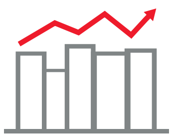
Annual Report 2018

Nanogate Excellence International

Nanogate Group at a glance

	2018	2017	2016
Sales	**239,173**	186,231	112,452
Overall performance	**251,152**	190,919	116,856
Gross profit margin (in % of sales)	**58.3**	60.5	62.7
EBITDA	**24,170**	21,547	12,378
EBIT	**6,751**	7,258	4,632
EBT	**1,682**	3,862	3,373
Consolidated net income/loss	**1,410**	2,805	2,498
Earnings per share (EUR, undiluted)	**0.29**	0.64	0.70
Balance sheet total	**338,438**	235,104	156,424
Equity	**112,455**	93,728	65,823
Equity ratio (%)	**33.2**	39.9	42.1
Cash and cash equivalents	**38,209**	20,281	22,578
Cash flow from continuing operations	**18,384**	14,878	10,794
Cash flow from investing activities (without external growth)	**- 36,256**	-10,640	-7,284
Employees (average for the year)	**1,717**	1,209	715
Sales per employee	**139**	154	157
Market capitalization at year-end*	**114,488**	214,104	143,799
Dividend** (in euros)	**0.11**	0.11	0.11

** Source: Bloomberg, ** Proposal for 2018*
The above refers to the Nanogate Group (in accordance with IFRS, figures in EUR ,000)



Sales

239 Mio. €

Export ratio

69 %

Employees

1,700

Sites

12

NANOGATE SE – A WORLD OF NEW SURFACES

Nanogate is a leading global technology company for design-oriented, multifunctional components and surfaces. We have an international market presence and our own production capacities on both sides of the Atlantic. Nanogate develops and produces design-oriented surfaces and components and enhances them with additional properties (e.g. nonstick, scratchresistant, anticorrosive).

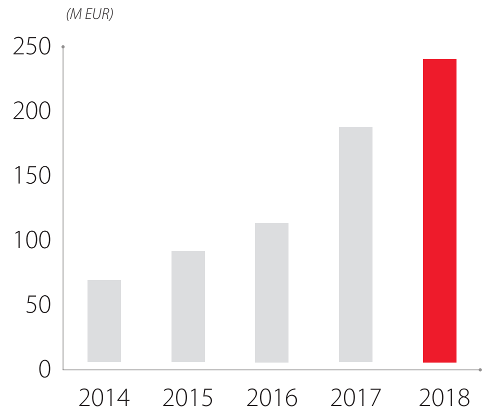
Nanogate is a long-standing innovation partner who opens up the diverse possibilities offered by new materials to companies in a wide range of industries. It aims to improve customers' products and processes and to provide environmental benefits by using multifunctional surfaces, such as those made of plastic or metal, and innovative plastic components. As a systems provider, Nanogate broadly covers the value chain: design and engineering, materials development for surface systems, series coating of various different substrates as well as the production and enhancement of complete plastic components.

With expertise and technology from Nanogate

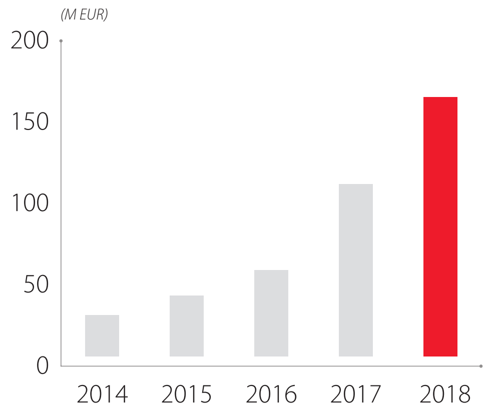
- electronics, multifunctionality and high-quality design are combined.
- surfaces are given new properties and additional functions.
- plastics are put to use in ground-breaking areas of application.
- products are given environmentally friendly properties.

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

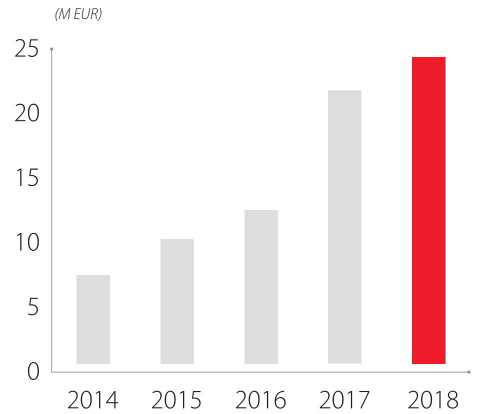
Sales



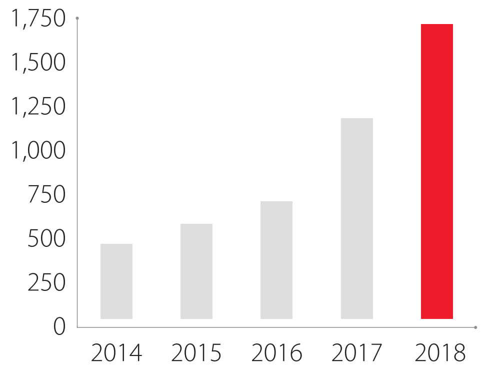
Gross revenue abroad



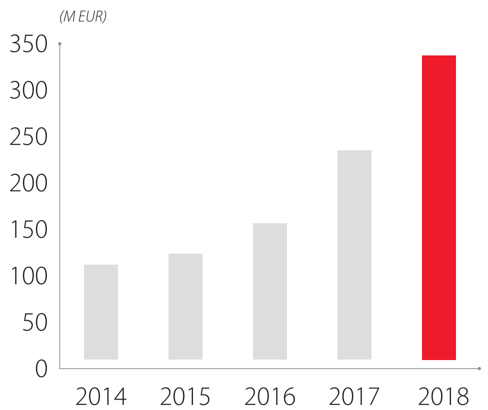
EBITDA



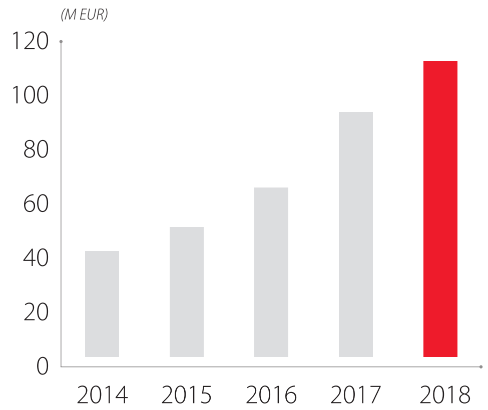
Employees



Balance sheet total



Equity



ACHIEVING NEW GOALS TOGETHER.

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

Contents

Preface 8

Review 2018 12

Strategy 14

The share 16

Report of the Supervisory Board 18

Group management report 22

Consolidated income statement 52

Consolidated statement of comprehensive income 53

Consolidated statement of financial position 54

Consolidated statement of cash flows 55

Consolidated statement of changes in equity 56

Notes to the consolidated financial statements 57

Auditors' report 88

Overview of separate financial statements as per HGB 91

Letter to Shareholders

Dear shareholders and readers,

Within 20 years, Nanogate has developed from a start-up in a university environment to a leading global technology company for design-oriented, multifunctional components and surfaces. We have grown continuously since launching in 1999 and are represented today at ten production sites with more than 1,700 employees. Our customers, whom we serve as innovation partner usually over the course of many years, include international corporations and brands such as Airbus, BSH, Daimler, Ford and Junghans. Every day, thousands of components leave our production sites, destined for our customers in various industries. Today, Nanogate offers a highly diversified technology portfolio and covers broad sections of the value chain. At the same time, we possess a strong order base in the triple-digit million range and consistently high incoming orders. On this basis, we have now initiated the future-oriented Nanogate Excellence International (NXI) program. Through this program, we are setting up the Group in a more efficient manner, notwithstanding initial burdens, and would like to expand our prominent market position.

Sales Forecast for 2018 Exceeded

We continued our persistent growth course in the past fiscal year as well: With sales of EUR 239.2 million, we exceeded our guiding figure of EUR 220 million defined at the beginning of the year. This represented an increase in sales by almost 30 percent in comparison with 2017. Despite the costs of the ongoing innovation drive as well as transaction and integration costs for subsidiaries, the operating result (EBITDA) increased to EUR 24.2 million, such that we reached our earnings target. In accordance with expectations, the consolidated net income is marked by financing costs and depreciation and amortization of our investments and amounted to EUR 1.4 million. We are maintaining our dividend policy and once again recommend a dividend of EUR 0.11 per share to the shareholders' meeting. In this way, we can share the financial success of the company with our shareholders and simultaneously preserve our financial strength. The growth course is also reflected in the reduced cash flow from operating activities, which is burdened particularly by start-up costs for the new major orders with project launches in 2019. The equity ratio of over 30 percent remains at an appropriate level.

Competitiveness Strengthened and Technology Portfolio Expanded

In 2018, we strengthened the market position and sales potential of Nanogate through numerous measures and projects. With our new locations in Slovakia and Austria, we are developing additional markets and simultaneously benefiting from lower costs in Slovakia. With the acquisition of the design studio heT, we substantially increased our design and engineering expertise. In parallel, Nanogate expanded its range of technologies and applications. In this context, our focus is primarily on the integration of electronics expertise into plastic components (integrated smart surfaces) and the metallization of plastics (N-Metals). An additional growth area is systems in the New Mobility division, where we are benefiting from trends such as the digitalization of cars.

Largest Order in the Company's History

We have also significantly expanded our order base in the past fiscal year and were at more than EUR 600 million in April 2019, based solely on the current and next two financial years. First and foremost, this includes our largest project since our foundation in 1999. As part of a multiyear order with a volume of up to USD 100 million, we are supplying components for kitchen appliances to a renowned U.S. manufacturer from 2019 onwards. With this project, we have achieved Nanogate's breakthrough into the market for stainless steel replacement technologies and are strengthening our industrial business. Numerous additional new orders demonstrate the success of our strategic orientation and market position. In the New Mobility division, for example, we are supplying many different kinds of components for a completely new electric car from a major German manufacturer.

Focus on Organic Growth, Profitability and Cash Flow
In the past, Nanogate has grown by an average of roughly 30 percent per year. This growth has been driven partially by acquisitions and investments in ventures. This has enabled us to develop international markets, expand our offering along the value chain and enlarge our technology portfolio. We intend to build on this market position and achieve an adequate level of profitability for the size of the company in the future.

Differently than in the past, we are placing an increased emphasis on organic growth. With the measures from our future-oriented NXI program and the additional market development, strong order base and broad technology portfolio, we intend to increase our operating result and free cash flow significantly more than sales in the medium term following initial financial burdens from the implementation of the program.

New Medium-Term Goals: Profitability Should Grow More Strongly Than Sales
We have defined our medium-term goals in parallel with the development of the NXI program: By 2025, we would like to increase sales to more than EUR 500 million. To achieve this, our industrial business should increase disproportionately to sales of at least EUR 200 million, which would mean comparatively stronger growth than our mobility business. In parallel, the operating result (EBITDA) should increase to at least EUR 75 million. This would result in the EBITDA margin improving to reach 15 percent. In the same period of time, we expect free cash flow to increase stronger than sales.

2019 Forecast
As a transitional year, the 2019 fiscal year for Nanogate will be marked both by continued growth and temporary negative effects on earnings. As such, we are expecting an organic increase in sales in a challenging market to more than EUR 250 million for 2019. In view of increasing start-up costs for new major orders and the implementation of the future-oriented NXI program as well as potential noncash expenses, a consolidated net loss in the low single-digit million range is expected. The operating result (EBITDA), however, should remain stable at the previous year's level. As of 2020, we would like to reach a clearly profitable growth course again and expect significant improvement of the operating result (EBITDA) as well as a positive consolidated net income.

We would like to thank our shareholders and all of our business partners and customers for their trust. In addition, we would also like to thank our employees who have continued to help Nanogate make great strides despite all of the challenges.

As a leading global technology company for design-oriented, multifunctional components and surfaces, we believe we are in a strong position. We have a good overview of the course of business thanks to an

Ralf Zastrau (CEO)

Michael Jung (COO)

Götz Gollan (CFO)

outstanding order base and support our customers as an innovation partner in a number of attractive target markets, typically over many years. We cover broad sections of the value chain and offer a comprehensive technology portfolio. In this transitional year, we are organizing the Group more efficiently. Starting in 2020, the measures from our future-oriented NXI program will begin to pay off in the form of increasing profitability.

Yours,

Ralf M. Zastrau (CEO)

Michael Jung (COO)

Götz Gollan (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 2018: Innovation Drive

MAY

Design Expertise Enhanced

With the acquisition of the design studio heT, we are supplementing our portfolio of services with additional design and engineering expertise. Our goal is to jointly develop the next generation of high-quality plastic components and produce them within the Group as part of integrated systems. The transaction was concluded in July 2018.

APRIL

Growth in the U.S.

Nanogate strengthens its U.S. business with multiple additional orders for innovative plastic components. The total sales volume for the multiyear projects is in the low double-digit million range. At the same time, we have been granted an investment subsidy of USD 2 million for the construction of the new technology center at the Mansfield, Ohio, location.

MARCH

Investments in Innovations

The newly launched innovation program is scheduled to receive more than EUR 20 million. In this context, the focus is on additional applications and systems for the metallization of plastics (N-Metals) including the construction of a new technology center in the U.S. and solutions for the combination of plastics and electronics (integrated smart surfaces).

New Multimillion Orders

We are expanding our market position in the New Mobility division with multiple new projects. The cumulative sales volume is in the multimillion range. The orders for two German premium manufacturers involve the use of our plastics technology under the N-Glaze brand.

FEBRUARY

Expansion Into the Market for Smart Surfaces

We perceive significant potential for growth in the combination of expertise in plastics and electronics. The design of interfaces between human and machine will be one of the megatrends in product development in the coming years. As such, Nanogate will comprehensively develop the market for smart surfaces and is also acquiring a stake in the Finnish technology company TactoTek for this purpose.

FEBRUARY

Start of Production for Chrome Replacement Technology

Nanogate launches production for its N-Metals technology platform at the Neunkirchen site. The first series production order also began in 2018: It comprised the development and production of metallized chrome-look plastic components that are used in electric scooters.

JANUARY

New Technology

Nanogate begins to market a new platform for replacing stainless steel. 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.

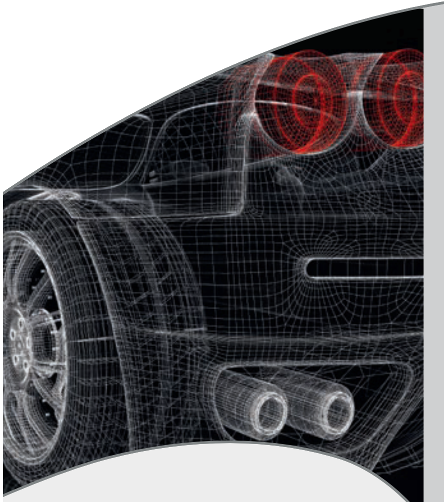
JUNE

Largest Order in the Company's History

With a sales volume of up to USD 100 million, the project is Nanogate's breakthrough into the market of stainless steel replacement technologies and simultaneously represents the largest order since the foundation of the company. From 2019 onwards, we will be supplying components for kitchen appliances to a renowned U.S. manufacturer.

Financial Strength Increased

Nanogate is optimizing its financial structure and achieved a cash inflow of EUR 50 million upon the successful placement of a promissory note loan. In parallel with this, we are agreeing a new syndicated loan.



SEPTEMBER

New CFO

Götz Gollan assumes the role of CFO of Nanogate SE and is responsible for the Finance, Controlling, Risk, Tax and Legal divisions. He has previously served as COO of the Frankfurt-based investment bank equinet Bank AG and has already advised Nanogate on multiple capital measures as well as the IPO.

NOVEMBER

New Project for N-Metals

Nanogate strengthens its order base in the U.S. with a new multi-year project. From summer 2020 onwards, we will supply metallized plastic components for the most popular car in the U.S., which has a total sales volume of roughly EUR 15 million.

Major Order for New Mobility

Nanogate launches a project in the New Mobility division with a cumulative sales volume of EUR 35 million and a term of seven years. Beginning in the fall of 2019, we will deliver design-oriented plastic components for a new e-automobile of a renowned German manufacturer.

NOVEMBER

Future-Oriented NXI Program Launched

Nanogate is reorganizing the Group, a process which will involve the simplification of structures and increased centralization. At the same time, we would like to substantially expand industrial business, move forward with internationalization and position the Group as a leading brand for innovative surfaces and components. By 2025, sales should increase to over EUR 500 million, while EBITDA should reach at least EUR 75 million in the same time period and free cash flow should also improve in the medium term.

DECEMBER

N-Metals Completed

With new plastic enhancements for the design of aluminum, copper and other surfaces, the development of the N-Metals Design technology platform is largely complete. Together with the existing chrome and stainless steel looks, we now possess a complete product family. In addition, new wet chemical procedures enable metallization in a chrome look in the form of a coating, which represents a more cost-effective alternative to classic electroplating.

NXI: Strengthening Industry Focus and Efficiency

Nanogate has established itself as a leading global technology company for design-oriented, multifunctional components and surfaces and is beginning the next phase of the company's development. With the future-oriented Nanogate Excellence International (NXI) program launched in January 2019, we intend to realign the Group to be more efficient and industry-focused. We have defined numerous individual measures to this end. We have established an excellent starting position for this in recent years. In particular, this includes our broad technology and service portfolio, our strategic positioning as an innovation partner and our strong order base.

