)	Endorsed on October 31, 2017	January 1, 2018	Additional provisions for ease of transition, otherwise no significant effects
IFRS 16	Leases (issued on January 13, 2016)	Endorsed on October 31, 2017	January 1, 2019	Description follows the table overview
IFRS 17	Insurance Contracts (issued on Mai 18, 2017)	Not adopted	January 1, 2021	No significant effects
IFRIC 22	Foreign Currency Transactions and Advance Consideration (issued on December 8, 2016)	Endorsed on March 28, 2018	January 1, 2018	No significant effects
IFRIC 23	Uncertainty over Income Tax Treatments (issued on June 7, 2017)	Planned for Q3 2018	January 1, 2019	Effects are subjected to current analysis
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions (issued on June 20, 2016)	Endorsed on February 26, 2018	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)	Endorsed on November 3, 2017	January 1, 2018	Not relevant

New and Amended Standards and Interpretations Requiring Mandatory Application in the Future		Endorsement	Mandatory from financial years beginning	Effects on Nanogate SE's consolidated financial statements
Amendments to IFRS 9	Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on October 12, 2017)	Endorsed on March 22, 2018	January 1, 2019	No significant effects
Amendments to IAS 19	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on February 7, 2018)	Planned for 2018	January 1, 2019	Effects are subjected to current analysis
Amendments to IAS 28	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on October 12, 2017)	Planned for 2018	January 1, 2019	No significant effects
Amendments to IAS 40	Transfers of Investment Property (issued on December 8, 2016)	Endorsed on March 14, 2018	January 1, 2019	No significant effects
Annual Improvements to IFRS 2015 – 2017 Cycle	Annual Improvements to IFRS IFRS 3, IFRS 11, IAS 12 und IAS 23 (issued on December 12, 2017)	Planned for 2018	January 1, 2019	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 new 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 more comprehensive information in the Notes. The analysis has revealed that the new impairment model, the amended classification and measurement standards (in particular, relating to trade receivables and factoring), as well as expanding the disclosure duties in the Notes, will lead to changes at Nanogate. However, the expected loss model shows no material effects on expenses are anticipated. The fundamental changes for hedge accounting are not currently relevant to the Nanogate Group, since Nanogate does not practice hedge accounting formally.

The first-time application of IFRS 9 does not result in any material effect on the net assets, financial and earnings position. Nevertheless, IFRS 9 may materially affect the presentation of the net assets, financial and earnings position, depending on future agreements or transactions. IFRS 9 was introduced on January 1, 2018. The cumulative effect of the first-time application is recorded in equity as of January 1, 2018.

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, IFRIC 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. During its analysis, the Nanogate Group identified circumstances in which the application of IFRS 15 leads to effects on the presentation of the net assets, financial and earnings position. Revenue recognition deviating from current practice will be necessary for certain contractual agreements for contractual agreements in connection with customer-specific products and tools, where there is no alternative possible use. In certain cases, sales must, in the future, be recorded earlier where there is an existing demand for payment for the service rendered. The effects arising from these changes are not expected overall to have a material influence on the presentation of the net assets, financial and earnings position. Significant parts of the analysis of the effects of IFRS 15 on the presentation of the net assets, financial and earnings position had already been completed at the time at which the consolidated financial statements were being prepared. IFRS 15 was introduced on January 1, 2018, using the modified retrospective method. The cumulative effect of the first-time application is recorded in equity as of January 1, 2018.

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. The effects on the net assets, financial and earnings position of the Nanogate Group associated with the first-time application of IFRS 16 in the 2019 fiscal year are currently being analyzed. A reliable estimation of the quantitative effects is not possible before conclusion of the ongoing project. In accordance with the current state of knowledge, the Nanogate Group expects the following qualitative changes to the consolidated financial statements: While payment obligations for operating leases previously had to be provided in the Notes to the Consolidated Financial Statements, the resulting rights and payment obligations must, in the future, be recorded in the balance sheet as rights of use and leasing liabilities (right of use model). By using this right of use model, the Nanogate Group is expecting a significant increase in its balance sheet total at the date of first-time application due to the rise in leasing liabilities and a similarly high increase in noncurrent assets as a result of the rights of use to be capitalized. In the future, depreciations and amortizations and interest expenses are to be recognized in the consolidated statement of income instead of leasing expense. This has resulted in more comprehensive information in the Notes.

According to current estimates, the other new or amended standards and interpretations named in the above table have no material impact on, nor are they relevant to, the consolidated financial statements of Nanogate SE.

3. Presentation of the Relevant Accounting Methods

The relevant accounting methods applied throughout the consolidated financial statements of Nanogate SE are presented below. An explanation of the specific applied accounting methods in relation to individual items on the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income is given within the additional Notes to the Group reports 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 SE 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 twelve months following the reporting date or that the liability must be settled within the 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 to the Group report. The established financial indicators 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 current and deferred tax income and expenses;
- EBIT: Earnings before financial income and expenses as well as current and deferred tax income and expenses;
- EBT: Earnings before current and deferred 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. Certain 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 SE and its subsidiaries, over which it exercises control. The Nanogate Group has control if it is 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 that are not of material significance in determining a true and fair view of the net assets, financial and earnings position due to their dormant or low level of operations for the Nanogate Group 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 consistently prepared as of the reporting date of the consolidated financial statements (December 31, 2017). The financial statements of Nanogate SE and its subsidiaries included in the consolidated financial statements are prepared using uniformly applicable recognition and measurement principles. All intra-Group 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 SE as the parent company, the following companies (hereafter referred to as "Nanogate Group") are included in the scope of consolidation pursuant to Section 313 (2) of the German Commercial Code (HGB) as of December 31, 2017:

Name of the subsidiary and head office	Main business	Share of capital in %	Consolidation
Nanogate Industrial Systems GmbH, Quierschied	N-Metals® surfaces	100.00	full
Nanogate GfO Systems GmbH (formerly Nanogate GfO Systems AG), Schwäbisch Gmünd	N-Glaze® surfaces for 3D systems	100.00[3]	full
Nanogate Eurogard Systems B.V., Geldrop/Netherlands	N-Glaze® surfaces for 2D systems	100.00	full
Nanogate Textile & Care Systems GmbH, Quierschied	Multifunctional textiles & DIY systems	100.00	full
Nanogate PD Systems GmbH, Bad Salzuflen	N-Glaze® components for 3D systems	100.00[3]	full
Nanogate Glazing Systems B.V., Geldrop/Netherlands	N-Glaze® components for 2D systems	100.00	full
Nanogate Nederland B.V., Geldrop/Netherlands	Holding	100.00	full
Nanogate Vogler Systems GmbH, Lüdenscheid	Decorative, multifunctional surfaces	100.00[4]	full
Nanogate Goletz Systems GmbH, Kierspe	Plastic Components and Systems	75.00[1) 3)]	full
Nanogate Medical Systems GmbH, Kierspe	High-quality plastic parts for medical technology	100.00[5]	full
Improof GmbH, Lüdenscheid	Marketing of care products	100.00	[2]
Nanogate Teknoloji AS, Istanbul/Turkey	N-Glaze® components for 2D systems	100.00	[2]
Nanogate Technologies Inc., Norwalk, Connecticut/USA	Holding	100.00	full
Nanogate Jay Systems LLC (formerly Jay Plastics, a company of Jay Industires Inc.) Mansfield/Ohio/USA	Systematic provider of components with high-quality surfaces	80.01[1]	full
JTR Resins Ltd., Mansfield/Ohio, USA	Procurement and production company	100.00[6]	full
First Waterview Ltd., Mansfield/Ohio, USA	Asset management	100.00[6]	full

1) Full consolidation without disclosure of noncontrolling interests (anticipated acquisition method)

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 the company
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
6) Indirect shareholding: The companies are wholly owned subsidiaries of Nanogate Jay Systems LLC.

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 SE as of December 31, 2017, can be seen in the above table.

Changes to the Companies Included in the Consolidated Financial Statements

The Nanogate Group closed its acquisition of a majority stake in Jay Plastics, a division of the U.S. Jay Industries group, in January 2017. The division spun off from the original company was brought into the subsequently acquired partnership. On January 3, the Nanogate Group obtained a controlling influence, and the company is consequently to be included in the consolidated financial statements of Nanogate SE from this date. The acquired subsidiary now operates as Nanogate Jay Systems LLC.

The Nanogate Group also concluded the acquisition of the remaining shares in its subsidiary Nanogate PD Systems GmbH (previously plastic-design GmbH), based in Bad Salzuflen, in January. Nanogate SE 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 was fully consolidated in previous years using the "anticipated acquisition method".

Foreign Currency Translation

The separate financial statements of subsidiaries outside the European currency union were translated into euros in accordance with the functional currency concept. The functional currency is the local national currency. Assets and liabilities are translated accordingly, using mid-rates as of the balance sheet date and the items of the income statement with annual average prices. Exchange differences are reported in other reserves outside profit or loss.