Growth Targets Achieved Consistently

Our future-oriented NXI program follows the successful Phase5 growth strategy. Within this framework, we have significantly expanded our market position and business volume since 2014, such as with new technologies and additional locations. With growth in sales from EUR 53 million in 2013 to EUR 239.2 million in the past fiscal year, Nanogate has substantially exceeded the original Phase5 goal of EUR 100 million in sales.

More Powerful Corporate Structure

With NXI, we intend to reconfigure our internal organization and optimize all processes within the Group. This will allow us to generate synergies and growth potential – excellence at every level and in all divisions is our objective. The numerous measures under the program are divided into four areas of activity: Markets, Operations, Services and People.

The core topics include a simplified corporate structure. We will either merge Group companies or place them under uniform management in order to consolidate responsibilities and accelerate decision-making across multiple sites. For example, the companies in Schwäbisch Gmünd and Neunkirchen are already being managed as a compound location.

At the same time, we are strengthening our orientation and focusing even more strongly on our two core brands, N-Glaze and N-Metals, and our three growth areas of New Mobility, Metallization and Smart Surfaces (integration of electronic functionality into plastic components). In the future, market development will take place in a clearly industry-oriented and internationally networked manner, independent of location. In addition, existing capacities are being reviewed, abandoned or relocated in favor of higher-margin projects, primarily with a view to the optimal implementation of the new major orders. In this way, we hope to use existing capacities and resources more efficiently.

In addition, crucial tasks such as procurement and purchasing will be organized centrally in the future. At the same time, we are expanding key divisions such as Finance and Controlling in order to manage the group of companies even more transparently and effectively. In the context of expansion and acquisitions of subsidiaries, we consciously decided in favor of structures that were broadly decentralized in order to accelerate integration into the Group as a whole.

Comprehensive Branding Campaign: ONE Nanogate

The continued development of the corporate structure is also accompanied by an increased focus on the Nanogate brand. The "ONE Nanogate" guiding principle encompasses the positioning as a leading, fully integrated and globally active technology corporation. This is why we will go without specific company names for subsidiaries in the future, for example, and will only present ourselves to the public under the name Nanogate. In addition, we are strengthening our international marketing activities and focusing these primarily on individual, significant target markets such as for stainless steel applications in bathroom and kitchen areas.

New Medium-Term Goals: Focus on Profitability and Cash Flow

With the future-oriented NXI program, we have also defined our new goals: By 2025, Group sales should increase to more than EUR 500 million. In this context, we are giving a particular level of attention to strengthened growth in the industrial business, which stands to increase more strongly in comparison with our mobility business. In parallel, the operating result should grow much more quickly and reach at least EUR 75 million after initial earnings reductions due to the costs of implementation. In this way, we hope to increase the EBITDA margin to 15 percent in the medium term.

We are increasingly emphasizing organic growth in this context. The innovation drive that has been launched and the expanded technology portfolio are the basis for this. At the same time, we intend to accelerate international market development and to give increased attention to Asian markets, along with North America. With NXI, Nanogate will expand its market position and clearly increase profitability.

NXI Overview

Focus

- Profitability
- International expansion
- Cash flow
- Organic growth
- Industrial business growth

NXI Structure

- Market excellence
- Operations excellence
- Service excellence
- People excellence

Key Topics

- Clear, sector-focused market responsibilities and KAM
- Simplified structures and merger/integration of subsidiaries and sites
- Empowerment of central structures (e. g. finance, SCM, Lean Management …)
- Re-evaluation and re-allocation of capacities and orders
- Benchmarking and best practices for all operations
- Strong, unified branding and international market presence
- Strategic partnerships and alliances

The share

Global financial markets in 2018 were affected by concerns regarding the global economy, trade conflicts, uncertainties around Brexit and geopolitical tensions, as well as by specific local factors such as the development of the automotive industry in Germany. As a result, stock exchanges recorded a significant downward trend subject to strong fluctuations. The leading German index DAX lost roughly 18 percent over the course of the year, and the MDAX and SDAX each lost roughly 20 percent. Second-tier stocks were affected even more strongly by this development in some cases, for reasons including their relatively low liquidity. The Nanogate share was also unable to escape this development, with the result that its price fell substantially during the reporting period from its initial level of EUR 46.75 at the beginning of 2018. The Xetra average price declined to EUR 38.60 from its 2017 level of EUR 47.88. At the end of 2018, the price stood at EUR 23.60. After the balance sheet reporting date, it climbed once again in the first quarter of 2019, increasing by roughly a third to almost EUR 30 by the beginning of April. The decline in price in 2018 was also accompanied by a decreasing trading volume. We are assuming that the performance of our share is burdened by changes in the shareholder structure and particularly by negative industry sentiment in the automotive sector, even though Nanogate, with its specific products and solutions in this industry, is likely to reap sustainable benefits from increasing demand for design-oriented light components as well as trends toward automated driving and digitalization.

Active Financial Communication

The potential of our three growth areas of New Mobility, Metallization and Smart Surfaces in conjunction with the N-Metals and N-Glaze brands have been the focus of numerous discussions with investors, analysts and financial journalists. As in past years, we maintain a continuous and active dialogue with these parties, such as at capital market conferences and in individual meetings. The most important event has once again proven to be the German Equity Forum in Frankfurt, where we presented our future-oriented NXI program in November.

In 2019, we will expand our investor relations activities further and intensify communication with investors. This includes participation in an anticipated seven capital market conferences, supplemented by roadshows in Germany and abroad as well as individual meetings with investors. Following a positive response in the previous year, we again conducted a background discussion with financial journalists in Frankfurt in February 2019.

Coverage

Analysts still recommend buying the share of Nanogate SE. As of April 1, 2019, the price targets stood at between EUR 37.50 and EUR 63.00, bar none distinctly higher than the traded price level at this point in time. Coverage is currently maintained by the following renowned banks and analysts: Berenberg, Edison Research, Hauck & Aufhäuser, Landesbank Baden-Württemberg, SMC Research and Warburg Research.

Basic Data on the Share:

Stock exchange segment	Scale
WKN / ISIN	A0JKHC / DE000A0JKHC9
Indices	Scale 30, Scale All Share
Number of issued shares (as of 12/31/2018)	4,913,633
Designated sponsor	Pareto Securities AS
Specialist	Wolfgang Steubing AG
Capital market partner	LBBW

Dividend Proposal

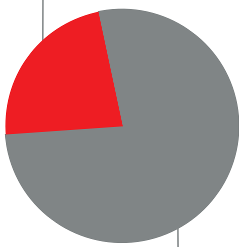
In light of persistently positive prospects, Nanogate proposes the payment of a dividend for the 2018 fiscal year irrespective of development during the transitional year of 2019. As in the past, EUR 0.11 per share is to be distributed to the shareholders. This is because we would like to make sure that our shareholders are involved in the performance of the company. At the same time, we are preserving financial strength for further expansion and the implementation of our future-oriented NXI strategy and the associated medium-term goals for 2025.

Shareholders' Meeting 2018
At last year's shareholders' meeting, shareholders voted in favor of all proposed resolutions, including the elections to the Supervisory Board, by a large majority. In addition, the shareholders again confirmed the dividend proposal of EUR 0.11 per share.

Share Capital Increased
The company's share capital increased in the reporting period to EUR 4,913,633. The cause for this was primarily a noncash capital increase by 275,000 shares in the context of the transaction for the acquisition of sites in Slovakia and Austria. An additional noncash capital increase for the acquisition of what is now Nanogate heT Engineering GmbH and a noncash capital increase in connection with the stake in Nanogate Goletz Systems acquired in 2016 also increased the share capital, as did share options exercised by Nanogate employees.

Free Float Increased
The capital measures described above as well as reallocations by investors substantially increased the free float in 2018 to 77 percent (as of June 27, 2018). The investment company QInvest (Qatar) was won as an additional major investor, acquiring their shares in the context of a noncash capital increase from the acquisition of sites in Slovakia and Austria. QInvest intends to hold the shares over the long term and also to provide support for Nanogate's further future growth. Other important and long-term-oriented investors remain HeidelbergCapital and Jay Industries from the U.S., the former sole proprietor of Nanogate North America. Our shareholders also include family offices as well as national and international investment funds and other investors. In light of our listing in the "Scale" stock exchange segment, we only have limited overview of our shareholders, since certain transparency provisions do not apply to this segment.

Shareholder Structure



As of Shareholders' Meeting 2018 (6/27/2018) figures rounded

Transparency
The Nanogate share is listed on the Scale30 selection index. We exceed the transparency and publicity requirements of the segment on a voluntary basis. For example, the Group typically publishes its annual financial statement, voluntarily prepared in accordance with the International Financial Reporting Standards (IFRS), within four months of the reporting date (instead of the required six months) and the half-year report within three months instead of four. All publications are also issued in parallel in English. Since its IPO in 2006, Nanogate has offered multiple investor and analyst presentations per year as part of major capital markets conferences. Apart from these, key requirements of the regulated market such as ad hoc publicity and the publication of directors' dealings also apply to the Scale segment, although the obligation to apply the German Corporate Governance Code does not. The Management Board and Supervisory Board continue to view the Scale segment as an appropriate stock exchange platform for Nanogate SE. Nevertheless, we continuously review whether and when a change to the regulated market would be sensible. Internal processes, such as in accounting, are being continuously expanded with a view to a potential change of segment.

Share Details

Source: Bloomberg	2018	2017
Average price (Xetra)	EUR 38.60	EUR 47.88
Share price at start/end of year (Xetra)	EUR 46.75 / EUR 23.60	EUR 38.00 / EUR 47.00
Share price high/low for the year (Xetra, intraday)	EUR 48.00 / EUR 22.10	EUR 53.98 / EUR 37.52
Average trading volume (daily, all trading centers aggregated including Tradegate)	9,594 shares	12,169 shares

Report of the Supervisory Board

Dear shareholders,

The Supervisory Board fully performed its duties as prescribed by law, the articles of association and the rules of procedure during the reporting period. It regularly advised the Management Board on the administration of the company and continuously reviewed and monitored its activities. It was also directly or indirectly involved in all decisions of strategic and fundamental importance for the company. Over the course of the financial year, the Management Board provided the Supervisory Board with regular, timely and comprehensive information on current business development, target achievement, the risk situation, risk management and relevant questions of strategy, planning and compliance. Deviations from plans and changes to targets during the course of business and the measures derived as a result were shared with the Supervisory Board, explained, and discussed with the Management Board. The Supervisory Board gave its consent for transactions which required it. In individual cases, specific documents and forms were requested and reviewed. Significant relevant information was communicated to the Supervisory Board promptly and comprehensively. No conflicts of interest of members of the Supervisory Board in connection with the performance of its duties were reported to the Supervisory Board or recognizably occurred.

Meetings of the Supervisory Board
In the past financial year, five in-person meetings were conducted with the Management Board in attendance. The members of the Supervisory Board fully participated in four meetings; one member of the Supervisory Board was absent from the meeting in September due to illness. In addition to these meetings, a joint strategy workshop for the Management Board and Supervisory Board was conducted the day before the meeting in September 2018. Seven circular resolutions were also adopted.

All members of the Supervisory Board have an adequate amount of time for the performance of their duties. They were always given sufficient opportunity to analyze and discuss the reports and proposed resolutions submitted by the Management Board before meetings and in plenary.

The subject of all Supervisory Board meetings was the written and verbal reporting by the Management Board on the business situation of Nanogate SE and its Group companies, particularly the current sales and earnings performance as well as the financial situation and assets position. The Supervisory Board received and discussed comprehensive information on business cases of major significance or requiring its approval, on the strategy and implementation thereof and on the Group's risk management. In addition, the Supervisory Board received monthly overviews from the Management Board containing a detailed presentation of the assets, financial and earnings position of the Nanogate Group including target/actual deviations. The Chairman of the Supervisory Board was also in regular dialogue with the Management Board. The Chairman of the Supervisory Board was promptly informed of significant events of critical importance for the assessment of the situation, performance and management of the company by the CEO.

In the meeting on February 7, 2018, the Management Board reported on the preliminary results for the 2017 financial year. Advice was also given on changes and optimizations to the Group, organizational and reporting structure, significant technology projects and the status of the preparation and implementation of various M&A measures and related integration measures. In-depth discussions were also held on the integrated financing strategy, the implementation of which included a new syndicated loan agreement and bonded loan placements over the remainder of the year.

At the Supervisory Board meeting on April 25, 2018, the individual and consolidated financial statements of the company for the 2017 financial year and the associated report by the Audit Committee were discussed with the Management Board in detail, along with the current business performance. Other topics on the agenda included ongoing M&A projects and the new financing system.

The ordinary shareholders' meeting on June 27, 2018, confirmed the mandates of all members of the Supervisory Board. The election was conducted in regard to the period of time until the end of the shareholders' meeting at which a resolution is adopted on the discharge of the Supervisory Board for the second completed financial year after the beginning of the term of office. As such, the Supervisory Board in the 2018 financial year consisted once again of Mr. Oliver Schumann, Dr. Farsin Yadegardjam, Dr. Clemens Doppler, Hartmut Gottschild, Dr. Peter Merten and Klaus-Günter Vennemann.

During the meeting immediately following the shareholders' meeting, the Supervisory Board members re-elected Mr. Schumann as the Chairman of the Supervisory Board and Dr. Yadegardjam as his deputy. In addition to this, the discussion covered the current business development and potential M&A projects.

In its meeting on September 25, 2018, the Supervisory Board discussed the ongoing business development and the challenges of individual Group companies in regard to new project start-ups and major orders in detail. In addition, organizational improvements and the core elements of a potential new company orientation, which was an outcome of the previous day's strategy workshop, were also at the center of discussion. Other topics on the agenda included the half-year financial statements, the IT security approach, the compliance management system, changes in financial reporting, interest hedging measures and selected risk factors.

The last meeting of the year on December 4, 2018, focused on the status of preparatory activities and measures underway for individual major orders, the future orientation regarding the NXI program and related action points, financing measures within the Group, the preparation of profit transfer agreements and M&A questions. The 2019 budget, financing details and potential changes to the Supervisory Board were also discussed.

In addition to the routine meetings, numerous discussions, both in person and by phone, took place between the Management Board and members of the Supervisory Board.

Committees of the Supervisory Board
Two Supervisory Board committees existed in the 2018 financial year:

The Audit Committee convened twice during the reporting period and also held conference calls. The Committee is comprised of Dr. Merten (Chairman), Mr. Schumann and Mr. Vennemann. The work of the Committee is focused on the Group's accounting and risk management and the auditing of the annual and consolidated financial statements.

The HR and Compensation Committee met twice during the reporting period and also held conference calls. The members of the Committee are Dr. Yadegardjam (Chairman), Dr. Doppler and Mr. Gottschild. The Committee is responsible for employment contracts and personnel issues relating to the Management Board. As such, its activities in 2018 were focused particularly on recruiting and agreeing on the contract for the new CFO, Götz Gollan.

Members of the Supervisory Board
After the end of the reporting period, Mr. Gottschild resigned from his office as a member of the Supervisory Board upon the expiration of January 31, 2019, for personal reasons, and departed from

the Supervisory Board at that time. The Supervisory Board would like to express its heartfelt thanks to Mr. Gottschild for his many years of dedicated and capable support for the Nanogate Group. Through his contributions, he supported and shaped the successful development of the Group.

At the suggestion of the Supervisory Board and the request of the Management Board, the Local Court of Saarbrücken appointed Mr. Martin Hendricks as his successor, effective February 1, 2019. The appointment is limited to the time until the next ordinary shareholders' meeting. Mr. Hendricks possesses longstanding experience in various management roles at companies in the mobility segment, and serves as the Executive Director of International Operations at the US corporation Trico Group. Before that, he was most recently the Executive Vice President of the U.S. automotive supplier Tenneco. With his industry experience and many years of international activity, he will further expand the competence of the Supervisory Board. It is our view that Mr. Hendricks should be deemed an independent member of the Supervisory Board, in the same manner as Mr. Schumann, Mr. Yadegardjam, Mr. Merten and Mr. Vennemann. The Supervisory Board looks forward to working with Mr. Hendricks, who will be introduced to the shareholders and seek election during the upcoming ordinary shareholders' meeting in June 2019.

Members of the Management Board
One change was made to the Management Board in 2018. On August 31, 2018, Daniel Seibert stepped down from his role as CFO of Nanogate SE for personal reasons. The Supervisory Board thanks him for his many years of responsible work for the Group. His successor, Götz Gollan, took office on September 1, 2018 (appointed until August 2022). He possesses comprehensive financial and capital market experience from past activities on the management boards of banks and financial service providers. Thanks to his experience as a supervisory board member for various companies, he also possesses corresponding industry expertise. Mr. Gollan is already familiar with the Nanogate Group, having cooperated on a number of capital market projects since 2001. The other members of the Management Board of Nanogate SE remain Ralf Zastrau, CEO (appointed until March 2021), and Michael Jung, COO (appointed until December 2020).

Consolidated and Annual Financial Statements 2018
Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Saarbrücken, was elected as the auditor for the consolidated and annual financial statements for the 2018 financial year by the shareholders' meeting on June 27, 2018, in accordance with the applicable statutory provisions. Before the submission of the election proposal, a statement of independence was obtained from the auditor by the Supervisory Board.

The audit reports, the financial statement documents and the Management Board's proposal for the appropriation of earnings for the 2018 financial year were delivered to the Audit Committee on April 6, 2019, and all other Supervisory Board members on April 18, 2019. The meeting of the Supervisory Board to adopt the financial statements was comprehensively prepared by the Audit Committee, including at a meeting on April 9, 2019. For this purpose, the Committee reviewed all relevant financial statement documents in advance with the responsible auditor, Dr. Michael Zabel, in attendance. During this meeting, the responsible auditor reported on the significant results of his audit and was available for supplementary questions and information. The Audit Committee subsequently informed all members of the Supervisory Board of the results and recommendations. The documents, audit results and recommendations were expressly discussed by the Supervisory Board in its meeting on April 29, 2019.