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 SE, which have an impact on the level and reporting of assets and liabilities in the balance sheet, on earnings and expenses and on 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; naturally, however, they cannot be given a figure with total certainty, but reflect a degree of judgment intrinsic to the subjective valuations of the person preparing the financial statements.

Material estimations and assumptions for preparing the consolidated financial statements of Nanogate SE have been made, particularly 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 and assessment 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 and 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, the consolidated statement of income and the consolidated statement of comprehensive income is given in the following entries to the Notes to the Group report, together with the relevant 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

		2017	2016
		EUR ,000	EUR ,000
Gross revenue:	Germany	75,920	54,712
	Abroad*)	111,676	58,680
		187,596	113,392
Less:	Sales deductions	-1,365	-940
	Overall Group	**186,231**	**112,452**
	*) of which in		
	European Union	34,934	34,258
	Other countries	76,742	24,422
		111,676	58,680

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 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

	2017	2016
	EUR ,000	EUR ,000
Income from the reversal of provisions	979	420
Noncash benefits (for stock options, use of vehicles et al.)	910	218
Transfer of costs / reimbursements	388	427
Income from disposal of assets	3	26
Insurance compensation	14	15
Miscellaneous other income	246	305
	2,540	**1,411**

The income from the reversal of provisions is essentially the result of the termination of a legal dispute via settlement.

Significant Accounting Methods and Estimations and Assumptions

The Nanogate Group reports all earnings that occur as part of operating activities, but that 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 is reduced by the values of customer returns, discounts and other similar deductions.

7. Cost of Materials

	2017	2016
	EUR ,000	EUR ,000
Cost of raw materials and supplies	-75,408	-44,010
Cost of external services	-2,785	-2,350
	-78,193	-46,360

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

	2017	2016
	EUR ,000	EUR ,000
Wages and salaries	-46,715	-28,127
Social security	-11,180	-4,909
Pensions	-626	-539
Noncash remuneration costs for stock options	-191	-116
	-58,712	-33,691

In order to secure the long-term loyalty and motivation of the Nanogate Group's employees, Nanogate SE 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 of the reporting date, there are a total of 129,500 stock options (PY: 159,120 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 -191 for the 2017 fiscal year (PY: TEUR -116).

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

	2017	2016
	EUR ,000	EUR ,000
Operating expenses	-19,772	-14,207
Sales expenses	-4,188	-3,513
Administrative expenses	-6,501	-5,165
Losses on receivables and impairments	-56	-169
Miscellaneous other expenses	-1,950	-1,373
	-32,467	-24,427

The increase in other operating expenses, particularly the operating and selling expenses, is essentially connected to the first-time consolidation of Nanogate Jay Systems as of January 3, 2017, and to the companies Nanogate Goletz Systems and Nanogate Medical Systems, which were included for the first time for the entire fiscal year and were initially consolidated in May 2016.

Significant Accounting Methods and Estimations and Assumptions

The Nanogate Group reports all expenses that occur as part of operating activities, but that 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 and the valuation of foreign currency items.

The financial expenses are essentially financial expenses for overdrafts and loans with banks, as well as the measurement of foreign currency items.

Net interest expenses from pension obligations amount to TEUR 19 for the 2017 fiscal year (PY: TEUR 26).

Significant Accounting Methods and Estimations and Assumptions

The Nanogate Group reports all income and expenses that 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

	2017	2016
	EUR ,000	EUR ,000
Current taxes		
Germany	-117	-1,087
Abroad	-785	-589
Taxes, previous years	-122	-149
Deferred taxes		
Germany	300	941
Abroad	-333	9
(tax expense -; tax income +)	-1,057	-875

The table below shows a reconciliation of the expected reported tax expenses for the 2017 fiscal year and for the previous year. To determine the expected tax expenses, earnings before taxes were multiplied by the overall tax rate for the 2017 fiscal year of 30.875 % (PY: 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 15.050 % (PY: 14.70 %). The difference between the expected and reported income tax expenses can be seen in the reconciliation below.

	2017	2016
	EUR ,000	EUR ,000
Earnings before taxes	3,862	3,373
Applicable tax rate	30,875 %	30,525 %
Expected tax expense	-1,192	-1,030
Effects of changes in tax rates	3,346	44
Tax-free gains	388	401
Effects of different tax rates in foreign countries	247	119
Differences due to varying trade tax multipliers	-53	-80
Tax reductions / tax increase due to non-tax-deductible costs	-384	-202
Noncapitalized tax deferrals on losses; realizable loss carryforward on which no deferred taxes were calculated	-	2
Nonrecognition of tax loss carry-forwards	-93	-
Impairment on loss carry-forwards	-3,135	-
Tax back payments for prior years	-122	-149
Other tax effects	-59	20
Income tax expense recognized in the income statement	-1,057	-875

Significant Accounting Methods and Estimations and Assumptions

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 at which a reimbursement from the tax authorities or a payment to the tax authorities is expected.

For information on the recognition of 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

	2017	2016
Net result for the period (in EUR)	2,805,329	2,497,858
Weighted average number of shares issued		
Basic	4,402,223	3,566,594
Diluted	4,426,514	3,603,155
Basic earnings per share (in EUR)	0.64	0.70
Diluted earnings per share (in EUR)	0.63	0.69

The diluted number of shares issued refers to 38,750 (PY: 68,370) 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 (PY: two tranches) have an effect on the diluted earnings per share. One tranche (PY: 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 SE are divided by the weighted average number of common shares in circulation during the year.

In calculating the diluted earnings per share, the earnings attributable to the shareholders of Nanogate SE 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 into common shares.

C. Notes to the Consolidated Statement of Financial Position

14. Intangible Assets

	Intangible assets					
	Software, licenses, trademarks and patents	Client base	Development costs	Goodwill	Assets under construction	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Acquisition and production costs	11,549	3,057	9,610	21,391	41	45,648
Depreciation/amortization	-1,534	-1,566	-3,459	-588	-	-7,147
As of 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 amortization in the fiscal year	-383	-346	-947	-	-	-1,676
Additions	715	-	405	-	-	1,120
Transfers	122	-	-	-	-41	81
Disposals	-34	-	-	-	-	-34
As of 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/amortization	-1,842	-1,912	-4,200	-588	-	-8,542
As of 1/1/2017	**11,298**	**1,145**	**5,609**	**33,109**	**-**	**51,161**
Change in the companies included in the consolidated financial statements	5,124	9,960	-	17,889	-	32,974
Depreciation and amortization in the fiscal year	-1,413	-1,210	-740	-	-	-3,363
Additions	199	-	645	-	32	875
Transfers	91	-	-203	-	-	-112
Disposals	-	-	-	-	-	-
Effects on currency conversion	-630	-1,225	-	-2,154	-	-4,009
As at 12/31/2017	**14,669**	**8,670**	**5,311**	**48,844**	**32**	**77,527**

	Intangible assets					
	Software, licenses, 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	17,896	11,739	10,250	49,432	32	89,348
Depreciation/amortization	-3,227	-3,068	-4,939	-588	-	-11,821

There were no impairments or reversals for the reported intangible assets either in the 2017 fiscal year or in the previous year, with the exception of a valuation allowance for the word marks ELAMET® and SICRALAN® of TEUR 340.

The software, licenses, trademarks and patents shown are intangible assets acquired for payment. Of these, intangible assets of TEUR 8,430 (PY: TEUR 4,719) have a limited useful life as of 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 1,989 (PY: TEUR 2,329) in connection with nonpatented knowledge. With a carrying amount of TEUR 4,250 (PY: 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 740 (PY: TEUR 947) was carried out on the capitalized development costs during the 2017 fiscal year. Total expenses for research and development across the Group amount to EUR 7.6 million (PY: EUR 5.8 million).

As of the reporting date, intangible assets included leased assets (finance leases) with a residual carrying amount of TEUR 56 (PY: TEUR 72).

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 in the case of the Vogler brand, and because economic conditions have largely remained unchanged, it can be assumed that the state of facts will remain unaltered. There was an impairment of TEUR 340 as regards the word marks ELAMET® and SICRALAN®.

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 carried out 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 2017 fiscal year are based. The information regarding input tax interest rates pursuant to IAS 36.55 is also apparent from this.

Name of the CGU	Nanogate Industrial Systems GmbH	Nanogate Eurogard B.V.
Carrying amount of goodwill	1,662	5,442
Sales growth p.a. in the planning period	1.5 % – 16.6 %	-12.6 % – 2 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.57 %	6.59 %
Pre-tax discount rate	9.51 %	8.67 %

Name of the CGU	Nanogate PD Systems GmbH	Nanogate Vogler Systems GmbH
Carrying amount of goodwill	2,813	10,887
Sales growth p.a. in the planning period	-15.2 % – 12.9 %	0.0% – 10.9 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.57 %	6.57 %
Pre-tax discount rate	9.51 %	9.51 %

Name of the CGU	Nanogate Goletz Systems GmbH	Nanogate Jay Systems LLC
Carrying amount of goodwill	12,306	15,735
Sales growth p.a. in the planning period	0.6 % – 4.9 %	-1.1 % – 7.7 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.57 %	8.28 %
Pre-tax discount rate	9.51 %	10.48 %

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.
Carrying amount of goodwill	1,662	5,442
Sales growth p.a. in the 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
Carrying amount of goodwill	2,813	10,887
Sales growth p.a. in the 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	
Carrying amount of goodwill	12,306	
Sales growth p.a. in the 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 %	

As in the previous year, no impairments resulted from the review of recoverable value of the goodwill. In addition, the recoverable value of the goodwill 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.