Both the annual financial statement of Nanogate SE prepared by the Management Board in accordance with the rules of the German Commercial Code (HGB) and the consolidated financial statements for the 2018 financial year, which was prepared in accordance with Section 315e HGB on the basis of the International Financial Reporting Standards (IFRS), as well as the Group management report, were audited by the auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Saarbrücken, and were each issued an unqualified audit certificate. After the conclusive result of the company's own review of the annual financial statements, the consolidated financial statements and the Group management report, the Supervisory Board had no objections to the results of the final audit. In accordance with Section 172 of the German Stock Corporation Act (AktG), the individual financial statements of Nanogate SE have been approved accordingly and the consolidated financial statements have been endorsed. Following its own review, the Supervisory Board supported the Management Board's proposal on the appropriation of earnings.

The Supervisory Board thanks the Management Board and all employees for their enthusiastic support and outstanding performance in the past financial year, and wishes them every success in facing future challenges.

We would also like to thank our shareholders for their confidence and trust. We would be delighted if you continued to accompany Nanogate SE as investors on its path forward in the future.

Quierschied-Göttelborn, Germany, April 29, 2019
Nanogate SE

O. Schumann

Oliver Schumann
Chairman of the Supervisory Board

Nanogate SE 2018 Group Management Report
Quierschied, Germany

1 Fundamental Principles of the Group

The Nanogate Group (hereinafter: "Nanogate") is a leading global technology company for design-oriented, multifunctional components and surfaces. Nanogate assists its customers in gaining added value and a competitive advantage for their products with intelligent surfaces and components. To achieve this, we develop and produce components and surfaces of the highest optical quality and enhance them with additional properties. As a reliable partner, we enable the use of groundbreaking technologies and ensure rapid implementation and high quality in mass production.

1.1 Business Model

Positioning:
Nanogate opens up a wide range of opportunities for corporate customers through the use of multifunctional, design-oriented components and surfaces. Its focus is on applications for plastics. Nanogate also offers systems and applications for other substrates, such as metal, glass and functional textiles.

Innovative materials, designs and functions are intended to increase the competitiveness and profitability of Nanogate's customers and to reap additional benefits, such as in the area of environmental protection. Nanogate's solutions and expertise can give companies a technological advantage and improve their products and processes. To this end, the company follows 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 surfaces. As a partner of major global players, Nanogate assumes overall responsibility for selected complete components (high-tech components).

The company aims to win over new customers and sales partners with both new and existing technologies. In doing so, Nanogate primarily addresses internationally active market leaders in their respective industries. Beyond this, Nanogate's focus is on further opening up international markets and new areas of application, including joint ventures.

Target markets:
Nanogate primarily addresses target industries for which the added value generated by Nanogate is especially relevant, particularly mobility, aviation, home appliance, interior, leisure and medical.

In sales, Nanogate uses two brand families for its two central technology platforms:

1. Nanogate develops, produces and sells systems in the area of metals under its N-Metals brand. These include surface systems in the area of stainless steel and (for a number of years now) energy efficiency solutions for heat exchangers in heating systems. We also see significant potential particularly for the decorative metallization of plastics, which are sold under the N-Metals Design brand. Nanogate has established a broad portfolio for numerous applications in this area in recent years, such as for the replacement of chrome, stainless steel, copper and aluminum. Corresponding centers of excellence and cutting-edge production capacities are in place at our sites in Neunkirchen and Schwäbisch Gmünd, as well as Mansfield, USA, where we are also currently establishing a new technology center.
2. Under the N-Glaze brand, we produce and sell applications with innovative plastics and glass-like qualities and appearances. The management sees significant growth opportunities for

this in the mobility sector in particular. Here, Nanogate solutions can replace glass and metal as a material and offer greater scope for designing high-quality components. These make it possible to substantially reduce weight, bringing benefits including lower fuel or energy consumption and thus resulting in a broader driving range (particularly for electric vehicles). Nanogate has its own production capacities for the integrated manufacture of plastic components, the enhancement and coating of surfaces, and the production of colored or transparent, glazed plastic components with glass-like properties. This includes the integrated glazing center of competence at the Bad Salzuflen site, for example.

The Group's companies also develop, manufacture and sell traditional applications, for example, in the leisure, home appliance, interior and medical sectors. This also includes solutions for consumers, including maintenance solutions for textiles and shoes, which are sold under the Empire brand. Across all target industries, Nanogate attaches great importance to ensuring its systems, applications and processes are environmentally friendly.

Value chain:
Nanogate offers numerous services along the value chain and covers major processing steps. The company relies on three strong pillars in its operational business:

I. Advanced Materials: Since it commenced operations, Nanogate has focused on taking advantage of the benefits of new materials for companies in the form of commercially successful global solutions. 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 a wide variety of substrates. In this context, the company benefits from its comprehensive experience in the use of new materials and its expertise in the area of nanotechnology as a cross-sectional technology.

II. Advanced Processes: With a broad spectrum of production and coating processes, Nanogate covers 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. Many projects are implemented under clean-room conditions in order to ensure the highest optical quality possible. 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 robot-assisted flow-coat systems.

III. Advanced Components: Nanogate has decades of experience in the development and production of components with the highest optical quality. This primarily includes experience in the design process and engineering, as well as 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. Nanogate is proficient with virtually all plastics for a wide range of surface types. As an additional area of expertise, we are also currently developing applications for the integration of electronic functionality into plastic components (see also: 1.5 Research and Development).

1.2 Group Structure and Operating Subsidiaries

As of the balance sheet date of December 31, 2018, the Nanogate Group consisted of the parent company Nanogate SE, Quierschied, Germany, and affiliated companies including the following fully-consolidated operating Group companies:

- Nanogate Electronic Systems GmbH, Neudörfl, Austria

- Nanogate Eurogard Systems B.V., Geldrop, Netherlands
- Nanogate GfO Systems GmbH, Schwäbisch Gmünd
- Nanogate Goletz Systems GmbH, Kierspe
- Nanogate heT Engineering GmbH, Böblingen
- Nanogate Industrial Systems GmbH, Quierschied
- Nanogate North America (formerly Nanogate Jay Systems) LLC, Mansfield, USA
- Nanogate PD Systems GmbH, Bad Salzuflen
- Nanogate Slovakia s.r.o., Vráble, Slovakia
- Nanogate Textile & Care Systems GmbH, Quierschied
- Nanogate Vogler Systems GmbH, Lüdenscheid

The following changes were recorded in the 2018 fiscal year:

- The acquisition of selected business units of Austrian HTI High Tech Industries AG was concluded January 23, 2018. The companies now trade as Nanogate Electronic Systems GmbH, Neudörfl, Austria, and Nanogate Slovakia s.r.o., Vráble, Slovakia, and are included in the consolidated financial statements from this date under the umbrella of the intermediate holding company Nanogate Central and Eastern Europe GmbH, Neudörfl, Austria. Part of the transaction was also an investment (without majority) in High Tech Plastics GmbH (HTP Austria), Fohnsdorf, Austria, which is included in the consolidated financial statements as an equity-accounted associated company and is currently implementing a focus strategy.
- In May 2018, the Group agreed to acquire all shares in what is now Nanogate heT Engineering GmbH, Böblingen (formerly Holzapfel Engineering Team GmbH), which is included in the consolidated financial statements from July 2018 onwards.
- Nanogate Glazing Systems B.V. was merged with Nanogate Eurogard Systems B.V. effective January 1, 2018. The intermediate holding company Nanogate Nederland B.V. still exists. Its merger with Nanogate Eurogard Systems B.V. is planned effective January 1, 2019.
- In addition, Nanogate invested in a 4.43 % stake in the Finnish technology startup TactoTek Oy, Oulunsala, Finland, in February 2018.
- On December 30, 2018, central functions important to the Group such as Accounting, Tax, Compliance, Controlling, Marketing and Communications, Human Resources, Research and Development, Quality Assurance and Production were transferred from Nanogate SE to Nanogate Management Services GmbH, Quierschied, which was established by renaming a previously non-operating Group company.

Under the framework of the new future-oriented NXI program, we would like to create cross-locational management structures. In this context, subsidiaries can be placed under uniform management or merged. This will reduce the number of our subsidiaries and simplify the Group's structure. The sites in Schwäbisch Gmünd and Neunkirchen, for example, are currently under the same management. At the same time, the previously individual names of particular companies are being replaced with a focus on the Nanogate name, thus sharpening the appearance of the Group as a whole.

1.3 Goals and Strategies

Nanogate strives to use its prominent market position in the production and marketing of design-oriented, multifunctional surfaces and components in order to grow continuously, open up new markets and expand market shares at the national and international levels. Larger business volumes and increasing profitability will serve to increase the company value.

As part of our expansion, we are continuously enlarging our spectrum of systems and applications. Several acquisitions with which Nanogate has strengthened its technology portfolio have also contributed to this in the past, as have the expansion of its capacities and the development of new markets. At the same time, the value chain is continuously supplemented with further services.

Future-oriented NXI program:
Since January 1, 2019, we have been implementing the future-oriented Nanogate Excellence International (NXI) program. Our goal is to increase the efficiency of the Group and to optimally arrange and further professionalize our structures and processes. The program is subdivided into the areas of markets, operations, services and people. Our aim is to position Nanogate as a leading, fully-integrated and globally active technology company and to express this position through corresponding size and earning power.

Nanogate is reorganizing itself with this future-oriented program. In doing so, we hope to improve cooperation within the Group and achieve synergies at all levels. This will allow Nanogate to reduce its complexity and increase productivity. In the future, market development will take place in a clearly industry-oriented and internationally networked manner, independent of location. We are also reviewing, abandoning or relocating existing capacities in favor of higher-margin projects, as well as in order to optimally fulfill the requirements of new major orders. At the same time, key divisions such as Finance and Controlling are being strengthened in order to manage the international Group even more transparently and efficiently. We also see further potential in the expansion of central procurement and purchasing processes.

As part of the reorganization, Nanogate will reduce the number of its subsidiaries through mergers and establish cross-locational management structures and high-performance “shared services.” This will serve to strengthen overarching transparency, establish more efficient decision-making processes within the Group and lay a foundation for further international growth. We will also further develop our brand and market presence under the guiding principle of “ONE Nanogate.” Due to the related measures involved, we are consciously accepting temporary adverse effects on earnings and liquidity.

On the whole, we are placing a stronger focus on increasing profitability and improving cash flow without leaving our growth path. In contrast with past years, acquisitions will play a comparatively minor role in this process. In the coming years, we hope to grow more increasingly through our own strengths and benefit from the initiated innovation offensive and our expanded technological competence. To this end, NXI addresses a number of growth areas, such as metallization, new mobility and smart surfaces. At the same time, international market development will be expanded, and more attention will be given to the North American and Asian markets.

From the foundation of our future-oriented NXI program, we hope to increase sales to more than EUR 500 million and achieve an EBITDA of at least EUR 75 million by 2025. In this context, our industrial business, which encompasses applications in areas such as aviation, home appliance and medical, should grow to at least EUR 200 million, thus increasing slightly faster than our mobility business. At the same time, free cash flow should also be substantially improved.

The future-oriented NXI program follows the Phase5 growth strategy, which was successfully concluded at the end of 2018. With this growth strategy, which started in 2014, we significantly expanded our international market position through measures such as new technologies and additional locations. It also served to increase sales from roughly EUR 53 million (2013) to EUR 239.2 million in 2018, substantially exceeding the original goal of EUR 100 million in sales.

Market Potential:
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 – such as by means of better products, more efficient processes or more environmentally friendly procedures.

Sales of systems based on new technologies and high-performance surfaces have grown continuously. Our main customer industries include the mobility, aviation, home appliance, interior, leisure and medical sectors. Our solutions include systems that support value preservation (e.g., scratch-resistant coatings, UV protection and chemical stability), reduce the need for cleaning ("easy-to-clean"), have hygienic properties or contribute to energy efficiency. Also in particular demand are design-oriented surfaces and components made from innovative materials and the decorative metallization of plastics with unique properties and functions. Demand is also increasing for solutions that combine electronics and plastics expertise.

Market observers forecast continued strong growth in this heterogeneous and dynamic environment.

- In the automotive sector, for example, the market for surface applications stands to increase by an average of roughly 6 percent per year to more than USD 33 billion until 2026, while the market for glazing applications, which is also a major area of focus for us, stands to grow by more than 17 percent per year. These estimates are underscored by the numerous new orders received by Nanogate.
- We also see significant potential in the new mobility sector, a fact that is underscored by initial projects such as the delivery of components for driver assistance systems to a number of automotive manufacturers. According to estimates by market experts, more than 50 percent of all new vehicles could be capable of fully autonomous driving in 20 years. This will result in a considerable need for sensors, which in turn will require components and surfaces with special properties (radiolucency, protection from exposure to the elements, etc.) for their installation and coverings. Nanogate already has a presence in this market, for example, with its metallization and glazing applications. Nanogate is also likely to benefit from the trends towards digitalization, new concepts for controls and operation and new mobility concepts (i.e., car-sharing), such as through our new competency in integrated smart surfaces, where we are developing new multifunctional systems for combining plastics and electronics.
- Many other markets we serve are likely to grow further in the medium term, creating opportunities for above-average growth, particularly in the sub-segment of multifunctional surfaces. The market for household appliances, for example, stands to increase by roughly 2.6 percent per year until 2023 and reach a worldwide market volume of more than USD 200 billion. Furthermore, we also foresee global market volume in the three-figure million euro range for plastic components that can replace stainless steel, for example, in kitchens or bathrooms. Thanks in part to a growing middle class in both China and India, the aviation market also stands to increase further and grow more than 2.5 percent per year until 2024. In the medical technology sector, a market volume of more than EUR 400 billion is anticipated for the year 2023, corresponding to annual growth of roughly 4.5 percent.

Growth rates of selected target markets

Market	CAGR	Period	Report	Source
Automotive surfaces	6.28 %	2018–2026	Global Automotive Coatings Market	Transparency Market Research
Glazing surfaces for vehicles	> 17 %	2017–2024	Global Automotive Polycarbonate Glazing Market	Research and Markets
Aviation	> 2.5 %	2019–2024	Global Aviation Market	Mordor Intelligence Analysis
Household appliances	2.6 %	2018–2023	Home Appliance Market Report	Mordor Intelligence Analysis
Medical technology	4.5 %	2018–2023	Medical Device Market Report	Reportlinker

Based on this market potential and the associated growth rates, Nanogate sees long-term worldwide market potential in the billion-euro range for its available products and applications in the future. In light of our positioning as an innovation partner for international corporations with a focus on particularly demanding surfaces and components as well as selected sub-markets, the Management Board foresees significant opportunities to grow faster than the respective markets in the medium term.

1.4 Management System

Irrespective of the burdens resulting from the implementation of the future-oriented NXI program and the start-up costs for new major orders, Nanogate is pursuing the goal of continuing its growth trajectory and achieving sustained above-average growth of the operating result (EBITDA) and cash flow in the medium term.

The significant performance indicators for Group management are therefore sales, EBITDA and free cash flow. Further factors such as gross profit margin, EBIT, equity ratio and debt level are also used for operational and strategic management. Management takes place at the levels of regions, projects, customers, sites, subsidiaries and the Group. In the monthly reporting system, corresponding target-performance comparisons are made, and deviations and key performance indicators are analyzed. This entails the analysis and evaluation of qualitative results, such as the development of new solutions, the acquisition of reference customers and certifications by customers, suppliers, external institutions and companies.

1.5 Research and Development

Nanogate is continuously expanding its portfolio of applications and technologies in order to grow its business with new systems. In this regard, the past fiscal year was marked by substantial investments in technologies and capacities. The focus here was on the N-Metals and N-Glaze divisions. We also expanded our portfolio of competencies, in particular the integration of electronic functionality into plastic components (integrated smart surfaces). Significant funds and investments will continue to flow into the development of new applications and solutions in the future as well. For reasons of efficiency, we are focusing on concrete, market-oriented and customer-driven development projects. In our fundamental and applied research, on the other hand, we look to cooperations with recognized research institutes, such as the Kunststoff-Institut Lüdenscheid and the Leibnitz Institute for New Materials.

The expenses for research and development across the Group totaled EUR 11.1 million (previous year: EUR 7.6 million). In light of the current concrete development of new procedures and materials, own work capitalized increased to EUR 6.5 million (previous year: EUR 0.9 million). This pertains to costs for the development of new technologies, which concern both investments in property, plant and equipment as well as intangible assets. The amortization of capitalized development costs in intangible assets totaled EUR 1.1 million (previous year: EUR 0.7 million).

Patents:

The importance of internal expertise and knowledge is increasing for Nanogate, particularly with regard to processes and procedures. For this reason, we are pursuing a market-oriented patent strategy in order to secure our competitive advantage and protect ongoing innovation partnerships. Nanogate therefore continuously reviews its patent portfolio, considering costs and future benefit, and will allow selected patents to expire if they are no longer required.

N-Glaze:

Numerous projects to expand our N-Glaze technology platform took place throughout the Group. At our site in the U.S., for example, we now also have the competence to manufacture high-quality plastic surfaces with the "Piano Black" look. For additional applications, we now also have a 3D printer at the Schwäbisch Gmünd site, while new environmentally friendly UV-hardening systems have been introduced at the Lüdenscheid site.