(Derivative) goodwill acquired against payment arising from the capital consolidation of subsidiaries is reported in the consolidated statement of financial position of Nanogate SE 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 been impaired. 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 reasons 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 on every reporting date whether there are indications (triggering events) for an impairment. 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 that 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) to which an asset is allocated. 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 under 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 prescribe 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	13,017	32,802	4,668	6,041	56,528
Depreciation/amortization	-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 amortization 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	7,993	67,972
Depreciation/amortization	-3,628	-14,090	-2,867	-	-20,585
As at 1/1/2017	**9,606**	**26,974**	**2,814**	**7,993**	**47,387**
Change in the companies included in the consolidated financial statements	10,890	29,217	220	377	40,704

	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
Depreciation and amortization in the fiscal year	-1,296	-8,488	-1,022	-121	-10,927
Additions	1,158	7,273	1,138	3,885	13,454
Transfers	512	1,719	94	-3,304	-979
Disposals	-	-103	-4	-	-107
Effects on currency conversion	-1,390	-3,701	-25	-117	-5,233
As at 12/31/2017	**19,480**	**52,893**	**3,214**	**8,712**	**84,299**
Acquisition and production costs	24,382	74,567	6,987	8,712	114,649
Depreciation/amortization	-4,902	-21,674	-3,773	-	-30,350

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 their 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 of the reporting date would be TEUR 5,156 (PY: TEUR 5,151).

The additions to property, plant and equipment totaling TEUR 13,454 (PY: TEUR 10,621) are the result of ongoing investment activity during the 2017 fiscal year. The additions arising from the changes to the companies included in the consolidated financial statements are due to the acquisition of Nanogate Jay Systems. Disposals of TEUR 107 (PY: TEUR 538), depreciation of TEUR 10,927 (PY: TEUR 6,070) and impairments of TEUR 0 (PY: TEUR 0) also arose during the fiscal year. There were no reversals during either the 2017 fiscal year or during the previous year.

Property, plant and equipment includes leased assets (finance leases) with a residual carrying amount as of the reporting date of TEUR 13,867 (PY: TEUR 14,800).

The bank loans recognized under financial liabilities are secured to the amount of TEUR 8,478 (PY: TEUR 2,607) by machinery and equipment as of 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 depreciation 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 depreciation 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 depreciation 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, while taking into account IFRIC 4. According to this, 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 depreciated 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 of the reporting date consist mainly of financial derivatives of TEUR 132 (PY: TEUR 0) and granted loans of TEUR 101 with a term to maturity of more than one year (PY: TEUR 582).

Current Other Financial Assets

As of the reporting date, current other financial assets mainly include the assignment of receivables of TEUR 727 (PY: TEUR 1,435) as part of factoring, granted loans of TEUR 386 (PY: TEUR 66), as well as receivables from bonus agreements of TEUR 212 (PY: TEUR 235). In the previous year, this also included the interim financing of a major order amounting to TEUR 350, while such an effect has not been recorded in the current fiscal year.

The receivables on a contractual basis reported as of 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 of the reporting date.

The arrears relating to the (current and noncurrent) financial assets as of 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
12/31/2017	1,634	1,634	-	-	-	-
12/31/2016	2,832	2,832	-	-	-	-

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 on 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 as an expense. 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 that 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 and 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 significant.

As in the previous year, there were no *financial assets held to maturity* as of 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 are subject to an impairment. An impairment must be recognized in profit and loss if the fair value is significantly below the amortized cost and/or is 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 mentioned above, loans and receivables and financial assets available for sale, 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 and production costs; no reversals for equity instruments available for sale are made.

Financial assets are derecognized if the contractual rights 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	
	12/31/2017	12/31/2016	2017	2016
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Intangible assets	135	-	-218	-
Property, plant and equipment	272	-	272	-
Other financial assets	822	-	822	-
Inventories	80	70	10	5
Other assets	248	-	248	-6
Pension provisions	192	208	6	-
Other provisions	229	214	15	22
Other liabilities	1,550	2,108	-558	-613
Loss carry-forwards offsettable for tax purposes	3,819	6,974	-3,164	1,354

	Consolidated statement of financial position		Consolidated income statement	
	12/31/2017	12/31/2016	2017	2016
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Deferred tax assets	7,347	9,574	-2,567	762
Intangible assets	-6,240	-3,817	2,113	-291
Property, plant and equipment	-6,603	-4,146	1,044	461
Trade receivables	-29	-12	-17	4
Other assets	-	-3	3	-3
Pension provisions	-	-	-	-
Other provisions	-21	-13	-8	17
Financial liabilities	-601	-	-601	
Other liabilities	-	-	-	-
Loss carry-forwards offsettable for tax purposes	-	-	-	-
Deferred tax liabilities	-13,494	-7,991	2,534	188
Net deferred taxes, deferred tax liabilities (assets)	-6,147	1,583	-33	950

(tax expense -; tax income +)

Reported in the balance sheet as follows:

Deferred tax assets	4,105	6,097
Deferred tax liabilities	-10,252	-4,514
Deferred tax liabilities, net	-6,147	1,583

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 of December 31, 2017, 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 comprehensive tax reform statute (H.R.1/Tax Cuts and Jobs Act) signed by the U.S. president in 2017 provides, among other things, for a reduction in the nationwide corporate tax rate from 35 % to 21 % for companies in the U.S. from January 1, 2018. The tax income (TEUR 3,346) reported in the tax reconciliation under the Impacts of Tax Rate Changes item is essentially the result of the revaluation of deferred tax assets and liabilities of the U.S. subsidiaries.

The change in deferred tax assets and liabilities compared with the previous year results essentially from the first-time incorporation of Nanogate Technologies Inc. and Nanogate Jay Systems LLC, the deferred tax expenses recognized in Nanogate SE's consolidated statement of income (TEUR -33) – which also includes the valuation allowance of the deferred tax assets on loss carryforwards (TEUR -3,164) and the effects of the U.S. tax rate change – and from the other tax deferrals (TEUR -50) recognized directly in equity.

The tax loss carryforwards amount to TEUR 22,273 for the 2017 fiscal year (PY: TEUR 22,539). As of December 31, 2017, this results in deferred tax assets on loss carryforwards before valuation allowances of TEUR 6,905 (PY: TEUR 6,924). Valuation allowances of TEUR -3,135 were made as of December 31, 2017. This valuation allowance was carried out on the basis of the analysis at the level of the individual companies and the available tax groups. In addition to a temporarily weaker development of subsidiaries due to the significant expansion of capacities and of the technology portfolio, the increasing transaction and integration costs for the parent company as regards the implementation of its growth strategy and international market development were decisive for the value allowance made. On the basis of estimations made about the future business development, Nanogate anticipates with reasonable certainty that the tax income will be sufficient to realize the capitalized deferred tax assets of TEUR 3,770. The tax loss carryforwards do not lapse. Furthermore, there are deferred tax assets from future taxable expenses eligible for offsetting amounting to TEUR 49 (PY: TEUR 49).

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 177 (PY: TEUR 52), since Nanogate SE 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.

18. Inventories

	12/31/2017	12/31/2016
	EUR ,000	EUR ,000
Raw materials and supplies	7,499	4,756
Work in progress	8,358	3,742
Finished goods and merchandise	5,523	3,948
	21,380	12,446

The 2017 fiscal year resulted in an impairment of inventories of TEUR 79 (PY: TEUR 39). The loans from banks recognized under financial liabilities are secured with inventories in the amount of TEUR 992 (PY: TEUR 844).

Significant Accounting Methods and Estimations and Assumptions
Inventories are recognized at their date of addition at acquisition cost. The first-in-first-out method is used as a streamlined measurement procedure on subsequent valuation as of the balance sheet date. 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 of the reporting date, the inventories are recognized at the lower of acquisition and production costs and net realizable value.

19. Trade Receivables

	12/31/2017	12/31/2016
	EUR ,000	EUR ,000
Domestic receivables	4,275	5,178
Foreign receivables	17,640	5,875
	21,916	11,053
Impairments on at-risk receivables	-282	-314
	21,634	10,739

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 creditworthiness, change in interest rate or currency as of the reporting date. Changes to the impairments during the 2017 fiscal year and during the previous year are shown in the table below.