N-Metals:
The most important advances during the reporting period include the expansion of the N-Metals technology platform with additional applications for the metallization of plastics. The basic development of the technology platform is therefore largely completed. The marketing of a new stainless steel replacement solution was launched in January 2018 and subsequently became the basis for the largest order in the company's history in the summer. Since December, we have been able to implement plastic enhancements for the design of aluminum, copper and other surfaces. N-Metals is thus able to cover numerous geometries and functionalities.

Novel wet chemical processes have also been added, which enable metallization in a chrome look in the form of a coating and offer a more cost-effective alternative to classic electroplating. In this way, Nanogate will also be able to target price-conscious market segments.

With the first mass production launch for our chrome replacement solution at the Neunkirchen site, we also achieved a significant advancement in market development. At the same time, the establishment of the new center of excellence at our U.S. site is also proceeding according to plan. This is scheduled to go into operation in the current fiscal year. We have received a commitment of USD 2 million in public subsidies for the construction and have already received a portion of this as payment.

Integrated Smart Surfaces:
Building on its previous activities, Nanogate has been expanding into the Smart Surfaces area of applications as a new competency since 2018. The integration of electronic functions into components, together with multifunctional properties, will allow completely new design and operating concepts for devices of all kinds in the future. New products can therefore be designed differently and can thus be more efficient, smaller and more lightweight. Particularly in the target markets of mobility, home appliance and consumer electronics, new designs for multifunctional components are in demand.
The design of new interfaces between humans and machines will be a key trend in the coming years.
In the course of 2018, the first prototypes in the Integrated Smart Surfaces division were created and are currently being discussed with potential customers. In market development, we are pursuing various approaches with multiple partners to accelerate the expansion of our competencies.

2 Business Report

2.1 Macroeconomic Environment

Economy:
Worldwide, the past year was shaped primarily by the U.S. trade disputes with China and Europe and various geopolitical conflicts, as well as the discussion about the configuration of Brexit. Effects from individual countries also came into play, such as the development of the automotive industry in Germany (notably in regard to the WLTP) and weakened growth in China.

On the whole, the global economy was able to continue its growth trajectory in 2018, although at a slightly slower rate than in the previous year. According to calculations by the International Monetary Fund (IMF) in January 2019, the global economy grew by 3.7 percent in 2018. In Germany, growth continued for the ninth year in a row but lost momentum; according to figures from the Federal

Statistical Office, gross domestic product increased by 1.4 percent (previous year: 2.2 percent). This remains higher than the average value for the past ten years of 1.2 percent, although economic activity cooled off over the course of the year. While the growth dynamic slowed in the eurozone and China, the U.S. experienced stronger growth than in 2017.

Development of Economic Growth

in %	2017	2018
Global (world output)	3.8	3.7
Germany	2.2	1.4
Europe (eurozone)	2.4	1.8
U.S.	2.2	2.9
China	6.9	6.6

Source: IMF (updated: January 2019), German Federal Statistical Office

Industries:
Our most important target markets recorded largely positive development in 2018.

- In January 2019, the German Association of the Automotive Industry reported "robust annual results" for 2018. In Germany and in Europe as a whole, the number of new car registrations reached the level of the previous year despite the diesel crisis and manufacturers' problems with the new test procedure (WLTP). Despite reaching a high level, the market volume in China, on the other hand, recorded a decrease for the first time. The situation in the U.S. was varied. Demand for cars fell while demand for vehicles in the light truck segment (i.e., pickups), a segment more important for Nanogate, increased; this resulted in market development remaining stable overall.
- According to figures from the market research firm GfK from early January 2019, the global market for technical consumer goods in 2018 increased by roughly 4 percent to reach EUR 1.01 trillion, crossing the trillion-euro mark for the first time. While the product segments of telecommunications, small household appliances, consumer electronics/photography and information technology/office appliances grew, sales of large household appliances decreased slightly by 1 percent to EUR 177 billion.
- German medical technology manufacturers continued their growth trajectory in 2018, generating more than EUR 30 billion according to figures from the industry association Spectaris from early January 2019.
- Despite risks such as higher inflation rates and increasing global economic uncertainty, the market research firm GfK confirmed its consumption forecast, which anticipated that real private consumer spending would increase by roughly 1.5 percent in 2018, in November 2018. In this context, domestic economic performance in 2018 made a major contribution to growth in Germany.

2.2 Course of Business
In 2018, Nanogate continued its growth trajectory from recent years and reached crucial milestones. Business development was marked by the trend towards larger customers and orders as well as the reinforcement of existing projects. Product innovations and the ramp-up for new orders for which mass production will begin in 2019 and 2020 were also prioritized. As such, significant funds flowed into innovations, technologies and expansion of capacity, as well as the prefinancing of new projects and market development.

With an overall satisfactory course of business, sales increased by roughly 28 percent to EUR 239.2 million, while the operating result (EBITDA) increased from EUR 21.5 million to roughly

EUR 24.2 million. We therefore exceeded our sales forecast and achieved all significant operational and strategic targets (see also: 2.5.1 Financial Performance Indicators and Comparison With the Previous Year). At the same time, the Phase5 growth strategy, launched in 2014, was successfully concluded at the end of 2018 with all targets vastly exceeded, and the new future-oriented Nanogate Excellence International (NXI) program was prepared. Implementation of the NXI program was launched at the beginning of the new 2019 fiscal year (see also: 1.3 Goals and Strategies).

Company Structure and Positioning:
Along with organic growth, the acquisition of the new sites in Slovakia and Austria contributed to the increase in sales and earnings. We anticipate that the complete integration of these sites will be concluded according to plan by the end of this year. In doing so, Nanogate is expanding its technology portfolio and its capacities and opening up further international markets. We are also benefiting from lower costs in Slovakia.

Furthermore, Nanogate acquired a 4.43 percent stake in the Finnish technology startup TactoTek Oy in February 2018. The company is active in the future market of injection-molded structural electronics, and is a partner for our expansion into the market for integrated smart surfaces.

With the acquisition of the design studio Nanogate heT Engineering GmbH, Böblingen, which was closed in July, we are expanding our value chain with in-house design and engineering competencies. This enables us to develop the next generation of high-quality, innovative plastic components and produce them within the Group as part of integrated systems. For this purpose, we are entering into an early phase of corresponding projects in intensive cooperation with the respective customers. Great potential is present particularly in the mobility, aviation, and home appliance target industries – especially in the international market.

At the same time, we have optimized our financing structure, achieved an inflow of funds of EUR 50 million through the placement of various tranches of a promissory note loan with institutional investors and diversified the financing structure as a whole. We also arranged a new syndicated loan agreement with our house banks for up to EUR 40.5 million, including a revolving credit line of EUR 25 million and a term of up to seven years. Nanogate benefited here from its “investment grade” credit standing. With this inflow of funds, we have optimized our borrowing costs by settling existing liabilities and strengthened the financial foundations for our further growth trajectory.

At the proposal of the Management Board and Supervisory Board, the shareholders’ meeting on June 27, 2018, once again agreed on a dividend of EUR 0.11 per share. A large majority of shareholders also voted in favor of the other agenda items, such as the conclusion of a profit and loss transfer agreement with subsidiary Nanogate Textile & Care Systems GmbH.

Götz Gollan has been the new CFO of Nanogate SE since September 1, 2018. He succeeds Daniel Seibert, who left Nanogate at the end of August for personal reasons. Götz Gollan’s responsibilities include the Finance, Controlling, Risk Management, Tax and Legal divisions. Previously, he was a member of the management board (COO) at equinet Bank AG in Frankfurt am Main.

The Group’s positive performance was recognized externally once again in 2018: Nanogate was included among the finalists for the 2018 “Großer Preis des Mittelstandes,” Germany’s most important award for small and medium-sized enterprises. In addition, we ranked 13th out of 50 selected companies in the magazine Wirtschaftwoche’s list of highly innovative companies.

Technology and Innovation:
During the reporting period, the Group implemented its previously announced innovation offensive (see also: 1.5 Research and Development). Overall, more than EUR 31 million flowed into the procurement of new assets, such as the construction of the new technology center at the Mansfield, Ohio, U.S., site and the development of new applications and solutions. Our focus was on the areas of innovative plastics (N-Glaze), metallization (N-Metals) and integrated smart surfaces. With this, we are broadening our technology portfolio and setting the foundation for continued business development.

Our production capacities have been significantly expanded. Complex N-Glaze components, which require demanding installation, will be manufactured at the Bad Salzuflen site in the future, serving to open up a new field of application with innovative plastic components with glass-like properties. The sites in Lüdenscheid and Neunkirchen received additional coating facilities that are especially environmentally friendly and energy efficient.

Order Development and Business Development at Subsidiaries:
Incoming orders were highly satisfactory in 2018, and we were able to significantly expand the order base for the coming years with numerous new orders. In April 2019, Nanogate's order base for the current and subsequent two years amounted to over EUR 600 million. The order base encompasses binding orders as well as volumes announced on the basis of framework contracts. The latter are triggered at short notice during the contract period, when customers call for them at the agreed prices. We also take orders from these core customers into consideration, which we can assume on the basis of experience or which we supply through ongoing mass production. The orders backed the further growth in sales, and transparency simultaneously increased in regard to future business development.

Overview of selected new major orders, 2018 and 2019

Announcement	Project	Volume	Start
Apr. 4, 2019	N-Glaze components (interior) for a new premium car	Roughly EUR 50 million over approx. 7 years	Summer 2019
Feb. 19, 2019	N-Glaze components for in-demand off-road vehicles	Roughly EUR 50 million over approx. 6 years	Summer 2020
Nov. 14, 2018	Order for N-Metals in the U.S. for in-demand SUV/pickup	Cumulatively approx. EUR 15 million over roughly 4 years	Summer 2020
Nov. 8, 2018	Order in the N-Mobility division for components for a new electric car in Europe	Cumulatively approx. EUR 35 million over 7 years	Fall 2019
June 26, 2018	Largest order in the company's history and breakthrough into the market for stainless steel replacement	Up to USD 100 million over up to 8 years	Summer 2019
Apr. 19, 2018	Multiple new orders in the U.S., including first-ever project of a German OEM for the Ohio site	Low two-digit millions over multiple years	Completed
Mar. 15, 2018	N-Glaze components for new mobility applications (e.g., sensors)	Sales volume for new multi-year projects in the multi-million range	Completed

In June 2018, Nanogate received the largest order in the company's history. The project at the Mansfield site encompasses a sales volume of up to USD 100 million over a period of seven to eight years and represents a major step forward for the company in the market for stainless steel replacement technologies. Starting this year, Nanogate will deliver components for kitchen appliances to a renowned U.S. manufacturer, strengthening its industrial business. The project involves the use of heat-resistant plastic, which is metallized with a high-quality stainless steel look in a process developed and integrated by Nanogate. Marketing the innovative stainless steel replacement technology as part of the N-Metals platform began in January 2018 and offers substantial growth potential for us.

Further successes in the growth area of metallization, which Nanogate markets under the N-Metals brand, were recorded in the 2018 fiscal year in the following instances, among others:

- In the U.S., Nanogate will supply metallized plastic components for lighting systems for the most-sold vehicle in the U.S., a pickup truck, as part of a new order commencing in Summer 2020. This project for our local site encompasses a sales volume of roughly EUR 15 million and will be realized over a period of roughly four years.
- At the Neunkirchen site, the first series production order for the chrome replacement technology that was developed by Nanogate has been realized. The project encompassed the development and production of metallized plastic components with a chrome look to be used for an "e-scooter" in the new mobility sector.
- We have also been supplying reflectors for high-quality lighting components for an automotive manufacturer from South Korea since May 2018. The components enhanced with N-Metals technology are manufactured from heat-resistant plastic at the Mansfield site.
- Nanogate was also able to strengthen its market position with Japanese automotive customers. For example, the production of door components and plastic panels started in Mansfield in June 2018, where we are also responsible for the production and coating of the complete component.

Along with the previously mentioned e-scooter order, additional new orders have been won in the new mobility sector, one of our central growth areas. The total sales volume for the new, multiyear projects is in the high double-digit million range:

- As part of a major order with a cumulative sales volume of EUR 35 million over a period of seven years, we will be supplying high-quality plastic components for a new electric car for a renowned German manufacturer starting in fall 2019. The vehicle is planned to be shipped beginning in 2020 and is currently being developed on the basis of a completely new car platform. The major order for our site in Slovakia encompasses the development and production of roughly 30 different interior components. As part of the project, Nanogate also invests in corresponding engineering and production technology.
- In projects for two German luxury manufacturers, Nanogate is relying on its plastics technologies, which are sold under the N-Glaze brand and work well with complex electronic systems. For example, production has begun on the coating of a component for vehicle interiors using ink-jet technology. The components enhanced with a transparent surface are used in assistance systems that enable monitoring of the driver, such as for detecting signs of excessive fatigue.
- At the Kierspe site, Nanogate is producing high-quality plastic components for a leading global manufacturer that will be used for camera and laser systems. The outer surfaces of the components are enhanced with high-quality, scratch-resistance N-Glaze coatings to protect the sensors. These systems are essential for assistance systems for autonomous driving, where sensors monitor the distance to moving vehicles ahead and automatically initiate emergency braking if required in order to prevent collisions with other cars or pedestrians.

We are also successfully proceeding with market development in the production of plastic components with high-quality optical properties.

- In the U.S., the Group reached an important target in its internationalization strategy – our site there is implementing a project for a German automotive manufacturer for the first time. The production of interior components has already begun.
- The Group has been supplying a Japanese manufacturer with components featuring a piano black finish since August 2018. As with other orders for Asian manufacturers, this entails projects for plants in North America, which are carried out at our site in the U.S.

Nanogate has also recorded further growth in traditional applications, for example, with heat exchangers and functional textiles (end user business).

On the whole, the Group recorded strong incoming orders. This benefited our sites in the U.S. and Slovakia in particular, which made a significant contribution to Group sales and earnings. Sales and earnings development at the Lüdenscheid and Bad Salzuflen sites, on the other hand, were shaped primarily by preparations for the start of production for new major orders, while in Austria, we proceeded with integration. Our site in the Netherlands as well as our other German sites recorded consistent development.

2.3 Net Assets, Financial and Earnings Position

Nanogate achieved record sales of EUR 239.2 million in the past fiscal year. The operating result (EBITDA) improved to roughly EUR 24.2 million, even though non-capitalizable costs of the innovation offensive and ramp-up costs for new major orders burdened the EBITDA and thus had a temporary adverse effect on the EBITDA margin. The substantial investments in innovation and capacity expansions were also reflected in the significantly increased amortization and financing costs in the earnings development in the second half of the year. Nevertheless, the consolidated net income was positive, amounting to EUR 1.4 million. Despite a significant expansion of working capital in connection with the new major orders, the operating cash flow reached a new historic high of EUR 18.3 million.

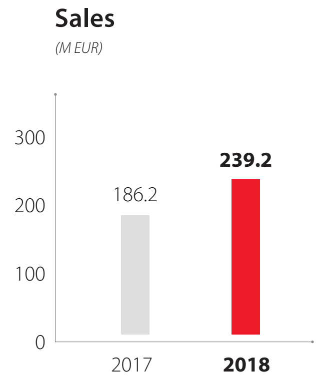
2018 Business Performance Overview

In EUR million	2017	2018
Sales	186.2	**239.2**
EBITDA	21.6	**24.2**
EBITA	10.6	**10.8**
EBIT	7.3	**6.8**
EBT	3.9	**1.7**
Consolidated net income	2.8	**1.4**
Earnings per share (EUR, basic)	0.64	**0.29**

2.3.1 Earnings Position

The order base expanded once again in the past fiscal year and was at more than EUR 600 million in April 2019, based solely on the current and next two years. Numerous new orders contributed to this (see also: 2.2 Course of Business). This provides us with a strong foundation and good visibility for further business development.

Sales increased during the reporting period by roughly 28.4 percent to EUR 239.2 million (previous year: EUR 186.2 million). This resulted primarily from the contributions of the new sites in Slovakia and Austria. At the same time, we were also able to achieve further organic growth. Sales development



in the second half of the year was also marked by fewer calls from our mobility customers for individual model series in connection with delays due to the WLTP vehicle approval procedure. Sales included revenue from the manufacture of certain tools, which will be paid for by customers but first require prefinancing by Nanogate. For information on the effects of the first-time application of IFRS 15 to sales revenues and earnings, please refer to the Notes to the Consolidated Financial Statements under A.2.

Foreign sales totaled EUR 165 million (previous year: EUR 112 million). The export rate increased accordingly to 69 percent (previous year: 60 percent). This primarily reflected growth in the U.S. – our most important foreign market – and sales made by the new sites in Slovakia and Austria. Deliveries to customers based in Germany but who sell their products abroad are not included in the export sales figures.

Changes in inventories remained constant during the reporting period at EUR 1.2 million (previous year: EUR 1.2 million). Own work capitalized increased in accordance with expectations to EUR 6.5 million (previous year: EUR 0.9 million) as a result of the innovation offensive and the increasing size of the company. Other operating income amounted to EUR 4.2 million (previous year: EUR 2.5 million). This increase was the result of higher income from the reversal of provisions, accounting profits from the disposal of property, plant and equipment and increased reimbursements. The overall performance (sales, changes in inventories, own work capitalized, other operating income) increased as a whole to EUR 251.2 million (previous year: EUR 190.9 million).