	2017	2016
	EUR ,000	EUR ,000
Position at the start of the year	314	252
Change in the companies included in the consolidated financial statements	7	17
Utilisation of impairments	-20	-14
Reversal of impairments	-50	-93
Allocation of impairments	31	152
Position at the end of the year	282	314

Before accepting an order from a new customer, the Nanogate Group uses information provided by an external credit check to assess the creditworthiness 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 creditworthiness of the respective customer, the current economic developments and the analysis of historical receivables losses. In addition, all changes in a customer's creditworthiness 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 further 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
12/31/2017	21,634	16,076	4,615	679	149	30
12/31/2016	10,739	7,957	2,421	156	96	48

As of the reporting date of the fiscal year, loans from banks of TEUR 0 (PY: 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 details on the significant accounting methods and estimations and assumptions in Note *16. Other Financial Assets*.
The value adjustment of doubtful trade receivables comprises estimations of the customers' creditworthiness. The anticipated allowances may vary in the event of a deterioration in the financial figures of customers.

20. Current Other Assets

	12/31/2017	12/31/2016
	EUR ,000	EUR ,000
Prepayments/payments on account/prepaid expenses	1,661	1,768
Sales tax and other taxes	926	641
Creditors with debit balances	93	378
Receivables from staff	17	4
Other	35	22
	2,732	2,813

Significant Accounting Methods and Estimations and Assumptions
Other assets are assets based on a contract that 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 and deferrals and prepayments. Other nonfinancial assets are derecognized or reversed according to performance.

The value adjustment of doubtful receivables comprises estimations of the customers' creditworthiness. The anticipated allowances may vary in the event of a deterioration in the financial figures of customers.

21. Cash and Cash Equivalents

The cash and cash equivalents of TEUR 20,281 (PY: TEUR 22,578) reported as of the reporting date in the consolidated statement of financial position of Nanogate SE 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 of 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 2017 fiscal year (PY: TEUR 5).

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 a resolution of the Management Board dated January 4, 2017, the approval of the Supervisory Board on January 4, 2017, and entry into the commercial register on January 23, 2017, a capital increase from EUR 3,793,233.00 to EUR 4,176,180.00 from authorized capital was effected by issuing 382,947 new shares for subscription in kind.

Following resolutions of the Management Board dated April 18 and April 19, 2017, the approvals of the Supervisory Board on April 18 and April 19, 2017, and entry into the commercial register on April 20, 2017, a capital increase from authorized capital was effected by issuing 337,771 new shares for cash. This increased share capital from EUR 4,176,180.00 to EUR 4,513,951.00.

At the same time, 29,620 new shares were issued in 2017 from conditional capital to holders of subscription rights. This increased share capital from EUR 4,513,951.00 to EUR 4,543,571.00. The capital increase from the conditional capital was entered in the commercial register on March 21, 2018.

Following a resolution of the Management Board dated October 13, 2017, the approval of the Supervisory Board on October 25, 2017, and entry into the commercial register on December 15, 2017, a capital increase from EUR 4,543,571.00 to EUR 4,552,395.00 from authorized capital was effected by issuing 8,824 new shares for subscription in kind.

Subscribed capital was therefore set at EUR 4,552,395.00 as of December 31, 2017. It is divided into 4,552,395 no-par-value bearer shares with an arithmetical share of the company's subscribed capital of EUR 1.00 per share.

The subscribed capital increased in the previous year from EUR 3,377,716.00 to EUR 3,793,233.00. Of this, EUR 331,454.00 is attributable to capital increases from authorized capital against contribution in cash, EUR 75,008.00 to capital increases from authorized capital against contribution in kind and EUR 9,055.00 to the utilization of the conditional capital for the issue of new shares to entitled shareholders.

Subscribed Capital

Following a resolution of the Management Board dated January 4, 2017, the approval of the Supervisory Board on January 4, 2017, and entry into the commercial register on January 23, 2017, a capital increase from EUR 3,793,233.00 to EUR 4,176,180.00 from authorized capital was effected by issuing 382,947 new shares for subscription in kind.

Following resolutions of the Management Board dated April 18 and April 19, 2017, the approvals of the Supervisory Board on April 18 and April 19, 2017, and entry into the commercial register on April 20, 2017, a capital increase from authorized capital was effected by issuing 337,771 new shares for cash. This increased share capital from EUR 4,176,180.00 to EUR 4,513,951.00. At the same time, 29,620 new shares were issued in 2017 from conditional capital to holders of subscription rights. This increased share capital from EUR 4,513,951.00 to EUR 4,543,571.00. The capital increase from the conditional capital was entered in the commercial register on March 21, 2018.

Following a resolution of the Management Board dated October 13, 2017, the approval of the Supervisory Board on October 25, 2017, and entry into the commercial register on December 15, 2017, a capital increase from EUR 4,543,571.00 to EUR 4,552,395.00 from authorized capital was effected by issuing 8,824 new shares for subscription in kind.

Subscribed capital was therefore set at EUR 4,552,395.00 as of December 31, 2017. It is divided into 4,552,395 no-par-value bearer shares with an arithmetical share of the company's subscribed capital of EUR 1.00 per share. The subscribed capital increased in the previous year from EUR 3,377,716.00 to EUR 3,793,233.00. Of this, EUR 331,454.00 is attributable to capital increases from authorized capital against contribution in cash, EUR 75,008.00 to capital increases from authorized capital against contribution in kind and EUR 9,055.00 to the utilization of the conditional capital for the issue of new shares to entitled shareholders.

Conditional Capital

The conditional capital (pursuant to resolutions from previous years) was changed and 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, employees of the company and affiliated companies as part of stock option plans (see Note *23. Share-Based Remuneration*).

The conditional capital increases will be carried out only insofar as the holders of subscription rights actually exercise those rights.

As of December 31, 2017, the conditional capital totals EUR 228,506.00 (PY: EUR 258,126.00). This comprises:
– Conditional Capital I
  of EUR 0.00 (PY: EUR 0.00)
– Conditional Capital II
  of EUR 6,150.00 (PY: EUR 13,170.00)
– Conditional Capital III
  of EUR 32,600.00 (PY: EUR 55,200.00)
– Conditional Capital IV
  of EUR 189,756.00 (PY: EUR 189,756.00)

The change from the previous year is exclusively the result of subscription rights actually exercised in 2017.

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 1,688,858.00 in one or several stages up to June 28, 2021, was revoked by the resolution passed at the shareholders' meeting on June 29, 2017.

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, 2017, to increase the company's share capital in one or more stages up to June 28, 2022, by up to a total of EUR 2,256,975.00 by issuing a maximum of 2,256,975 new no-par-value bearer shares with an arithmetical share in the share capital of EUR 1.00 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 SE or companies affiliated with Nanogate SE 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 SE'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 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 must take account the preclusion of subscription rights due to another 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 2017/I amounts to EUR 2,248,151.00 as of the reporting date.

Capital Reserves

The capital reserves of TEUR 83,451 (PY: TEUR 54,298) were gradually built up through contribution transactions and capital increases as part of the business activities and were reduced by the costs of the equity procurement of TEUR 2,123 (PY: TEUR 1,821).

The capital reserves also include the carrying amount of the cumulative obligations arising from one of the stock option programs issued by Nanogate SE amounting to TEUR 938 (PY: TEUR 746) (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 1,211 (PY: TEUR 1,306), the reserve for actuarial gains and losses from obligations regarding post-employment benefits amounting to TEUR -240 (PY: TEUR -294) and the reserve for the currency translation of foreign operations of TEUR -3,996 (PY: TEUR 0).

The changes to other reserves during the 2017 fiscal year are shown below.

Other reserves	Reserves for revaluation of property, plant and equipment	Reserves for actuarial gains and losses	Reserves for currency conversion	Total other reserves
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
As of January 1, 2016	**1,402**	**-253**	**-**	**1,149**
Transfer to retained earnings, net	-96	-	-	-96
Other comprehensive income/ actuarial gains and losses, net	-	-41	-	-41
As of December 31, 2016	**1,306**	**-294**	**-**	**1,012**
Transfer to retained earnings, net	-95	-	-	-95
Other comprehensive income/ actuarial gains and losses, net	-	54	-	54
Foreign operations / currency conversion	-	-	-3,996	-3,996
As of December 31, 2017	**1,211**	**-240**	**-3,996**	**-3,025**

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.

Dividend per Share

The Management Board and the Supervisory Board will make a proposal to the shareholders' meeting that a dividend of EUR 0.11 per share be paid from Nanogate SE's balance sheet profit for the 2017 fiscal year as calculated in accordance with the principles of the German Commercial Code (HGB). This would result in a dividend payout totaling TEUR 501 (PY: TEUR 417). A dividend of EUR 0.11 per share was paid for the 2016 fiscal year.

23. Share-Based Remuneration

The shareholders' meetings on June 16, 2010, and June 19, 2012, agreed a stock option program, and, in connection with this, 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 and the Management Board are 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. 18,700 stock options from the 2010 Stock Option Plan have so far been exercised and none of the stock options issued have expired so far. As of the reporting date, there are therefore stock options to subscribe to the maximum of 6,150 (PY: 13,170) 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 connection with this, 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 and the Management Board are 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. 27,500 stock options from the 2012 Stock Option Plan have so far been exercised and none of the stock options issued have expired so far. As of the reporting date, there are therefore stock options to subscribe to the maximum of 32,600 (PY: 55,200) 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 and the Management Board are 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 also be concluded during an issue period. Based on this authorization, 90,750 stock options were issued to holders of subscription rights 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 of 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.

	2017		2016	
	Weighted average exercise price per option in EUR	Options	Weighted average exercise price per option in EUR	Options
As of January 1	26.51	159,120	17.81	77,425
Granted	-	-	33.16	90,750
Expired	-	-	-	-
Exercise waived	-	-	-	-
Exercised	17.87	-29,620	18.80	-9,055
As of December 31	28.49	129,500	26.51	159,120

Of the 129,500 outstanding options (PY: 159,120), 38,750 can be exercised (PY: 68,370). Options exercised in 2017 resulted in the issue of 29,620 shares (PY: 9,055) at an average price of EUR 17.87 per share (PY: EUR 18.80). The weighted average share price at the time of exercising was EUR 49.56 (PY: EUR 34.38). The corresponding transaction costs amounted to TEUR 4 (PY: TEUR 3) and were offset against the revenues received.

The expiration dates and exercise prices of the stock options outstanding at the end of the 2017 fiscal year can be seen in the table below.

Granting/exercise	Expiry date	Exercise price per share in EUR	Shares 2017	Shares 2016
2011 – 2015	10/19/2018	21.07	6,150	13,170
2012 – 2016	10/20/2019	16.87	32,600	55,200
2016 – 2020	10/20/2023	33.16	90,750	90,750
			129,500	159,120

No new stock options were issued during the fiscal years 2013 through 2015. No new stock options were issued to holders of subscription rights from the 2014 Stock Option Plan in the 2017 fiscal year, either. Significant parameters of the stock options most recently 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 2017 fiscal year averaged EUR 14.29 per stock option (2012: EUR 7.67).

A total of TEUR 191 (PY: TEUR 116) in expenses from share-based remuneration was recognized in personnel expenses during the 2017 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 SE 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 of 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 the option price model) must be used. The Black-Scholes model is used here as option price model. The associated expenses are recognized across the vesting 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 GmbH (formerly 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 GmbH, the defined benefit plans concern Christmas payments for (future) pensioners, entitlements of retired employees that do not lapse, ongoing pension obligations and pension supplements for employees with higher income. All plans are final salary plans that ensure members receive 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 GmbH was performed as of December 31, 2017, by Denneberg & Denneberg GbR, Heidelberg. The fair value of plan assets was substantiated by a confirmation of insurance as of December 31, 2017. 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 of the reporting date of the current fiscal year and of the previous year.

	12/31/2017	12/31/2016
	EUR ,000	EUR ,000
Present value of defined-benefit obligations	1,437	1,530
Fair value of plan assets	521	510
Recorded provision	916	1,020

Changes to the pension obligations during the 2017 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 of 1/1/2017	**1,530**	**-510**	**1,020**
Ongoing service cost	3	-	3
Interest expense/interest income	29	-10	19
	32	-10	22
Revaluations::			
Income from plan assets excluding amounts included in the interest listed above	-	-8	-8
Actuarial gains arising from changes in the financial assumptions	-68	-	-68
	-68	-8	-76
Contributions:			
Employer	-	-15	-15
Ongoing payments made from the plan	-57	22	-35
As of 12/31/2017	**1,437**	**-521**	**916**

The pension obligations changed during the 2016 fiscal year, as shown below.

Development of pension obligations	Present value of obligation	Present value of plan assets	Total
	EUR ,000	EUR ,000	EUR ,000
As of 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	-	-9	-9
Actuarial gains arising from changes in the financial assumptions	67	-	67
	67	-9	58
Contributions:			
Employer	-	-26	-26
Ongoing payments made from the plan	-51	13	-38
As of 12/31/2016	**1.530**	**-510**	**1.020**

As of the valuation date, the present value of defined benefit obligations comprised TEUR 329 (PY: TEUR 590) relating to active employees, TEUR 81 (PY: TEUR 82) relating to former employees and TEUR 1,027 (PY: TEUR 858) relating to employees in retirement.

All pension commitments do not lapse.

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

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

	12/31/2017	12/31/2016
	%	%
Discount rates	1.90	1.90
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 of December 31, 2017, is 13.2 years (PY: 13.8 years).

The actual income from plan assets is TEUR 20 (PY: TEUR 19).

Cash outflows of TEUR -60 are expected for the 2018 fiscal year. These comprise the planned remuneration of reinsurance policies (TEUR -11) on the one hand, and payment of pension obligations (TEUR -71), less planned pension obligation payments from the reinsurance policies (TEUR 22), 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	
	2017	2016
	EUR ,000	EUR ,000
Assumptions for the pension plan		
Discount rate:		
Increase of 0.5 %	-87	-95
Decrease of 0.5 %	96	105
Future pension increases:		
Increase of 0.25 %	43	49
Decrease of 0.25 %	-41	-47
Life expectancy:		
Increase of 1 year	53	55
Decrease of 1 year	-53	-55

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 of the reporting date. The sensitivity calculations are based on the average term of the pension obligations determined as of 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 2,299 (PY: TEUR 2,175) were made to the statutory pension scheme in the reporting year as well as TEUR 387 (PY: TEUR 354) 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 as being 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; and
- revaluation of the net debt or 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 SE consolidated statement of financial position are constituted as shown in the table below.

	12/31/2017			12/31/2016		
	Total	Non-current	Current	Total	Non-current	Current
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Cost of personnel *	291	249	42	222	201	21
Clients and suppliers **	6,283	-	6,283	3,816	-	3,816
Litigation	53	-	53	1,280	-	1,280
Removal and dismantling obligations	98	98	-	94	94	-
Other provisions	1,573	138	1,435	1,212	119	1,093
	8,297	484	7,813	6,624	414	6,210

** 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 2017 fiscal year are shown below.

	Cost of personnel	Clients and suppliers	Litigation	Removal and dismantling obligations	Other provisions	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
As of 1/1/2017	**222**	**3,816**	**1,280**	**94**	**1,212**	**6,624**
Changes to companies included in the consolidated financial statements	-	96	-	-	223	319
Utilization	-6	-483	-591	-	-1,116	-2,196
Addition / creation	74	3,058	52	1	1,408	4,593
Interest effects	1	-	-	3	-	4
Reversal	-	-195	-688	-	-96	-979
Currency conversions	-	-10	-	-	-58	-68
As of 12/31/2017	291	6,283	53	98	1,573	8,297

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. The increase is primarily due to the addition of asserted claims from a customer relationship.

The reversal of provisions for legal disputes is essentially due to the termination of a legal dispute via settlement.

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

Significant Accounting Methods and Estimations and Assumptions

According to IAS 37, a provision is then recognized if one of the companies in the Nanogate Group has a current obligation (legal or constructive) 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 as of the reporting date. Provisions that do not already result in an outflow of resources in the following year are reported at their settlement amount discounted to the balance sheet date, taking into account 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 financing expenses.

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

The creation of other provisions such as for litigation, taxes, rebates and warranties 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 66,453 (PY: TEUR 37,137) in total. Of these, financial liabilities of TEUR 16,044 (PY: TEUR 6,380) have a residual term of up to one year. The liabilities to banks increased essentially due to financing the majority stake in Nanogate Jay Systems.

Total financial liabilities include secured liabilities to banks in the amount of TEUR 54,777 (PY: TEUR 35,928).

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 a 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 reported trade liabilities amounting to TEUR 12,260 (PY: TEUR 7,524) 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 35,362 (PY: TEUR 26,041) reported as of the reporting date, TEUR 9,653 (PY: TEUR 11,615) is attributable to obligations from finance leases, of which TEUR 7,287 (PY: TEUR 8,407) have a residual term of over one year. The other financial liabilities also include purchase price obligations associated with the 2016 acquisition of Walter Goletz GmbH (now Nanogate Goletz Systems GmbH) and with the 2017 acquisition of Nanogate Jay Systems LLC totaling TEUR 23,142 (PY: TEUR 11,379). The current other financial liabilities essentially include provisions for outstanding bills of TEUR 1,659 (PY: TEUR 2,566).

Of the other financial liabilities reported, TEUR 6,624 (PY: TEUR 10,705) have a residual term of up to one year.

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 of the reporting date, there are other liabilities of TEUR 6,880 (PY: TEUR 6,113), of which TEUR 6,286 (PY: TEUR 4,432) have a residual term of up to one year.

The noncurrent other liabilities include the special item for investment grants for assets of TEUR 93 (PY: TEUR 84), accruals and deferrals from interest advantages associated with loans of TEUR 20 (PY: TEUR 63) and personnel obligations of TEUR 480 (PY: TEUR 1,534).