With the growing business volume, material costs were subject to a disproportionately high increase in comparison with the increase in sales, growing roughly 43 percent to EUR 111.6 million (previous year: EUR 78.2 million). Along with our stronger focus on the components business and a higher share of purchased parts for project reasons, this resulted from factors including temporary market price increases due to a higher oil price. We were only able to pass these burdens on to our customers after a delay and to a partial extent. The gross profit margin (in relation to sales) decreased as expected to roughly 58 percent (previous year: 60.5 percent). Personnel expenses increased by roughly 24 percent to EUR 72.9 million (previous year: EUR 58.7 million). This somewhat weaker increase in comparison to sales growth resulted from factors including lower labor costs at the new site in Slovakia and a higher share of temporary workers deployed, which is reflected in the other operating expenses. These amounted to EUR 42.5 million (previous year: EUR 32.5 million). This disproportionately high increase resulted from the costs for the integration of new sites (primarily in Austria), transaction costs for the acquisition of subsidiaries and shareholdings, and the expansion of our technology portfolio and capacities as part of the innovation offensive. The aforementioned costs for temporary workers are also included.

Irrespective of the fiscal year's unique burdens, the operating result (EBITDA) increased to roughly EUR 24.2 million (previous year: EUR 21.6 million), although it was unable to keep pace with sales growth. As expected, the EBITDA margin is in temporary decline and amounted to roughly 10 percent during the reporting period (previous year: 11.6 percent). In addition, the first-time application of IFRS 15 reduced the EBITDA by roughly EUR 0.1 million. The investments and the effects of the purchase price allocation for previous acquisitions are reflected in depreciation and amortization, which has substantially increased to EUR 17.4 million (previous year: EUR 14.3 million) and which was incurred primarily in the second half of the year, as well as own work capitalized. The EBITA thus amounted to EUR 10.8 million (previous year: EUR 10.6 million), while the EBIT totaled EUR 6.8 million (previous year: EUR 7.3 million).

The financial result for the year as a whole amounted to EUR -5.1 million. Despite optimized financing conditions and income from the adjustment of purchase price liabilities, the increase in net debt to

EUR 91.6 million led to increased financing expenses. The earnings before income tax thus amounted to roughly EUR 1.7 million (previous year: EUR 3.9 million). Tax expenses decreased to EUR 0.3 million (previous year: EUR 1.1 million).

The consolidated net income thus amounted to roughly EUR 1.4 million (previous year: EUR 2.8 million). In light of the increased number of shares, due primarily to noncash capital increases in connection with the acquisitions concluded in 2018, earnings per share amounted to EUR 0.29 (previous year: EUR 0.64).

2.3.2 Financial Position
Our course of expansion is also reflected in the financial position of the Group.

The operating cash flow during the reporting period amounted to EUR 18.4 million (previous year: EUR 14.9 million) and was marked by factors including the expansion of working capital, particularly for tools, as part of the preparation for new orders.

The cash flow from investing activity stood at EUR -40.8 million (previous year: EUR -51.4 million), of which EUR 31.2 million (previous year: EUR 11.3 million) was attributable to investments in innovation, capacities and equipment, as well as EUR 4.6 million to M&A activities (previous year: EUR 40.8 million). The comparatively high value for the previous year included the acquisition of our site in the U.S.

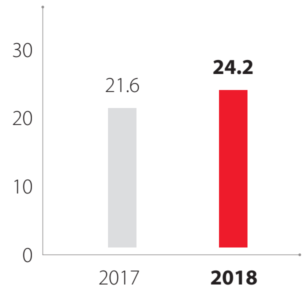
Cash flow from financing activity totaled EUR 40.0 million (previous year: EUR 34.4 million). This results primarily from the inflow of funds from the promissory note loan and the new syndicated loan, as well as from repayments of existing loans and the dividend distribution to the shareholders of Nanogate SE and external shareholders of subsidiaries.

Nanogate optimized its borrowed capital structure during the reporting period. The placement of a promissory note loan with proceeds of EUR 50 million played a role in this. The terms of the individual tranches fall between three and seven years with an interest rate of between 0.7 and 2.1 percent per year. The funds received were used to pay off existing liabilities with higher interest, among other things. In addition to the promissory note loan, we concluded a syndicated loan with a volume of EUR 40.5 million with a term of up to seven years, including a revolving credit line of EUR 25 million with a term of up to seven years. In total, the Group's financial liabilities to banks as of the reporting date amounted to EUR 129.8 million with a term of up to seven years. As of the balance sheet reporting date, the Group as a whole held cash and cash equivalents of EUR 38.2 million as well as unused credit lines totaling EUR 35.8 million. The net debt ratio (net bank liabilities/EBITDA) increased to 3.8 (previous year: 2.3). The most important financing tasks currently include the prefinancing of the ramp-up phase for new major projects, the innovation offensive and the implementation of the future-oriented NXI program.

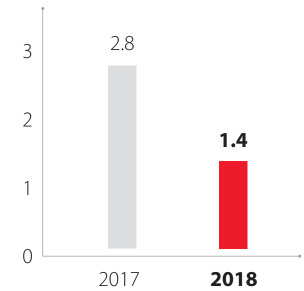
The Group companies are financed predominantly through Nanogate SE. In some cases, however, short and long-term bank liabilities exist at the subsidiary level. Nanogate SE has also concluded profit and loss transfer agreements with Nanogate Goletz Systems GmbH, Nanogate GfO Systems GmbH, Nanogate PD Systems GmbH and, since January 1, 2018, with Nanogate Textile & Care Systems GmbH.

2.3.3 Assets Position
As a result of our expansion, the balance sheet total grew significantly to EUR 338.4 million (previous year: EUR 235.1 million). The equity ratio remained at an appropriate level, amounting to 33.2 percent (previous year: 39.9 percent) as of the balance sheet date.

EBITDA
(M EUR)



Consolidated net income/loss
(M EUR)



As a result of acquiring our new sites in Böblingen, Slovakia and Austria, noncurrent assets increased to EUR 229.6 million (previous year: EUR 166.8 million). Of these, intangible assets accounted for EUR 97.3 million (previous year: EUR 77.5 million), and property, plant and equipment accounted for EUR 121.9 million (previous year: EUR 84.3 million). Other financial assets, including items such as non-consolidated shareholdings, totaled EUR 3.4 million (previous year: EUR 0.3 million). Current assets increased to EUR 108.8 million (previous year: EUR 68.3 million). Inventory levels remained nearly constant at EUR 21.3 million (previous year: EUR 21.4 million). In this context, it is necessary to take into consideration the fact that tools in progress were accounted for in inventories in the 2017 fiscal year, while the corresponding costs in the current reporting year are recorded in material costs due to the implementation of the new IFRS 15 accounting standards, and the sales to be realized over a period of time lead to corresponding contract assets of EUR 19.0 million. In light of the first-time inclusion of the new sites, trade receivables increased to EUR 23.5 million (previous year: EUR 21.6 million). Cash and cash equivalents totaled EUR 38.2 million as of the balance sheet date (previous year: EUR 20.3 million) and are also an effect of increased borrowing costs.

Equity increased to EUR 112.5 million (previous year: EUR 93.7 million) during the reporting period. This primarily reflects the capital increase against contributions in kind as part of the transaction for the acquisition of corporate divisions of the Austrian company HTI High Tech Industries AG. In connection with the associated noncash capital increase in February 2018, 275,000 new shares (corresponding to EUR 275,000.00) were created. A portion of the acquisition of what is now Nanogate heT Engineering GmbH was financed as part of an additional noncash capital increase, with the result that 48,019 new shares (corresponding to EUR 48,019) were issued in October 2018. There was also a noncash capital increase (EUR 11,038.00, representing 11,038 new shares) in September 2018 in connection with the equity investment in Nanogate Goletz Systems GmbH, which was acquired in 2016. In addition, options for the subscription of shares were exercised by employees (EUR 27,191.00, representing 27,191 new shares). As of the reporting date of December 31, 2018, the share capital had thus increased to EUR 4,913,633.00 (previous year: EUR 4,552,395.00).

As a result of the restructured Group financing, noncurrent financial liabilities to banks increased to EUR 110.1 million (previous year: EUR 50.4 million). The increase of other balance sheet items was primarily the result of the increased business volume and the first-time inclusion of three new sites.

2.4 Earnings Performance at Nanogate SE and Appropriation of Profits

Irrespective of the new record highs for sales and operating result (EBITDA) within the Group, earnings for Nanogate SE as a parent company with numerous holding and service functions were burdened by expenses for the implementation of the Phase5 growth strategy. The largest cost factors include opening up new international markets, comprehensive M&A activities and business development. Further causes include lower contributions from profit and loss transfer agreements with individual subsidiaries as well as increasing costs in light of additional tasks of the holding company, which has further optimized its structures and processes due to the rapidly increasing business volume. In contrast, the profit and loss transfer agreement concluded and implemented with Nanogate Textile & Care Systems GmbH during the fiscal year had a positive effect on the net result for the year, which totals EUR -1.3 million (previous year: EUR 0.3 million).

In light of persistently good prospects, the Management Board once again proposes the distribution of a dividend of EUR 0.11 per share. In this manner, Nanogate would like to involve its shareholders in its success. Despite the dividend payment, the financial leeway for taking the forthcoming expansion steps has been maintained.

2.5 Financial and Nonfinancial Performance Indicators

2.5.1 Financial Performance Indicators and Comparison With the Previous Year

The significant performance indicators for Group management are sales, EBITDA and free cash flow. Further factors such as gross profit margin, EBIT, equity ratio and debt level are also used for operational and strategic management.

Business Development Comparison and Forecast for the 2018 Fiscal Year

In EUR million	Actual 2017	Forecast January 2018	Actual 2018
Sales	186.2	> 220.0	239.2
EBITDA	21.5	> 24.0	24.2

In the 2018 fiscal year, we substantially exceeded the sales forecast of more than EUR 220 million published in January 2018. At EUR 24.2 million, the EBITDA forecast was fulfilled. Free cash flow amounted to EUR -22.5 million (previous year: EUR -36.6 million).

2.5.2 Nonfinancial Performance Indicators

2.5.2.1 Employees

As of the reporting date of December 31, 2018, the number of employees had increased substantially to 1,754 (previous year: 1,208), predominantly due to the addition of new sites in Austria and Slovakia and the acquisition of what is now Nanogate heT Engineering GmbH. The annual average for the number of employees was 1,717 (previous year: 1,209). Sales per employee came to TEUR 139 (previous year: TEUR 154). As of the reporting date, we employed 51 apprentices (previous year: 29).

2.5.2.2 Sustainability

Sustainability and corporate social responsibility have been key elements of our strategy since we began operations in 1999. In this context, we pursue the objective of developing environmentally friendly products and processes and minimizing resource consumption across all technologies and target markets. With this in mind, we are active in causes beyond the borders of the company for the benefit of our industry as well as society at large.

Nanogate publishes a statement of compliance in accordance with the German Sustainability Code on a voluntary basis, supported by the German Federal Government's Council for Sustainable Development (RNE). By doing so, we fulfill a recognized reporting standard and provide comprehensive information on objectives, data, projects and measures.

To read our statements for the purposes of a nonfinancial declaration, please refer to the DNK statement of compliance, which Nanogate is also preparing in parallel with this report. After it is completed, the DNK statement of compliance will be published on our website.

2.6 Overall Statement on Business Development

Despite widely varying sales and earnings development across our different sites, we recorded satisfactory overall business development in the past fiscal year. The Group achieved important strategic, financial and operational objectives. Although strong incoming orders and the innovation offensive represented a temporary burden on earnings and liquidity, these constitute a solid foundation for the future in combination with our future-oriented NXI program.

As a leading international technology corporation for design-oriented, multifunctional components and surfaces, we cater to attractive markets and possess a broad technology portfolio. We cover the entire value chain with our sites in Europe and the U.S.

Nanogate intends to continue its longstanding growth trajectory in 2019. We are also prioritizing efficiency and profitability, with the goal to increase EBITDA more strongly than sales in the medium term until 2025 and thus improve the Group's viability. At the same time, free cash flow should also particularly strongly.

3 Risk and Opportunities Report

3.1 Risk Report

The Management Board of Nanogate SE must adopt adequate measures, particularly the establishment of a monitoring system, so that any developments that could endanger the continued existence of the company are identified at an early stage. It takes care of the appropriate risk management and risk controlling within the company, must ensure compliance with statutory provisions and internal company policies, and work towards ensuring that Group companies comply with these as well. In addition, the Supervisory Board advises the Management Board on matters such as the risk situation, risk management and compliance and monitors the effectiveness of the risk management system.

The comprehensive risk management that we present in this risk report is an element of the Group-wide management of Nanogate. According to he Management Board, Nanogate takes appropriate, reasonable and manageable risks in the course of its business activities and the implementation of the strategy. In this context, the aggregate extent of the risks entered into may not exceed the risk coverage potential.

3.1.1 Risk Management System

In the course of its business activities, Nanogate is exposed to unavoidable risks that are linked with corporate actions and taking advantage of opportunities. For the Group, risk management therefore means both reducing dangers and, at the same time, dealing consciously with opportunities.

An important goal of risk management is to protect the company and to increase the risk coverage potential and company value in a sustainable, risk-conscious manner. In doing so, both external risks affecting Nanogate and risks that arise internally are taken into consideration. The risk management pertains to all affiliated companies of the Group. As a general rule, Nanogate does not take existential risks, i.e., risks whose occurrence will endanger the continued existence of the Group (e.g., due to direct or indirect impact on profit with corresponding capital reduction, liquidity effects that lead to a shortfall relative to the minimum level of liquidity required for business operations).

The Group's risk management is an integral part of its overall management system. The process steps encompass (1) the identification and (2) the assessment of risks, (3) management through measures, (4) the monitoring of the effectiveness thereof and (5) documentation and reporting. Risk categories have been defined centrally and individual risk areas have been allocated for the identification of risks. This serves to set priorities and make risks comparable within the Group. All processes are documented in an internal risk handbook.

Nanogate follows a three-dimensional approach in its control and management processes.

1. All significant group companies possess the necessary resources and processes for independent risk management. Each of these companies employs an internal control system, which is audited by an independent body as part of the audit of the annual financial statements. In addition, risk managers are appointed as persons responsible at all Group companies, as well as their deputies.
2. Nanogate also has centralized risk management at the Group's headquarters, which compiles and uniformly assesses the Group-wide risk situation along with Nanogate SE's own risk position. In this context, concentration risks in regard to whether risks of individual sites could also be relevant for other sites, regardless of their own risk assessment, are also analyzed and reviewed. This feedback process serves to promote the comprehensive recording of risks and the continuous development of the risk management. Twice per year, a risk assessment of all risk areas is conducted by the Group companies in accordance with the Nanogate Group's central risk management and the results are reported to the Management Board. The reporting system is continually maintained and is developed further both qualitatively and quantitatively on an ongoing basis.
3. The Group's operational Controlling functions also support the risk management. For this purpose, Nanogate has a centralized Investment Controlling department at its headquarters that constantly analyzes and evaluates the business processes and relevant key figures for all Group companies worldwide. Group-wide planning and reporting standards, such as Sales and Investment Controlling, have been gradually introduced in order to increase transparency. The objective is, in addition to the existing results-oriented controlling instruments, to establish and standardize cash flow, liquidity and balance sheet-based controlling instruments within the Group to a greater extent. For this purpose, we are also currently preparing the introduction of a Group-wide management information system (MIS) on the basis of a data warehouse (supply chain management and finance data of all subsidiaries in a uniform structure in a central database). Due to the high degree of complexity, however, this project will be concluded by the end of 2019 at the earliest.

The Management Board and risk management are pursuing the following priorities in the conceptualization and implementation of the risk management system:

- Completeness in the recording of significant risks
- Objectivity of the information recorded – in consideration of the circumstances of the individual Group companies
- Quantifiability of risks according to the amount of the potential loss of assets in consideration of the probability of occurrence
- Comprehensibility of the system's documentation
- Legal conformity

The parent company, Nanogate SE, operates a software-supported risk management system for this purpose 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. The dual control principle is also 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.

In order to take the special capital market-relevant transparency requirements of Nanogate SE as an exchange-listed company into account, risk analysis is supplemented by ad hoc reporting. This is also accomplished while fulfilling the requirements of the European Market Abuse Regulation (MAR). Nanogate is currently preparing an internal transparency policy in order to structure tasks and processes even more effectively in terms of transparency requirements.

Nanogate's risk management system is accompanied by a compliance management system. In this context, a GRC project committee for governance, risk management and compliance was formed to 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. There is also a Group-wide Code of Conduct, which was addressed in accompanying informational events in the reporting year. The Chief Compliance Officer is responsible for managing and monitoring the compliance management and reports to the Management Board.

All companies of the Nanogate Group have received the necessary ISO certifications (specifically ISO 9001, 14001, TS16949 and comparable certifications in the U.S.). These ensure a high standard of quality assurance measures at Nanogate, which serves to reduce risk. The Group companies' safety precautions are also intensively reviewed on a regular basis as part of the annual re-certifications. In this context, no complaints have been recorded in the past.

3.1.2 Assessment of Risks

The process of identifying and assessing risks is performed partly 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 serves to bring known and potential new risks and opportunities up for discussion at the 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 from the subsidiaries are consolidated at the Group level. Risk-specific controlling measures are determined following an assessment. For example, the Group must take out appropriate insurance for potential claims and liability risks, to the extent possible and reasonable, in order to limit losses in the event that cases of damage occur. The persons responsible for risk from the operating divisions are tasked with the monitoring of the respective risks; effectiveness is reviewed in turn by the central risk management of Nanogate SE.