The current other liabilities particularly include personnel obligations of TEUR 4,165 (PY: TEUR 3,308), liabilities for sales tax and other taxes of TEUR 769 (PY: TEUR 640) and social security liabilities of TEUR 219 (PY: TEUR 178). The current other liabilities also include payments received for customer projects of TEUR 968 (PY: TEUR 244).

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 as of 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.

2017	Cash flows up to 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	17,931	18,540	28,031	7,654
Trade payables	12,260	-	-	-
Derivative financial instruments	-	-	-	-
Liabilities from finance leases	3,224	2,942	3,755	495
Other financial liabilities	4,431	9,246	12,383	-

2016	Cash flows up to 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	-

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, commodity prices and other relevant market rates or prices in a given period.

The Nanogate Group uses sensitivity analyses, since 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 exchange rates. The Nanogate Group bills the majority of its sales in euros, so that only in the case of sales of Nanogate Jay Systems is there a currency fluctuation risk. However, this is greatly limited with appropriate measures, such as active hedging transactions and natural hedging.

Receivables and 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-rate 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, since interest payments can go up in the future.

A sensitivity analysis was carried out for our floating-rate financial instruments as of year-end 2017. A hypothetical change in these interest rates of 100 basis points or 1 percentage point per annum from January 1, 2017, onward would have either increased earnings by TEUR 456 or decreased earnings by TEUR -490 as of December 31, 2017.

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 SE's capital base against the financial strategy drawn up for the company. Key financial indicators include the leverage ratio, 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 of the reporting date of the fiscal year and of the previous year are listed in the table below

	31.12.2017	31.12.2016
	TEUR	TEUR
Equity	**93,728**	**65,823**
Share of total capital	39,9%	42,1%
Noncurrent financial liabilities	79,147	46,093
Current financial liabilities	22,669	17,085
Financial liabilities total	**101,816**	**63,178**
Share of total capital	43,3%	40,4%
Total capital	**235,104**	**156,424**

Risk Management

Due to the persistent good market and industry situation in the area of high-performance surfaces, the opportunities and risks policy is particularly oriented toward 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 subsidiaries, 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 of 12/31/2017	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
2017	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	287	-	-	-	-	-
Derivative financial instruments	-	132	-	-	-	-
Other financial assets	1,160	-	-	-	-	-
Trade receivables	21,634	-	-	-	-	-
Cash and cash equivalents	20,281	-	-	-	-	-
Total	**43,362**	**132**	**55**	**-**	**-**	**-**
Financial liabilities						
Financial liabilities	-	-	-	-	66,454	-
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	2,567	23,142
Trade payables	-	-	-	-	12,260	-
Total	**-**	**-**	**-**	**-**	**81,281**	**23,142**

*) measured alternatively at cost pursuant to IAS 39.46 c

Financial instruments in the balance sheet as of 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	-	-	-	-	-
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

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 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 of 12/31/2017	Fair value as of 12/31/2017	Carrying amount as of 12/31/2016	Fair value as of 12/31/2016
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Financial liabilities				
Financial liabilities	66,453	68,466	37,137	37,343

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 observed market data.

12/31/2017	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	-	132	-	132
Financial assets available for sale				
Other financial assets	-	-	-	-
Total assets	**-**	**132**	**-**	**132**
Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Contingent consideration	-	-	-23,142	-23,142
Derivative financial instruments	-	-	-	-
Total liabilities	**-**	**-**	**-23,142**	**-23,142**

12/31/2016	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
Derivative financial instruments	-	-	-	-
Total liabilities	**-**	**-**	**-10,229**	**-10,229**

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

	2017	2016
	EUR ,000	EUR ,000
Financial assets and liabilities (balance)		
Net carrying amount of assets / liabilities (-) 1/1/	-10,229	-4,801
Additions to assets / liabilities (-)	-18,683	-8,138
Disposals of assets (-) / liabilities	2,140	473
Gains / losses recognized in profit or loss (-)	1,326	1,237
of which assets / liabilities held as at the balance sheet date	*251*	*1,237*
Gains / losses recognized without effect on profit or loss (-)	-	-
of which assets / liabilities held as at the balance sheet date	-	-
Reclassifications	-	1,000
Currency conversion	2,436	-
Net carrying amount of assets / liabilities (-) 31/12	-23,010	-10,229

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:

	2017	2016
	EUR ,000	EUR ,000
Loans and receivables	-2.694	-564
Financial assets measured at fair value through profit or loss	-150	-
Financial assets available for sale	-	-30
Financial assets held to maturity	-	-
Other financial liabilities at cost	-1.485	-1.449
Financial liabilities measured at fair value through profit or loss	1.468	1.271
Total	**-2.861**	**-772**

Interest expenses for financial instruments amount to TEUR 3,791 (PY: TEUR 1,646) for the 2017 fiscal year; the interest income amounted to TEUR 12 (PY: TEUR 22).

The impairments of financial instruments measured at amortized cost amount to TEUR 130 (PY: TEUR 638) in the 2017 fiscal year. The impairments of financial instruments held for sale amounted to TEUR 0 (PY: TEUR 30) in the 2017 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 14,878 (PY: TEUR 10,794) in the 2017 fiscal year. The rise is essentially due to the increased business volume.

Cash Flow From Investing Activities

The cash flow from investing activities is determined on a cash basis and amounts to TEUR -51,432 for the 2017 fiscal year (PY: TEUR -11,854). Of this, TEUR -10,640 (PY: TEUR -7,284) is attributable to investments in innovation, capacities and plant, and TEUR -40,792 to payments for the acquisition of fully consolidated subsidiaries (PY: TEUR -4,570).

Cash Flow From Financing Activities

The cash flow from financing activities is determined on a cash basis and amounts to TEUR 34,397 for the 2017 fiscal year (PY: TEUR 895). This primarily includes the fund inflow from new bank loans (TEUR 48,281), which was essentially to finance the majority stake in Nanogate Jay Systems and from the cash capital increase of April 2017 (TEUR 14,271).
The scheduled repayment of existing loans (TEUR -17,340) and dividend payments to the shareholders of Nanogate SE, as well as to outside shareholders at subsidiaries, had the opposite effect.

The changes to liabilities due to payment flows from financing activities are as follows:

	12/31/ 2016	Cash changes	non-cash changes				12/31/ 2017
			Acquisitions	Currency Effects	Changes in Fair Value Measurement	Others	
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Financial liabilities	37.136	30.941	-	-2.520	-	897	66.454
Financial leasing liabilities	11.615	-3.599	1.939	-	-	-302	9.653
Other financial liabilities	11.379	-2.875	18.964	-2.436	-1.960	69	23.141

12/31/2016	Cash changes	non-cash changes				12/31/2017
		Acquisitions	Currency Effects	Changes in Fair Value Measurement	Others	
EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
60.130	**24.467**	**20.903**	**-4.956**	**-1.960**	**664**	**99.248**

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 activities 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 areas. 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 of December 31, 2017, are as follows.

12/31/2017	Due			
	< 1 year	2 – 5 years	> 5 years	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Building rental agreement	3.722	13.044	7.055	23.821
Other rental/lease agreements	440	478	46	964
Order commitments	16.302	-	-	16.302
	20.464	13.522	7.102	41.087

The contractual obligations (operating lease agreements and order commitments) of the Nanogate Group to third parties in the previous year (December 31, 2016) were 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

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 4,012 (PY: TEUR 2,852) under leases and subleases were recognized as expenses in the 2017 fiscal year 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 eight years. The interest rates on which the individual agreements are based are between 2.8 % and 7.2 % per annum. 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 of 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.

Present value of minimum lease payments	12/31/2017	12/31/2016
	EUR ,000	EUR ,000
Due within one year	2.365	3.214
With a remaining term of more than one year and up to five years	6.234	7.678
With a remaining term of more than five years	1.053	723
	9.653	11.615

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

Minimum lease payments	12/31/2017	12/31/2016
	EUR ,000	EUR ,000
Due within one year	3.224	3.357
With a remaining term of more than one year and up to five years	6.696	7.563
With a remaining term of more than five years	495	620
	10.416	11.540
Less as yet unrealized interest expenses	-1.367	-855
Plus remaining lease liability	603	929
Present value of the minimum lease payments to be made	9.653	11.615

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, 2017)

Nanogate SE is continuing its growth strategy and agreed the acquisition of the plastics division of the Austrian company HTI High Tech Industries AG in 2017. The transaction was completed in January 2018 after the signing prior to the reporting date (see Note 36). The Management Board of Nanogate SE anticipates an additional sales contribution of over EUR 30 million in the next fiscal year. Despite significant transaction and integration costs, the new units are set to make an initial positive contribution to consolidated EBITDA in 2018. On this basis, Nanogate expects a rise in Group sales to over EUR 220 million in the 2018 fiscal year. Despite significant transaction and integration costs, the operating result (consolidated EBITDA) is expected to increase further, while depreciation and amortization and financing costs will initially negatively impact consolidated net income.

The Group continued is expansion in February 2018, investing in TactoTek Oy (Oulunsalo, Finland). The company, established in 2011, is a leading provider in the area of Injection Molded Structural Electronics (3D) and is specialized in the integration of printed circuits and electronic components in injection molding plastics. Nanogate is acquiring a stake of 4.43 % in TactoTek Oy for a low single-digit million amount and is signing an extensive cooperation agreement. The aim is to rapidly open up the market for smart surfaces together. Both design and development expertise and capacities will be shared as part of the comprehensive collaboration. Nanogate should also be directly involved in setting up production processes for current projects.

Production for the N-Metals® Design technology platform at the Neunkirchen site was also started in February 2018. The Group also agreed a strategic partnership with Liechtenstein-based surfaces specialist Oerlikon Balzers Coating AG (Balzers, Liechtenstein). The aim of the partnership is to tap into new areas of application for the metallization of plastics and further establish the partners' shared technology on a global scale.

35. Number of Employees

The average number of employees of the Nanogate Group during the 2017 fiscal year and during the previous year is shown in the table below.

	2017	2016
Blue-collar employees	897	499
White-collar employees	288	198
	1,185	697
Apprentices	24	18
	1,209	715

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

As of the reporting date, the Nanogate Group employed a total of 1,197 industrial employees and salaried staff (PY: 776 industrial employees and salaried staff) and 29 trainees (PY: 22 trainees).

36. Business Combinations

Majority Acquisition of Nanogate Jay Systems LLC, Mansfield, Ohio, U.S. (80.01 %)

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 SE from this date. The acquired subsidiary 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 contractually agreed purchase price (without taking into consideration assumed costs and liabilities of USD 1,420,595.88) for 80.01 % of the shares amounts to USD 57,436,604.12. USD 14,402,753.76 of this was 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 were revalued in the amount of the newly acquired shares as of the acquisition date of January 3, 2017, 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 in accordance with IFRS 3 (the anticipated acquisition method). A corresponding purchase price obligation 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 Nanogate Jay Systems as of the date of first-time inclusion are as follows.

Company acquisition Nanogate Jay Systems LLC *The assets and liabilities acquired consist of the following:*	Fair value (for 100 % shares)	
	EUR ,000	USD ,000
Goodwill	17,890	18,678
Patents/technology/expertise	5,124	5,350
Client base	9,961	10,400
Other intangible assets	-	-
Property, plant and equipment	40,704	42,497
Inventories	7,246	7,565
Trade receivables and other receivables	10,321	10,776
Cash and cash equivalents	-	-
Deferred tax assets	406	424
Total assets acquired	**91,652**	**95,691**
Tax liabilities	-	-
Other provisions	-319	-334
Financial liabilities	-	-
Trade payables and	-	-
other liabilities	-5,656	-5,905
Deferred tax liabilities	-9,221	-9,627
Total liabilities acquired	**-15,196**	**-15,866**
Net assets acquired	**76,456**	**79,825**
Purchase price	**76,456**	**79,825**
of which paid for with cash and cash equivalents	40,792*)	43,204
of which equity instruments	14,782*)	15,570
of which purchase price liabilities	20,162	21,050
of which currency conversion	720	-

**) converted at the exchange rate at the reporting date*

Goodwill primarily consists of inseparable synergies in administrative processes, employee expertise and cost savings in the area of sales. Due to U.S. tax regulations, it will be fully tax-deductible in the USA up to USD 12 million over a period of 15 years.

No cash and cash equivalents have been received as part of the acquisition.

The equity instrument used comprises 382,947 common shares issued in Nanogate SE. The fair value of the common shares, which represent a part of the consideration transferred for the acquisition of Nanogate Jay Systems, was determined using the publicly quoted price as of the date of issue of the shares.

The purchase price obligations recognized are assumed liabilities of TUSD 1,250 and contingent considerations of TUSD 19,800 for the 19.99 % of shares not yet legally transferred. The remaining shares can be acquired in two equal tranches by exercising options. The fair value of this contingent consideration was recognized at the discounted expected value of TUSD 19,800. 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).

Taking into consideration the effects arising from the purchase price allocation and the integration costs, Nanogate Jay Systems (including Nanogate Technologies Inc. as a first-time consolidated intermediate holding company) contributed revenue of TEUR 61,471 in the consolidated financial statements from the acquisition date of January 3 through December 31, 2017.

Acquisition of the Plastics Division of the Austrian Company HTI High Tech Industries AG

In January 2018, the Nanogate Group closed its acquisition of the plastics division of Austrian HTI High Tech Industries AG, St. Marien near Neuhofen, Austria (HTI). 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 SE from this date. The Nanogate Group includes Nanogate Central and Eastern Europe GmbH (formerly HTP Holding GmbH, Neudörfl, Austria, 100 %) along with the associated companies Nanogate Slovakia (formerly HTP Slovakia, Vráble, Slovakia, 100 %), Nanogate Electronic Systems (formerly HTP Electronics, Neudörfl, Austria, 100 %) and HTP Austria GmbH (Fohnsdorf, Austria, 50 %). The shares in HTP Austria are being held as part of a strategic partnership, including a later purchase option.

In addition to many years of experience in the automotive business, Nanogate Slovakia also has a strong non-automotive business with first-class references. Nanogate is benefiting from a new, high-performance and, at the same time, cost-efficient location, as well as from the geographical expansion toward Eastern Europe. Nanogate Electronic Systems is a leading provider of special plastic components, with a product focus outside the automotive environment. The production of high-precision and microcomponents, also for electronic applications, is highly automated. The unit has high development capabilities and will in the future collaborate with the Nanogate Group, for example, on new hybrid solutions requiring the combination of electronics, metal and plastics expertise. Future strategic partner HTP Austria is specialized in the production of lightweight components for the automotive industry and, in the future, can take over secondary and supplementary manufacturing steps for the Nanogate Group.

The purchase price is being paid exclusively in shares as part of a noncash capital increase of 275,000 shares. HTI will transfer these shares directly to a subsidiary of QInvest LLC (Doha, Qatar), which intends to hold the shares in the long term. In addition, QInvest LLC intends to provide financial support for Nanogate's further growth. The Management Board of Nanogate SE anticipates an additional sales contribution of over EUR 30 million in the next fiscal year. Despite significant transaction and integration costs, the new units are set to make an initial positive contribution to consolidated EBITDA in 2018.

For the purposes of first-time inclusion in the consolidated financial statements as part of the full consolidation and as part of the equity consolidation (HTP Austria), the assets, liabilities and contingent liabilities are revalued in the amount of the newly acquired shares as of the acquisition date of January 2018 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. Due to the materiality of the transaction, the Management Board of Nanogate SE commissioned a neutral auditing company to put together an expert report on the purchase price allocation underlying the acquisition. This work has not yet been fully concluded. No disclosures pursuant to IFRS 3.B64(e) and (h) through (k) and (o) can therefore be made yet. 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 acquired companies 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 as of the date of acquisition. The acquisition costs involved in a company acquisition are calculated as the total of the transferred consideration, measured at the fair value as of the acquisition date, and the shares without controlling influence on the company acquired. If the acquisition costs of the subsidiary 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 independent of whether other assets or liabilities of the acquired company 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 noncontrolling interests item in the consolidated statement of financial position of Nanogate SE. Transactions with noncontrolling interests that do not lead to a loss of control are recognized as equity transactions without affecting the operating result.

37. Auditor's Fees

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

	2017
	EUR ,000
Auditing services	320
Other certification services	10
Tax advisory services	50
Other services	363
	743

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	
	2017	2016	2017	2016	2017	2016	2017	2016
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Subsidiaries – not consolidated	-	-	-	-	146	1,160	-	-

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

	Liabilities		Receivables	
	2017	2016	2017	2016
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Subsidiaries – not consolidated	-	-	896	1,249

With the exception of Nanogate Teknoloji AS, Istanbul (Turkey), transactions between Nanogate SE and its subsidiaries were fully eliminated within the consolidated financial statements for the 2017 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 2017 fiscal year. There were also no major transactions with other companies or related parties having significant influence over the Nanogate Group during the 2017 fiscal year.