The effects of the individual risks are aggregated in the context of corporate planning using a 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 assessment of risks takes place on the basis of the potential scales. For the time being, an evaluation of probability of occurrence is omitted. The following relevance scale has been defined for the assessment of risks at the Group level:

Nanogate Group	
Relevance	**Properties**
1	Less significant risks that rarely cause detectable deviations of the EBITDA
2	Moderate risks that cause detectable deviations of the EBITDA
3	Significant risks that strongly influence the EBITDA or have a long-term impact
4	Severe risks that lead to major deviations of EBITDA or have a substantial long-term impact
5	Critical risks that could endanger the continued existence of the company

3.1.3 Overview of the Risks

The risks of the Nanogate Group and their relevance are depicted in the following nine risk categories. Internally, the Group also subdivides the risk categories into a total of more than 70 "risk areas" in order to be able to monitor and manage individual risks in a more targeted manner. Keeping in mind the increasing size of the company, higher company complexity and a new phase of strategy on the one hand, and increased global economic and political risks on the other, the risk situation became more challenging in 2018. As before, however, no category 4 or 5 risks exist.

Overview of Risk Categories

Risk category	Relevance
Holding	3
Strategy	3
Sales markets	2
Value chain	2
Finance	3
Human Resources	2
Legal/Compliance	2
IT	3
Control and management processes	3

Holding, Strategy, Control and Management Processes:

As a growth and technology company, Nanogate invests heavily in the development of new technology platforms, process technologies and 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 intensively for the probability of their success and potential profitability. Nevertheless, the possibilities that product and technology developments or subsidiaries will fail to achieve the targets set for them in terms of sales, cash flow and earnings, that their procurement or creation will prove more expensive or capital-intensive than planned, or that problems will delay the integration of acquired companies or increase the cost of doing so cannot be ruled out.

Nanogate has also grown substantially in recent years due to the Phase5 strategy. This was primarily the result of acquisitions, which significantly increased the number of Group companies and locations domestically and abroad. As a result, complexity and the challenges of timely transparency for major developments and reliable reporting structures increased substantially. The management of the Group has therefore become more demanding, and the use of more efficient management instruments has become even more important. Nanogate is addressing the corresponding risks by expanding capacities and strengthening structures in the commercial area, as well as increasing the standardization of structures, systems and processes and centralizing operational functions of the Group at Nanogate SE. To this end, an independent internal service provider was established in the form of Nanogate Management Services GmbH in the 2018 fiscal year, and the divisions of Accounting, Tax, Compliance Management, Controlling, Order Processing, EDP-IT, Risk Management, Treasury, International Controlling, Management Systems, Production, Purchasing, Logistics, Marketing and Communications, Materials and Innovation and HR were outsourced from Nanogate SE to this company.

With the future-oriented Nanogate Excellence International (NXI) program, the Group intends to reorganize itself more efficiently, simplify structures and become more centralized over the next two years (see 1.3 Objectives and Strategy). The planned measures should also contribute to an improvement of risk management and lead to the strengthening of risk-covering assets and the company value through particularly strong increases in earnings and cash flow in accordance with the strategy. In the short term, however, the program represents a burden due to the associated resource commitment, increased operational risks in the implementation of individual measures and increased expenses and cash flow burdens. Nanogate is addressing these partly through detailed project management and controlling, by prioritizing objectives and staggering the deployment of measures and by involving experienced consultants. Nevertheless, the possibility cannot be excluded that unforeseen operational impairments will occur, higher costs and/or investments will become necessary to reach planned objectives or the implementation of measures will take longer than expected. In such cases, the net assets, financial and earnings position would be impaired more heavily or for a longer period of time than planned.

Sales Markets:
Demand for the products and services of Nanogate is also dependent on the development of the economy as a whole and the sector trends in target markets. Leading economic research institutions expect global and domestic economic momentum to decline in 2019 (see 4.0 Forecast Report). 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 lower level and of investment in new or innovative projects "drying up" or being postponed cannot be ruled out. At present, the global economy is also marked by a number of geopolitical and trade policy conflicts. Nanogate is striving to take these risks into account by further diversifying target industries and regions.

Nanogate is active in dynamic markets. In the past, we have consistently succeeded in anticipating corresponding changes, aligning ourselves accordingly and taking a trailblazing role in the relevant sub-sectors. This ability is crucial to the further development of the company in order to grow profitably. Nanogate is addressing this requirement primarily through a distinctly market-related company structure with defined target markets and a key account-oriented sales structure, which stands to be strengthened further through the future-oriented NXI program. The Group's high level of proficiency in development and innovation also supports its economic sustainability. At the same time, however, the possibility that important market developments are not recognized promptly and/or implemented properly or cannot be implemented due to certain restrictions (resources, production capacities, capital, etc.) cannot be ruled out.

Nanogate generates a considerable proportion of its sales from its existing customer base and from cooperation agreements. Cooperation is often project-based. We typically work together with our customers over a period of many years under the framework of innovation partnerships and thus possess a relatively high level of planning certainty. We focus on providing our customers with constant product improvements and aim to secure the customer relationship by doing so. Nevertheless, when existing customers or cooperation partners decide not to extend their contracts, to shorten the terms of contracts or to reduce the scopes of contracts, or if Nanogate does not win the bid for new projects with existing customers or expiring major projects are not replaced with successor projects, then adverse effects on the capacity utilization of the Group as a whole or individual service levels, such as tool manufacturing, cannot be ruled out. This can impair the net assets, financial and earnings position, particularly considering that in individual sectors, the time between order issuance and the start of production can require multiple years of lead time. At the same time, there is a risk of cooperation partners not achieving the agreed sales figures or raising subsequent unexpected claims. Nanogate addresses this risk with close customer support, by strengthening key account management, by making costs flexible where possible and by continuously improving competitiveness. Corresponding measures are also a priority for the future-oriented NXI program.

Nanogate serves a wide range of attractive sectors – customers from the mobility sector in particular currently represent a major point of focus. In addition, the company has succeeded in winning a series of substantial large orders that have a significant impact on the development of the Group. In keeping with our growth trajectory, we intend to continue to further diversify the industry, customer and regional structure. By 2025, the share of the industrial business stands to undergo particularly strong growth to reach more than 40 percent of Group sales.

In the 2018 fiscal year, Nanogate generated roughly 38 percent (previous year: 49 percent) of Group sales with its ten largest customers. No customer accounts for more than around twelve percent of Group sales. Nevertheless, there are dependencies on individual customers, orders and sectors whereby negative developments could have an influence on the net assets, financial and earnings position. For example, we were unable to avoid the consequences of the performance of the German automotive industry during the reporting year, due primarily to the new emissions test in accordance with the WLTP test cycle, and we temporarily recorded weaker demand in the mobility sector.

Our positioning as a system supplier is a competitive advantage for acquiring long-running major projects, creates barriers to market entry for competitors and thus contributes towards securing business development. At the same time, we face the challenge of executing these major projects, in which Nanogate is frequently the sole supplier of the customer, in accordance with the contracts and at the calculated costs and sale prices. This requires precise and consistently resilient project planning, since erroneous calculations can result in substantial sums over multiple years. Major projects are also affected by start-up costs (due to the recruitment and training of additional personnel, temporarily higher scrap rates, etc.). Nanogate employs experienced project managers, and it reduces the specific risks of major projects with the continuous improvement of calculation methods, multi-stage order approval and appropriate contractual arrangements with customers and suppliers. The expansion of corresponding measures is an important element of the future-oriented NXI program.

With its product, technology and competency structure, Nanogate finds itself in a globally unique position as a system provider. Nevertheless, the company is constantly in competition with other providers on the individual product and project level. The competitive environment is changing dynamically. Through other providers in the market, such as those with different core competencies, for example, in material manufacturing or nanotechnology, specialized chemical companies or end product manufacturers and suppliers of major corporations like automotive manufacturers, there is a risk of increasing competition that is reflected in factors such as strong price pressure and declining margins. There is also the possibility for customers to make use of other substrates or solutions not currently offered by Nanogate. As an experienced system provider with a broad value chain and long-standing technology partnerships, Nanogate strives to generate decisive advantages for its customers through innovative products and to simultaneously establish barriers to market entry for new competitors. For this reason, we will focus more strongly on projects where we can use these advantages in a targeted manner. At the same time, however, corresponding risks can materialize when price factors become more important for customers.

With the increasing internationalization of the business, both within and outside of the European Union, political developments and changing economic conditions may affect Nanogate's sales. This includes, for example, the risks of a broadening trade conflict with the U.S. We are addressing these risks through well-distributed sites, particularly our subsidiary in the U.S. Certain economic policy risks would also exist in the event of a no-deal Brexit. However, the British market is of secondary importance to the Nanogate Group; as in previous years, sales with British customers in 2018 were insignificant. Nevertheless, the impact of such a scenario on the economy as a whole is likely to have a detrimental effect on Nanogate's net assets, financial and earnings position.

Value Chain:
As a rapidly growing technology company in dynamic markets, Nanogate depends on continuous further development and corresponding investments in new competencies, technologies and capacities. In addition, the production of injection-molded components is subject to the availability of high-quality, efficient and high-performance tools. In this context, technical risks such as negative developments or implementability, which could lead to delayed or reduced revenue, higher costs and negative liquidity effects, cannot be disregarded. Through the continuous expansion of competencies, detailed project management and the distribution of risks across a wide range of projects, the company aims to minimize dependency on individual developments.

Nanogate has several production sites, such as for the production of plastic components and for coating various substrates, so we prioritize operational safety and employee and environmental protection. Nevertheless, operational disruptions for individual manufacturing plants cannot be ruled out, for example, due to defects and system outages, capacity bottlenecks, logistical problems, natural events, accidents, fires or damaged tools. We address these operational risks in manufacturing with comprehensive quality, process and project management, emergency plans and regular training and maintenance.

Nanogate uses a wide range of suppliers to procure substrates and source materials. At the same time, the possibility that supply bottlenecks or material price increases could occur for individual raw materials and primary products cannot be ruled out. The 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, which is designed to harmonize chemicals legislation in the European Union and can have an impact on the procurement and sales markets. If Nanogate proves unable to find alternative solutions in the event of significant price increases, supply bottlenecks or defaults by suppliers or the temporary or permanent unavailability of raw materials and primary products, adverse effects may arise regarding Nanogate's own capacity to make deliveries, and thus negatively impact the company's success. Certain products could no longer be manufactured, for example, or additional costs could be incurred in procuring alternatives. Nanogate combats this risk through long-term supplier relationships, flexible price clauses in procurement and sales contracts, the timely anticipation of potential changes and maintaining minimum inventory levels. Under our Code of Conduct, requirements additionally apply for our suppliers in regard to the limitation of risks and compliance with typical industry standards.

Nanogate also uses nanomaterials in its own material manufacturing. These 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 intelligence currently available worldwide confirms that, based on the current state of knowledge, nanomaterials that are embedded in a matrix throughout their life cycle (comparable to a paint or lacquer system) do not constitute a danger to human beings or to the environment. The "NanoSustain" EU project supports this assessment.

At the same time, however, it cannot be completely ruled out that faults, defects, or quality issues in connection with nanomaterials or other causes can occur that result in costs, claims, general impairments and/or damage to the company's image. This also includes potential claims for damages from end customers or business partners, particularly in light of the fact that Nanogate markets and distributes certain products in the market itself. For these cases, the Group holds corresponding product liability insurance that covers the corresponding risks, limited at least to the respective amount defined. Risks are present if claims by customers, such as for major projects, exceed the insured sum.

For this reason, Nanogate attributes a particular level of importance to high-performance quality management. In this context, Nanogate SE and individual subsidiaries are also certified in accordance with ISO 9001. Other certifications include ISO 14001, ISO 50001 and IATF 16949 as well as customer-specific certifications and audits, 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.

Finance:
The sales dynamic and increased number of larger, longer-running orders being won place unique requirements on the cash management of the Nanogate Group. For example, the working capital burden can increase significantly from the manufacture/procurement of injection molding tools with major orders and, in some cases, multiple years of lead time. Major orders also frequently cause order-specific needs for investment in machinery and capacities. The payments made for these are often only recovered at the start of production or over the multi-year terms of the projects. With major orders, there is also the possibility that details will be changed by the customer, leading to an additional need for financing unplanned new tools. Even if the corresponding tools are highly likely to be accepted and paid for by the customer in the course of the project, there is still significant uncertainty regarding the amount and the time period of tool financing. Nanogate maintains significant liquidity reserves and lines of credit for this purpose, and it is also currently exploring the market for innovative potential financing opportunities specifically for the tools sector.

The portfolio of receivables contains unavoidable risks of realizability with regard to individual customers and regions. We address this risk throughout the Group with comprehensive credit checks and strict receivables management. At the same time, we employ factoring (with transfer of risk) and commercial credit insurance in selected areas. Nevertheless, defaults on individual receivables can impair the net assets, financial and earnings position of the Group.

Liquidity needs have increased substantially in connection with the growth and investments of recent years, and these are higher than the Group's equity financing options. This serves to increase dependency on external financing instruments and the net debt of the Group. For this reason, the Group restructured its debt financing during the reporting period, for example by taking on promissory note loans and a syndicated loan. As of the reporting date, Nanogate had unused credit lines of over EUR 35 million. The availability of these credit lines, however, is subject to certain prerequisites including compliance with standard market financial key figure ratios, or "covenants." In the event that these key figures are violated, the lender is entitled to rights of termination which, if exercised, would have a significant influence on the Group's net assets, financial and earnings position and further development opportunities. Nanogate combats this risk with forward-looking planning, close and trusting contact with financing partners and the strengthening of liquidity management, equity financing strength and gradual reduction of net debt pursued in the context of the future-oriented NXI program. Subject to the condition of a corresponding capital market environment, Nanogate SE, as a listed company, also has the option of financing through capital increases.

The debt financing instruments currently in use include tranches with variable interest. Nanogate employs interest rate hedging to manage the interest rate risk. Nevertheless, the possibility that significant changes in interest rates could have a negative impact on the financial results of Nanogate SE cannot be ruled out. Nanogate has refrained from forming valuation units.

The risk of burdens due to currency fluctuations is increasing as the level of internationalization grows. At the same time, we are currently still invoicing the majority of our sales in euros, meaning that currency fluctuation risks currently exist mainly in relation to the sales of our subsidiary in the U.S. However, this is limited by "natural hedging" (i.e., production, purchasing and sales, as well as financing in the respective national currency) and occasional hedging transactions. Due to the regular net annual profit and liquidity surpluses of our subsidiary in the U.S., however, it cannot be ruled out that a weakening of the U.S. dollar against the euro could lead to negative effects for Group earnings and the consolidated statement of financial position.

As part of the future-oriented NXI program, measures including the merging of subsidiaries and a uniform market presence under the brand “Nanogate” are also planned. In this context, it may be necessary to amend the value of intangible assets such as capitalized brand rights or goodwill. Structuring measures can also include changes in the area of internal financing with affiliated companies. These measures typically have no impact on liquidity, but they can substantially influence the assets and earnings position.

Human Resources:
The availability of highly qualified employees with high levels of technical expertise is an important success factor for Nanogate. The increasing competition for qualified specialist personnel and managers can be noted at all sites of the Group. This poses the risk that important specialist personnel and managers needed for the service process will fail to be recruited or will leave the Group. This can have a substantial influence on the capacity to exploit existing growth and development potential and cause unplanned increases in personnel costs. For this reason, Nanogate has already adopted a variety of measures to position itself as an attractive employer and to achieve long-term loyalty of specialist personnel and managers. The comprehensive sustainability management of the Group also contributes to this. In the context of the future-oriented NXI program, we also take the importance of human resources to the further development of the Group into consideration by consolidating personnel-related NXI measures together into an own “fields of excellence” (of which there are four).

Legal/Compliance:
As a manufacturing company, we are subject to the usual risks of businesses that bring their own products into circulation (see also 1.1 Business Model). We are prepared in the event of recalls or product liability with corresponding insurance and plans. Nanogate, like every company, also faces the risk that contractual penalties or agreed contracts are subsequently called into question by the business partner. We address these risks with corresponding contractual agreements and terms and conditions, as well as by involving experienced legal counsel in the event of disputes. Nevertheless, the corresponding risks, particularly for major orders, can have an influence on the net assets, financial and earnings position. 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.

As an industrial company, Nanogate must comply with a wide range of regulations and provisions at the individual production sites. The company is also to required to have all necessary operating licenses and other permissions. Monitoring and compliance with the corresponding provisions thus represents an important task for Nanogate. At the same time, it cannot be ruled out that approvals and permits may be refused, not extended or linked with certain obligations due to factors such as country-specific details and the increasing complexity of regulation, which can have a detrimental effect on the net assets, financial and earnings position of the Group. Nanogate addresses these risks with experienced local site and operations managers, active monitoring of the corresponding framework conditions and involvement of external specialists.

Information Technology (IT):
A performant and secure IT infrastructure is a fundamental component of the service process of every company. Disruptions, data losses or other impairments of IT can thus lead to significant damages. These represent a significant risk for both manufacturing and the administrative divisions of the Nanogate Group. For this reason, IT receives a particular level of attention from the management and

is supported by a dedicated team, which will be further strengthened and expanded as part of the future-oriented NXI program. Further risk management measures include the principle of the use of standardized programs for all business-critical IT applications and redundantly designed hardware and software. 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 also 3.3 Internal Control System and Risk Management System Related to Group Accounting).

The ERP systems hold a particular level of importance within the IT infrastructure. Due to Nanogate's history of acquisitions, the Group faces the coexistence of a wide range of different systems with individual scopes of service and levels of implementation in this area. In the short term, these are to be combined into a centralized data warehouse (see also 3.1.1 Risk Management System) that enables the uniform collection and presentation of specific data. In the context of our future-oriented NXI program, we are striving in a second step to achieve the greatest possible Group-wide level of standardization of local ERP systems. This will further increase the transparency and quality of resource management, controlling and reporting in the medium term. The selection and successful implementation of the standardized system thus includes significant opportunities and potential, but also risks. In particular, operational processes may be disrupted during the introduction project and transparency can be temporarily impaired. In addition, the corresponding projects pose the risk of substantial budget and schedule overruns. Nanogate addresses these risks by carefully selecting the target system through the use of experienced independent advisors and at the same time relying on experiences with the systems in question within the Group itself. The conversion will take place sequentially, site by site, and not simultaneously; in exchange for the cost of a longer project term, this makes it possible to limit the effects of risks to individual sites and to take advantage of lessons learned.

3.1.4 Assessment of the Risk Situation

In summary, the risk situation of the Group has become more challenging due to the internal and external factors described above, particularly the company's growth and internationalization. Nevertheless, we consider all identified risks to be manageable. No risks that endanger the continued existence of the company are identifiable as of the time of the creation of this report. However, it cannot be fully ruled out that further, as-yet unidentified risks exist, or that risks with a probability of occurrence that is currently deemed negligible could occur. No transactions of a speculative nature are entered into.

The future-oriented NXI program, which is relevant to virtually every risk category, stands to contribute to a substantial improvement of the risk situation and significantly strengthen the risk management system in the medium term. Along the way, however, the preparation and implementation of the program represents a significant challenge and strain on resources. Nanogate has repeatedly demonstrated the ability to successfully implement even the most extensive change processes in the past. As such, we are addressing the tasks in a respectful and risk-conscious manner, but at the same time we are highly confident that we will achieve the desired effects, develop Nanogate further to a significant extent and make it stronger and more sustainable.

3.2 Opportunities Report

As a growth company, we pursue the objective of expanding our market position and sustainably increasing company value. After focusing our strategy on broadening the sales base and completing the value chain in past years, particularly through acquisitions and substantial investments in technology and competencies, Nanogate is now concentrating on profitability, cash flows and organic growth on the basis of our achieved position. To this end, we launched our future-oriented NXI program at the beginning of the 2019 fiscal year. The measures focus on transformation of the corporate organization, operational excellence, organic growth and the international implementation of the technologies developed. The growing potential that results from this will substantially expand the Group's opportunities.

3.2.1 Overview of Opportunities

Strategy and Sales Markets:

Nanogate is striving to broaden the sales base with applications and solutions developed to market readiness in past years and further new applications and solutions currently in preparation. If the market acceptance for these proves greater than assumed and shorter introduction periods can be realized, a more rapid rollout of the broadened portfolio with stronger sales could provide substantial additional momentum for business performance. The order development for the 2018 fiscal year has shown that attractive major orders can be won even with short lead times.

In addition to these Nanogate-specific factors, additional momentum for growth could also come from a better-than-expected economic situation, particularly in the sectors served by Nanogate. Economic momentum rising more strongly than anticipated – due, for example, to the resolution of existing trade conflicts or the postponed Brexit – and changing tax conditions in individual countries could increase the willingness of customers to invest in innovations and accelerate our business development.

We believe that high-performance surfaces and innovative plastic components hold considerable market potential. For this reason, we are currently concentrating on multiple fields of application that promise particularly high levels of growth in the coming years. These primarily include the N-Glaze (innovative plastics with brilliant optical quality) and N-Metals (which includes metallized plastics) areas of application, as well as the areas of new mobility and integrated smart surfaces. The ongoing technological shift in the automotive industry towards electric vehicles and advancing digitalization is a significant driver of demand for our products in areas of lightweight construction solutions, new designs and the increasing number of sensors. An acceleration in the transformation of the automotive economy would open up more significant potential market volumes for Nanogate at an earlier stage.

Nanogate also offers environmentally friendly chrome replacement solutions. At the beginning of 2019, new legislation on this subject was issued, stipulating an earlier-than-expected transition from chromium-6 to environmentally friendly alternatives. Depending on the dynamics of the mandatory conversion process, this could result in additional potential for Nanogate.

Nanogate aims to roll out existing products internationally even more broadly and to win new customers in new markets. The growing international business, above all in the U.S. and in Asia, confirms our strong starting position. Sales and earnings can benefit considerably from this, depending on the success, type, scope and speed of opening up new markets.

When opening up new markets internationally, Nanogate also relies on cooperations with leading international corporations that value our company's innovation and speed. Depending on the sales strength of the relevant partner, the agreed targets may be achieved sooner than planned. Additional new cooperations may also further increase our sales potential.

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 additional boost for sales and earnings in the medium term.

Operational Performance:

One element of the future-oriented NXI program is the significant improvement of the Group's operational performance. By means of a wide range of measures, significant potential to improve operational key figures can be realized at the level of individual sites, but also in their cooperations with each other and in standardized management.

Human Resources:
Performance, level of training and motivation are important pillars for the economic success of the Group. Nanogate continuously promotes employee qualification and has set its own point of emphasis of "People Excellence" as part of the future-oriented NXI program. Using existing talent optimally and attracting additional specialists can improve innovative strength and – not least – our market position.

3.3 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) as applied in the EU 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, Nanogate Industrial Systems GmbH and Nanogate Management Services 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 investment controllers of Nanogate SE in preparing accounts in accordance with the International Financial Reporting Standards. The team in this area has been and will continue to be expanded further gradually. Local tax advisers are also involved where required. Accounting guidelines applicable across the Group support the fundamentally uniform treatment of business transactions as well.

The annual financial statements and the consolidated financial statements 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 is technically possible and at a 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.

4 Forecast

4.1 Future Economic and Industry Development

According to the expectations of the International Monetary Fund (IMF), the global economy will continue to grow in 2019 but will lose momentum. The IMF thus expects the global economy to grow by 3.5 percent, following growth of 3.7 percent in 2018. The IMF thus reduced its expectations in January 2019 relative to its forecast in October 2018. In this context, expectations were reduced for Germany and the eurozone in particular, while the outlook for the U.S. and China remained unchanged. The main reasons for the reduced expectations are unresolved trade conflicts and the impending unregulated Brexit. According to the IMF, Germany will also continue to suffer the consequences of the diesel scandal in 2019.

In contrast to the IMF, the German federal government is assuming an increase of price-adjusted GDP by 1.0 percent according to its 2019 annual economic report, published in January 2019. According to the report, the economic upturn would continue for its tenth year in a row, although slowed. According to the newer economic forecast of the German Council of Economic Experts from March 2019, the GDP should increase by 0.8 percent in 2019. For 2020, however, another increasing growth rate of

1.7 percent is expected. For eurozone countries, the Council of Experts forecasts an increase of 1.2 percent in 2019 and 1.4 percent in 2020.

IMF Forecast on Economic Growth

In %	2018	2019 Forecast	2020 Forecast
Global (world output)	3.7	3.5	3.6
Germany	1.5	1.3	1.6
Europe (eurozone)	1.8	1.6	1.7
U.S.	2.9	2.5	1.8
China	6.6	6.2	6.2

Source: IMF, updated: January 2019

Continued positive development is expected in our most important target markets.

- The German Association of the Automotive Industry (VDA) is cautiously optimistic about the business development of the sector: If issues such as Brexit or trade policy conflicts are resolved constructively, the global car market should achieve roughly the same level of the previous year and increase slightly by one percent to 84.9 million vehicles. According to VDA data, global car production by German manufacturers should remain stable overall.
- According to a forecast by the market research firm GfK from January 2019, the global market for technical consumer goods will grow by roughly 2 percent to EUR 1.03 trillion in 2019. In this context, a substantial increase in sales of 6 percent in the large household appliances subsegment, which includes products such as ovens, dishwashers and washing machines, will more than compensate for the slight decrease in 2018.
- The German medical technology sector anticipates sales growth by roughly 4 percent to more than EUR 32 billion for 2019, according to the industry association Spectaris in November 2018.
- In light of the positive start to the year, the market research firm GfK forcasts an increase in private consumption in Germany of 1.5 percent for 2019 at the beginning of the year. This encompasses all consumer spending, not just retail sales. In February, however, market researchers warned that these forecasts will only be reached if increasing worries about the economy do not lead to insecurity regarding jobs. Consumer sentiment could also suffer from any escalation of the trade dispute with the U.S.

4.2 Future Development of the Nanogate Group – Forecast for 2019

Sales and Earnings Forecast for 2019

In EUR million	2017	2018	2019 Forecast
Sales	186.2	239.2	More than EUR 250 million
EBITDA	21.5	24.2	At previous year's level

As a transitional year, the 2019 fiscal year for Nanogate will be marked both by continued growth and temporary negative effects on earnings. The newly increased order base with multiple new major orders, for which production will begin during the year, is, of course, leading to increased costs and temporarily reduced efficiency figures for production, also due to expanding capacities. At the same time, we are implementing our future-oriented NXI program (see also: 1.3 Goals and Strategies) in order to increase the Group's efficiency, profitability and cash flow in the medium term. This will be accompanied by one-off effects for expenses and cash flow in 2019.

In a challenging market, Nanogate forecasts an organic growth of Group sales to more than EUR 250 million, after reaching EUR 239.2 million in 2018. The gross profit margin will continue to be impacted by the increasing importance of the components business. Despite the costs for the implementation of the future-oriented NXI program and ongoing integration costs for the new sites in Slovakia and Austria, the operating result (EBITDA) should remain stable at the previous year's level. It must be noted here, however, that shifts between other operating expenses and amortization and interest occur due to the first-time application of IFRS 16. In light of increasing amortization, partly due to the first-time application of IFRS 16, increasing financing costs, one-off extraordinary NXI expenditures and potential noncash expenses in the 2019 transitional year, we expect a negative net Group result in the low single-digit millions. This forecast is based on the assumption of a EUR/USD exchange rate of USD 1.20 per EUR and stable economic growth within the framework of the estimates described above. Business development in the first quarter corresponded to our expectations. Beginning in 2020, Nanogate would like to achieve a clearly profitable growth course again, and expects significant improvement in all earnings figures as well as a positive consolidated net income.

The medium-term effects of the future-oriented NXI program should lead to an increase in sales to at least EUR 500 million by 2025. Alongside this, the industrial business should experience significantly stronger growth in comparison with the mobility business and reach at least EUR 200 million. During the same period, the operating result (EBITDA) should experience substantially stronger growth and grow to at least EUR 75 million. Free cash flow should also improve substantially in the medium term and lead to a gradual reduction of net debt beginning as early as 2020. The central growth areas include the new mobility and metallization sectors (for the N-Metals platform) and the increasing integration of electronics competence into plastic components (Integrated Smart Surfaces).

In the coming years, Nanogate hopes to grow more increasingly through its own strengths and benefit from the initiated innovation offensive and expanded technological competence. At the same time, international market development will be accelerated, and increased attention will be given to the North American and Asian markets. However, selective acquisitions and investments to supplement the technology portfolio, as well as joint ventures, should not be ruled out for the future either.

As a leading global technology company for design-oriented, multifunctional components and surfaces, Nanogate considers itself to be well-situated to successfully develop with its existing and new products and solutions. Nanogate possesses a broad technology portfolio, serves multiple attractive target markets and is internationally active. In this context, we benefit from the growth of our target markets as well as from innovation-driven changes within the respective markets, in some cases triggered by Nanogate. We hope to thus expand our market position and increase profitability more strongly than sales in the medium term.

Quierschied-Göttelborn, Germany, April 12, 2019

Ralf M. Zastrau
Chairman of the
Management Board/CEO

Michael Jung
Member of the
Management Board/COO

Götz Gollan
Member of the
Management Board/CFO

Consolidated income statement of Nanogate SE

for the fiscal year from January 1 to December 31, 2018

	Note	2018	2017
		EUR ,000	EUR ,000
Sales	5	239,173	186,231
Change in inventories of finished goods and work in progress		1,206	1,221
Other own work capitalised		6,549	927
Other operating income	6	4,224	2,540
Cost of materials	7	-111,607	-78,193
Personnel expenses	8	-72,908	-58,712
Other operating expenses	9	-42,467	-32,467
EBITDA		**24,170**	**21,547**
Amortisation of intangible assets and depreciation of property, plant and equipment	10	-17,419	-14,289
EBIT		**6,751**	**7,258**
Financial income	11	2,422	4,730
Financial expenses	11	-7,491	-8,126
Consolidated earnings before taxes (EBT)		**1,682**	**3,862**
Tax expenses	12	-272	-1,057
Net result for the period		**1,410**	**2,805**
Earnings per share (EUR)	13		
Earnings per share, undiluted (EUR)		0.29	0.64
Earnings per share, diluted (EUR)		0.29	0.63

Consolidated statement of comprehensive income of Nanogate SE

for the fiscal year from January 1 to December 31, 2018

	Note	2018	2017
		EUR ,000	EUR ,000
Net result for the period		**1,410**	**2,805**
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	25	-2	76
Income taxes on items which are not retrospectively reclassified to P&L		1	-22
		-1	**54**
Items that will be reclassified to P&L in the future under certain conditions			
Foreign operations and foreign currency translations		1,601	-3,996
Income taxes on items which are not retrospectively reclassified to P&L		-	-
		1,601	-3,996
Other comprehensive income/loss		**1,600**	**-3,942**
Total net income/loss		**3,010**	**-1,137**

Consolidated statement of financial position of Nanogate SE

as of December 31, 2018

Assets	Note	12/31/2018 EUR ,000	12/31/2017 EUR ,000
Noncurrent assets			
Intangible assets	14	97,322	77,527
Property, plant and equipment	15	121,881	84,299
Contract assets	19	227	-
Financial assets	16	3,426	297
Deferred tax assets	17	6,327	4,105
Other assets	21	418	581
		229,601	**166,809**
Current assets			
Inventories	18	21,278	21,380
Contract assets	19	19,052	-
Trade receivables	20	23,534	21,634
Other financial assets	16	3,317	1,337
Income tax receivables		544	931
Other assets	21	2,903	2,732
Cash and cash equivalents	22	38,209	20,281
		108,837	**68,295**
		338,438	**235,104**

Equity and liabilities	Note	12/31/2018 EUR ,000	12/31/2017 EUR ,000
Equity	23		
Subscribed capital		4,914	4,552
Capital reserves		97,505	82,266
Other reserves		-1,521	-3,025
Retained earnings		11,557	9,935
		112,455	**93,728**
Noncurrent liabilities			
Pension provisions	25	1,628	916
Other provisions	26	553	484
Financial liabilities to banks	27	110,136	50,409
Other financial liabilities	29	16,173	28,738
Deferred tax liabilities	17	12,323	10,252
Other liabilities	30	756	594
		141,569	**91,393**
Current liabilities			
Other provisions	26	7,284	7,813
Financial liabilities to banks	27	19,699	16,044
Trade payables	28	27,143	12,260
Other financial liabilities	29	20,202	6,624
Income tax liabilities		405	956
Other liabilities	30	9,681	6,286
		84,414	**49,983**
		338,438	**235,104**

Consolidated statement of cash flows of Nanogate SE

for the fiscal year from January 1 to December 31, 2018

	Note	1/1/–12/31/2018	1/1/–12/31/2017
		EUR ,000	EUR ,000
Earnings before income taxes		1,682	3,862
Amortisation of intangible noncurrent assets and depreciation of property, plant and equipment		17,419	14,289
Increase in provisions		-1,839	1,313
Result from the disposal of noncurrent assets		76	2
Other noncash income and expenses		132	-1,653
Interest income		-601	-53
Interest expenses		5,116	4,373
Decrease/increase in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		-9,967	-4,250
Decrease/increase in trade payables and other liabilities that cannot be allocated to investing or financing activities		7,441	-368
Cash flow from operations before taxes		**19,459**	**17,515**
Income tax payments		-1,075	-2,637
Cash flow from operating activities		**18,384**	**14,878**
Proceeds from the disposal of property, plant and equipment		29	102
Payments for investments in intangible assets		-3,014	-840
Payments for investments in property, plant and equipment		-28,220	-10,452
Proceeds from investments in financial assets		571	378
Payments for investments in financial assets		-5.737	-116
Payments for the acquisition of consolidated companies	37	-4,600	-40,792
Proceeds from investments in other assets		-	340
Payments for investments in other assets		-	-61
Interest received		115	9
Cash flow from investing activities		**-40,856**	**-51,432**
Proceeds from capital increases		426	14,271
Dividend payments		-713	-1,176
Payments in connection with consolidated companies		-1,300	-2,875
Proceeds from the raising of loans		74,734	48,281
Payments for the redemption of loans		-25,516	-17,340
Payments for the redemption of finance lease liabilities		-3,934	-3,599
Interest payments		-3,686	-3,165
Cash flow from financing activities		**40,011**	**34,397**
Changes in cash and cash equivalents		17,539	-2,157
Changes due to the companies included in the consolidated financial statements, cash and cash equivalents		280	113
Changes due to exchange rates, cash and cash equivalents		137	-281
Cash and cash equivalents at the beginning of the period		20,253	22,578
Cash and cash equivalents at the end of the period*	32	**38,209**	**20,253**

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

Consolidated statement of changes in equity of Nanogate SE

for the fiscal year from January 1 to December 31, 2018

	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, 2017		**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
Transfer to retained earnings, net		-	-	-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	23	**4,552**	**82,266**	**-3,025**	**9,935**	**93,728**
Initial application of IFRS 9 and IFRS 15	2	-	-	-	620	620
As of January 1, 2018 adjusted	23	**4,552**	**82,266**	**-3,025**	**10,555**	**94,348**
Capital increases by issuance of new shares		362	14,984	-	-	15,346
Dividend distribution to shareholders		-	-	-	-501	-501
Changes to Group companies/ companies included in the consolidated financial statements Initial consolidation of subsidiaries that were not previously consolidated due to immateriality		-	-	-	-3	-3
Share-based payments		-	255	-	-	255
Transfer to retained earnings, net		-	-	-96	96	-
Total net income/loss Net result for the period 2018		-	-	-	1,410	1,410
Other comprehensive income/loss 2018		-	-	1,600	-	1,600
As of December 31, 2018	23	**4,914**	**97,505**	**-1,521**	**11,557**	**112,455**

Notes to the Consolidated Financial Statements of Nanogate SE for the 2018 Fiscal Year

A. Accounting Principles and Methods

1. Principles of Preparation
2. New and Amended Standards and Interpretations
3. Presentation of the Relevant Accounting Methods
4. Estimations and Assumptions

B. Notes to the Consolidated Statement of Income

5. Sales
6. Other Operating Income
7. Cost of Materials
8. Personnel Expenses
9. Other Operating Expenses
10. Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment
11. Financial Income and Expenses
12. Tax Income or Expenses
13. Earnings per Share

C. Notes to the Consolidated Statement of Financial Position

14. Intangible Assets
15. Property, Plant and Equipment
16. Financial Assets
17. Deferred Tax Assets and Liabilities
18. Inventories
19. Contract Assets
20. Trade Receivables
21. Other Current Assets
22. Cash and Cash Equivalents
23. Equity
24. Share-Based Remuneration
25. Pension Provisions
26. Other Provisions
27. Financial Liabilities to Banks
28. Trade Payables
29. Other Financial Liabilities
30. Other Liabilities

D. Other Notes

31. Disclosures on Financial Instruments
32. Notes on the Consolidated Statement of Cash Flows
33. Other Financial Obligations
34. Obligations From Finance Leases
35. Events After the Reporting Date (December 31, 2018)
36. Number of Employees
37. Business Combinations
38. Auditor's Fees
39. Relationships With Associated Persons and Companies
40. Company Boards

Notes to the Consolidated Financial Statements for the 2018 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, 2018, 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 2018 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 Quierschied, 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 shares of Nanogate SE are included in open market 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, 2018, through December 31, 2018, were approved for publication by the Management Board and forwarded to the Supervisory Board for approval on April 12, 2019.