Shares and Stock Options Held by the Boards of Nanogate SE

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

	12/31/2017		12/31/2016	
	No. of shares	No. of options	No. of shares	No. of options
Management Board				
Michael Jung	6,824	43,741	6,824	43,741
Daniel Seibert	6,000	13,550	-	23,550
Ralf M. Zastrau	66,400	39,059	56,400	49,059
Supervisory Board				
Oliver Schumann	8,175	-	8,175	-
Dr. Farsin Yadegardjam	10,000	-	10,000	-
Klaus-Günter Vennemann	2,500	-	2,500	-
Dr. Clemens Doppler	1,000	-	1,000	-
Dr. Peter Merten	-	-	-	-
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 315e HGB together with Section 314 (1) (6a) HGB totaled TEUR 982 during the fiscal year as current payments. In addition to remuneration in the form of a basic salary, bonuses, a company pension and the use of a company vehicle, there are also noncash benefits from the stock option programs approved by the shareholders' meeting totaling TEUR 573. Furthermore, other noncurrent benefits amounting to TEUR 1,400 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 SE, control Nanogate SE together with other companies or exercise significant influence over Nanogate SE. Subsidiaries, joint ventures and associated companies are also seen as associated with Nanogate SE, as is the relationship between subsidiaries and associated companies. The same also applies to subsidiaries that have not been 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 SE

Mr. 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,
member of the Management Board at EVP Capital Management AG

Mr. Klaus-Günter Vennemann, Waldring (Austria),
management consultant

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

Mr. Hartmut Gottschild, Aalen,
management consultant

Dr. Peter Merten, Heppenheim,
management consultant (since June 29, 2017)

The remuneration of the members of the Supervisory Board amounts to TEUR 170 for the 2017 fiscal year (PY: TEUR 153). As in the previous year, these are exclusively current benefits.

Management Board

Mr. Ralf M. Zastrau, Saarbrücken, Chairman of the Management Board/CEO
Mr. Michael Jung, Riegelsberg, COO
Mr. Daniel Seibert, Rüsselsheim, CFO

Quierschied, Germany, April 13, 2018

Nanogate SE

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

Independent auditors' report

to Nanogate SE: Report on the audit of the consolidated financial statements and Group management report

Audit opinions

We have audited the consolidated financial statements of Nanogate SE, Quierschied and its subsidiaries (the Group) – consisting of the consolidated statement of financial position as of December 31, 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1, 2017 to December 31, 2017 as well as the consolidated Notes, including a summary of important accounting methods. In addition, we have audited the Group management report of Nanogate SE for the fiscal year from January 1, 2017 to December 31, 2017

In our opinion, based on the findings of our audit,

- the accompanying consolidated financial statements comply in all material respects with IFRS, as applicable in the EU, and additional applicable German legal provisions pursuant to Section 315e (1) of the German Commercial Code (HGB) and provide in accordance with these provisions a true and fair view of the net assets and financial position of the Group as of December 31, 2017 as well as its earnings position for the fiscal year from January 1, 2017 to December 31, 2017.
- Furthermore, the accompanying Group management report altogether provides a correct view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal provisions and correctly presents the opportunities and risks for future development.

In accordance with Section 322 (3)(1) HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the Group management report.

Basis for the audit opinions

We have conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 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 – IDW). Our responsibility in accordance with these provisions and standards is further described in the section "Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report" of our auditors' report. We are independent of the Group companies in accordance with German commercial law and rules of professional conduct and have fulfilled our other professional obligations in accordance with these requirements. In our view, the audit evidence we obtained is sufficient and suitable to serve as the basis for our audit opinions regarding the consolidated financial statements and the Group management report.

Responsibility of the statutory representatives and the Supervisory Board for the consolidated financial statements and the Group management report

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects are consistent with IFRS, as applicable in the EU, and additional applicable German legal provisions pursuant to Section 315e (1) HGB, and for ensuring that the consolidated financial statements provide in accordance with these provisions a true and fair view of the net assets, financial and earnings position of the Group. Furthermore, the legal representatives are responsible for internal controls that they have deemed to be necessary in order to enable the preparation of consolidated financial statements free of material – intentional or inadvertent – misstatements.

During preparation of the consolidated financial statements, the legal representatives are responsible for evaluating the ability of the Group to continue as a going concern. They are also responsible for indicating any relevant issues related to the continuation of business operations. In addition, they are responsible for preparing financial statements on the basis of the going-concern accounting principle unless the Group intends to liquidate or terminate business operations or there is no realistic alternative.

Moreover, the legal representatives are responsible for the preparation of the Group management report, which altogether provides a correct view of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German legal provisions and correctly presents the opportunities and risks for the future. Furthermore, the legal representatives are responsible for the precautions and measures (systems) they have deemed to be necessary in order to prepare the Group management report in accordance with German legal provisions and to be able to provide sufficient suitable evidence for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group management report

Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report

Our objective is to determine with sufficient certainty whether the consolidated financial statements as a whole are free of material – intentional or inadvertent – misstatements, and whether the Group management report altogether presents a true and fair view of the position of the Group and is consistent in all material respects with the consolidated financial statements as well as with the findings of our audit, complies with German legal provisions and correctly presents the opportunities and risks for the future, as well as to issue an auditors' report including our audit opinions on the consolidated financial statements and the Group management report.

Sufficient certainty is a high degree of certainty, but no guarantee that an audit conducted in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the IDW always discovers a material misstatement. Misstatements may result from violations or errors and are viewed as material if it could reasonably be expected that they might affect individually or altogether the economic decisions of the recipients based on these consolidated financial statements and Group management report.

During the audit we exercise professional judgment and maintain a critical basic attitude. In addition

- we identify and evaluate the risks of material – intentional or inadvertent – misstatements in the consolidated financial statements and Group management report, plan and conduct audit procedures in response to these risks and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misstatements are not discovered is higher in case of violations than errors since violations may involve fraudulent collaboration, falsifications, intentional omissions, misleading statements or the bypassing of internal controls;
- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the Group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of issuing an audit opinion on the effectiveness of these systems;
- we evaluate the appropriateness of the accounting methods applied by the legal representatives as well as the justifiability of the estimated values of the legal representatives and related disclosures;
- we draw conclusions about the appropriateness of the going-concern accounting principle applied by the legal representatives as well as, on the basis of the obtained audit evidence, whether material uncertainty exists in connection with events or circumstances that could cast significant doubt on the

ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are obligated in the auditors' report to call attention to related disclosures in the consolidated financial statements and the Group management report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained by the date of our auditors' report. However, future events or circumstances may prevent the Group from continuing business operations;

- we evaluate the overall presentation, structure and contents of the consolidated financial statements, including disclosures, as well as whether the consolidated financial statements present underlying transactions and events in such a way that the consolidated financial statements provide a true and fair view of the net assets, financial and earnings position of the Group in accordance with IFRS as applicable in the EU and additional applicable German legal provisions pursuant to Section 315e (1) HGB.
- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group in order to issue audit opinions on the consolidated financial statements and the Group management report. We are responsible for the guidance, supervision and execution of the audit of the consolidated financial statements. We are solely responsible for our audit opinions;
- we evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with the law and the view it presents of the position of the Group;
- we conduct audit procedures regarding the forward-looking statements presented by the legal representatives in the Group management report. Based on sufficient and suitable audit evidence, we trace the underlying significant assumptions particularly regarding forward-looking statements made by the legal representatives and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not issue an independent audit opinion on the forward-looking statements and the underlying assumptions. A significant unavoidable risk exists that future events may deviate significantly from forward-looking statements.

We discuss with those responsible for supervision, among others, the planned scope and timing of the audit as well as significant audit findings, including potential deficiencies in the internal control system that we may identify during our audit.

Saarbrücken, Germany, April 13, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Witsch	Dr. Zabel
Auditor	Auditor

Overview of separate financial statements as per HGB

Nanogate SE

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

	2017	2016
Net sales	7,883	6,594
Overall performance	11,564	7,916
Gross earnings	10,057	6,523
Earnings before taxes	226	4,511
Net income/loss	287	4,132
Balance sheet total	157,804	101,190
Balance sheet profit	5,226	5,356
Equity	92,929	64,088
Equity ratio	58.9	63.3
Cash and cash equivalents	8,115	12,017
Dividend in euros*	0.11	0.11

** proposal for 2017*

The Group continued its positive performance in the reporting period. Sales and the operating result (EBITDA) reached new highs. Consolidated net income also continues to rise. Nevertheless, Nanogate SE's result, as a parent company with numerous holding and service functions, remains negatively impacted by expenses for the implementation of the Phase5 growth strategy. The largest cost items include opening up new international markets, comprehensive M&A activities and business development. The result in Nanogate's separate financial statements, pursuant to the German Commercial Code (HGB), is negatively impacted by this. This development is also due to greater transaction and integration costs for external growth, the expected weaker development of subsidiaries, as well as rising costs related to additional responsibilities of the holding company, which has optimized its structures and processes in light of the sharply increasing business volume. The profit and loss transfer agreements with other subsidiaries that were concluded and executed in the fiscal year positively impacted the net result for the year, which totals EUR 0.3 million (PY: EUR 4.1 million). The significantly better net result for 2016 was influenced by higher profit distributions from subsidiaries.

Given the Group's positive overall operational development and its continued good prospects and financial strength, the Management Board again proposes 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 leeway for taking the forthcoming expansion steps has been maintained. Following a successful 2017, Nanogate also expects continued pleasing development in the current 2018 fiscal year. Sales and the operating result (EBITDA) are expected to further increase.

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The annual report of Nanogate SE is available in German and English.
The German version is legally binding.

Imprint

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