The reporting currency of the consolidated financial statements of Nanogate SE is the euro (EUR). 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 2018 Fiscal Year

The accounting methods applied in the consolidated financial statements of Nanogate SE for the 2018 fiscal year generally correspond to those of the previous year (2017 fiscal year). In deviation from this, the Nanogate Group applied for the first time the following new or amended standards and interpretations adopted into European law in the 2018 fiscal year:

New and Amended Standards and Interpretations to be Applied for the First Time in the 2018 Fiscal Year		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	Description follows the table overview
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
Amendments to IAS 40	Transfers of Investment Property (issued on December 8, 2016)	Endorsed on March 14, 2018	January 1, 2018	No significant effects
Annual Improvements to IFRS 2014 – 2016 Cycle	Annual Improvements to IFRS 1, IFRS 12 and IAS 28 (issued on 8 December 2016)	Endorsed on February 7, 2018	January 1, 2018 (IFRS 1 and IAS 28)	No significant effects
IFRIC 22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	Endorsed on March 28, 2018	January 1, 2018	No significant effects

Overall, the first-time application of **IFRS 9 "Financial Instruments"** in the 2018 fiscal year had no significant influence on the net assets, financial and earnings position of the Nanogate Group. In line with the transitional provisions, comparative information was not adjusted. Even so, this has not resulted in any significant limitation of comparability with the previous year's values overall.

The new provisions on the classification of financial assets have led to minor changes in measurement or reporting. In accordance with IFRS 9, the Nanogate Group's financial assets were assigned to the "at amortized cost" measurement category with the exception of the following:

- Derivative financial instruments are classified in the "at fair value through profit and loss" category, as before.
- Contrary to their previous classification (measurement at amortized cost), trade receivables that are held for sale ("factoring") – and not for the appropriation of contractual cash flows – are now assigned to the "at fair value through profit and loss" category.

The first-time application of IFRS 9 did not lead to any effects on measurement or reporting of financial liabilities. The new guidelines for the classification and measurement of financial instruments had the following impact on financial assets of the Nanogate Group as of January 1, 2018:

Valuation category according to IAS 39 and IFRS 9 carrying amounts of financial instruments

Financial assets	According to IAS 39	According to IFRS 9	According to IAS 39 12/31/2017 in EUR ,000	According to IFRS 9 1/1/2018 in EUR ,000
Other participations (including non-consolidated affiliated companies)	Available-for-sale financial assets	No classification to a measurement category	55	-

Financial assets	According to IAS 39	According to IFRS 9	According to IAS 39 12/31/2017 in EUR ,000	According to IFRS 9 1/1/2018 in EUR ,000
Loans and other financial assets	Loans and receivables	Financial assets measured at amortized cost	287	287
Derivate financial instruments	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through profit or loss	132	132
Other financial assets	Loans and receivables	Financial assets measured at amortized cost	1,160	1,160
Trade receivables	Loans and receivables	Financial assets measured at amortized cost	21,634	15,988
		Financial assets measured at fair value through profit or loss		5,552
Cash and cash equivalents	Loans and receivables	Financial assets measured at amortized cost	20,281	20,281

As a result of the application of the new impairment model, the inventory of impairments for financial assets slightly increased starting January 1, 2018, and the carrying amount of trade receivables slightly decreased accordingly. In the future, expected losses will be recognized directly upon recognition of the financial asset ("expected credit loss model"). In the past, under IAS 39, an impairment would need to be recognized when an objective indicator exists, such as for a receivable that is already overdue ("incurred loss model"). The time of recognition for impairments was thus later in each case under IAS 39 than under the new standard. The Nanogate Group applies the simplified approach with trade receivables and measures the relevant impairments for the entire term. The negative adjustment effect before deferred taxes of TEUR 119 incurred as of January 1, 2018, due to the application of the new impairment model was recognized as an adjustment entry in retained earnings as of January 1, 2018. Of this, TEUR 89 was attributed to "Trade Receivables" and TEUR 30 to the "Contract Assets" balance sheet item recognized for the first time as of January 1, 2018. The effects on other financial assets were insignificant.

Since the Nanogate Group has up to now not applied the rules on the recognition of hedging relationships ("hedge accounting") pursuant to IAS 39, the fundamental changes to hedge accounting have not led to any changes in the course of the conversion from IAS 39 to IFRS 9. However, the new accounting standards create new possibilities for the future depiction of hedging as hedge accounting.

Overall, the first-time application of IFRS 9 "Financial Instruments" in the 2018 fiscal year thus had no significant impact on the net assets, financial and earnings position of the Nanogate Group. Nevertheless, IFRS 9 may materially affect the presentation of the net assets, financial and earnings position, depending on future agreements or transactions. In addition, it should also be noted that the first-time application of IFRS 9 led to an expansion of disclosure obligations in the Notes to the consolidated financial statements.

The first-time application of **IFRS 15 "Revenue from Contracts with Customers"** in the 2018 fiscal year led to substantial period shifts for sales revenue to be recognized in the consolidated statement of income for individual customer contracts in comparison with the previous method of revenue recognition. IFRS 15 was implemented by the Nanogate Group on January 1, 2018, using the modified retrospective method. In this context, the standard was applied to new and existing contracts that had not yet been fulfilled at the time of the first-time application. The positive adjustment effect incurred as of January 1, 2018, from the first-time application of IFRS 15 was recognized as an adjustment entry in retained earnings as of January 1, 2018. In line with the transitional provisions, the Nanogate Group did not adjust the comparative information when applying the modified retrospective method. Since the comparative information from the 2017 fiscal year is thus presented in line with the previous IAS 11/IAS 18 provisions, comparability with the previous year's values is not insignificantly restricted.

IFRS 15 replaces the existing provisions on revenue recognition (such as IAS 11 and IAS 18) and establishes a comprehensive framework in which the amount and time of sales revenues are recognized. The core of IFRS 15 is a uniform, five-stage revenue recognition model that must be applied to all contracts with customers. The identification of separate performance obligations of individual customer contracts is followed by further steps encompassing the determination of the transaction price for each customer contract and the allocation thereof to the previously separated performance obligations. Revenue is recognized at a point in time or for a period of time after fulfillment of the individual performance obligations in the amount of the respective assigned transaction price.

The first-time application of IFRS 15 starting from the 2018 fiscal year led to the following specific effects for the Nanogate Group:

- In line with the previous provisions in accordance with IAS 11/IAS 18, the Nanogate Group recognized sales from the manufacture of customer-specific tools at a point in time, upon transfer of significant risks and opportunities (typically the time of the acceptance). From the 2018 fiscal year onwards, time period-based revenue recognition over the production period in accordance with progress ("percentage of completion [POC] method") in accordance with IFRS 15.35c is mandatory when an asset without alternative possibilities for use is created, and additionally (in the case of an assumed contract termination by the customer) when a legally enforceable claim exists to the payment of services already performed including an appropriate markup.
  At the time of conversion (January 1, 2018), all customer contracts for the manufacture of customer-specific tools fulfilled the criteria of time period-based revenue recognition in accordance with IFRS 15, meaning that these customer contracts were required to be converted to time period-based recognition over the production period according to the percentage of completion. Overall, in comparison with past revenue recognition of these customer contracts, this led to substantial period shifts for sales revenue to be recognized in the consolidated statement of income.
- In contrast, the determination of adjustment amounts through the definition of further performance obligations (e.g., for guarantee commitments going beyond the applicable statutory provisions) at the time of conversion (January 1, 2018) was waived for reasons of materiality. The new provisions on the recognition of contract costs (expenses for obtaining and fulfilling contracts) also did not result in any accounting or measurement changes. No significant financing components beyond this existed as of the time of conversion (January 1, 2018).
- The first-time application of IFRS 15 led to changes in the reporting of balance sheet items. In accordance with IFRS 15, receivables are recognized insofar as goods or services are rendered or advance payments are due from customers. Legal claims to any consideration from customers may only be reported as trade receivables if the legal claim is unconditional. If the criteria for time period-based revenue realization in accordance with IFRS 15.35c are fulfilled (and the POC method applies as a result), then future asset-side balances resulting from POC contracts (amounting

to TEUR 9,608 before impairments as of January 1, 2018) will be reported separately under the "Contract Assets" balance sheet item. The liability-side balances from POC contracts (amounting to TEUR 159 as of January 1, 2018) and the advance payments resulting from other customer contracts also previously reported under the "Other Current Liabilities" balance sheet item (amounting to TEUR 615 as of January 1, 2018) will be reported as "Contract Liabilities" under the "Other Current Liabilities" balance sheet item.

- Finally, it should also be noted that the first-time application of IFRS 15 led to an expansion of disclosure obligations in the Notes to the consolidated financial statements. Since the Nanogate Group employed the modified retrospective method and has not adjusted the previous year's values in line with the transitional provisions, the new disclosure obligations under IFRS 15 were generally not applied to comparative information.

The following table summarizes the effects of the first-time application of IFRS 9 and IFRS 15 described above on the affected items in the consolidated statement of financial position as of January 1, 2018:

Effects of the initial application of IFRS 15 and IFRS 9	12/31/2017 (as previously reported)	Effects of IFRS 15	Effects of IFRS 9	1/1/2018 (adjusted)
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Assets				
Noncurrent assets				
Intangible assets	77,527	-340	-	77,187
Contract assets	-	275	-	275
Deferred tax assets	4,105	606	4	4,715
Current assets				
Inventories	21,380	-6,623	-	14,757
Contract assets	-	9,333	-30	9,303
Trade receivables	21,634	-	-89	21,545
Other receivables	2,732	-134	-	2,598
Equity and liabilities				
Equity				
Retained earnings	9,935	735	-115	10,555
Noncurrent liabilities				
Deferred tax liabilities	10,252	904	-	11,156
Current liabilities				
Other provisions	7,813	201	-	8,014
Trade payables	12,260	1,471	-	13,731
Other liabilities	6,286	-194	-	6,092

The following tables summarize the effects of the first-time application of IFRS 15 on the affected items of the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of income for the 2018 fiscal year.

Effects of the initial application of IFRS 15 as of 12/31/2018	Carrying amount under		
	IFRS 15	IAS 11/IAS 18	Adjustment effects
	EUR ,000	EUR ,000	EUR ,000
Assets			
Noncurrent assets			
Intangible assets	97,322	97,597	-275
Contract assets	227	-	227
Deferred tax assets	6,327	4,881	1,446
	103,876	102,478	1,398
Current assets			
Inventories	21,278	32,932	-11,654
Contract assets	19,052	-	19,052
Trade receivables	23,534	32,040	-8,506
Other receivables	2,903	3,037	-134
	66,767	68,009	-1,242

Effects of the initial application of IFRS 15 as of 12/31/2018	Carrying amount under		
	IFRS 15	IAS 11/IAS 18	Adjustment effects
	EUR ,000	EUR ,000	EUR ,000
Equity and liabilities			
Equity			
Other reserves	-1,521	-1,527	6
Retained earnings	11,557	10,863	694
	10,036	9,336	700
Noncurrent liabilities			
Deferred tax liabilities	12,323	10,641	1,682
	12,323	10,641	1,682
Current liabilities			
Other provisions	7,284	7,236	48
Trade payables	27,143	26,858	285
Other liabilities	9,681	12,409	-2,728
	44,108	46,503	-2,395
Consolidated income statement			
Sales	239,173	235,036	4,137
Change in inventories of finished goods and work in progress	1,206	5,992	-4,786
Cost of materials	-111,607	-112,286	679
Amortisation of intangible assets and depreciation of property, plant and equipment	-17,419	-17,468	49
Income taxes	-272	-363	91
Total effect on earnings			170

2.2 Standards and Interpretations Requiring Mandatory Application in the Future

The IASB / IFRS IC has issued the following statements, which were not yet mandatory in the 2018 fiscal year. The Nanogate Group does not intend to apply these new/modified standards early.

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 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 May 18, 2017)	Not adopted	January 1, 2021	No significant effects
Amendments to IFRS 3	Business Combinations (issued on October 22, 2018)	Planned for 2019	January 1, 2020	Effects are subjected to current analysis
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 1 und IAS 8	Definition of Material (issued on October 31, 2018)	Planned for 2019	January 1, 2020	Effects are subjected to current analysis
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement (issued on February 7, 2018)	Endorsed on March 13, 2019	January 1, 2019	Effects are subjected to current analysis
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued on October 12, 2017)	Endorsed on February 8, 2019	January 1, 2019	No significant effects
Annual Improvements to IFRS 2015 – 2017 Cycle	Annual Improvements to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on December 12, 2017)	Endorsed on March 14, 2019	January 1, 2019	No significant effects
IFRIC 23	Uncertainty over Income Tax Treatments (issued on June 7, 2017)	Endorsed on October 23, 2018	January 1, 2019	Effects are subjected to current analysis

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
Conceptional Framework for Financial Reporting	Amendments to References to Conceptual Framework in IFRS Standards (issued on March 29, 2018)	Planned for 2019	January 1, 2020	Effects are subjected to current analysis

Application of **IFRS 16 "Leases"** is mandatory for reporting periods beginning on or after January 1, 2019. The Nanogate Group has not made use of the option of early application. Consequently, these new provisions will be applied for the first time in the consolidated financial statements of Nanogate SE for the 2019 fiscal year.

IFRS 16 replaces the existing provisions on leasing accounting (such as IAS 17 and IFRIC 4) and leads to a uniform accounting model under which all leases must be recognized on the balance sheet of the lessee ("right of use" model). Lessees are consequently no longer subject to the previous classification under finance and operating lease agreements. In the future, lessees will be required to recognize assets for the rights of use obtained and the corresponding liabilities for the payment obligations assumed on their balance sheet. The only exceptions to this are short-term and low-value lease agreements. In contrast, classification pursuant to IAS 17 in finance and operating lease agreements will remain the same for lessors in the future under IFRS 16. As such, this will not result in any effects on the lessor's accounting.

The effects have been analyzed as part of a Group-wide project on the implementation of the new standard. The Nanogate Group acts as a lessee of land and buildings, as well as of production-related plants, machinery and vehicles. The Nanogate Group is applying the modified retrospective transition method as part of the first-time application of IFRS 16, whereby the rights of use and lease liabilities as of January 1, 2019, will be recorded. The interest rate applied for the discounting of the lease liability corresponds to the incremental borrowing rate at this point in time. In line with the transitional provisions, the comparative information for the previous fiscal year will not be adjusted.

The Nanogate Group makes use of the optional right under IFRS 16.C8(b)(ii), according to which the right of use at the time of the first-time application can be recognized at the amount of the leasing liability in the interest of simplicity. The first-time application of the right of use model leads to an increase of the balance sheet total for the Nanogate Group as of the time of the first-time application due to the increase of lease liabilities and a corresponding increase of capital assets as a result of the rights of use to be capitalized totaling roughly EUR 34 million. In the future, depreciation and amortization and interest expenses are to be recognized in the consolidated statement of income instead of leasing expenses. This leads to a significant increase of the EBITDA in the fiscal years starting from 2019. In regard to the consolidated statement of cash flows, the repayment portion of lease payments from existing operating lease agreements will reduce the cash flow from financing activities in the future and not the cash flow from operating activities as in the past. The finance charge of lease payments will also be reported under cash flow from financing activities in the future. The first-time application of IFRS 16 will also expand the disclosure obligations in the Notes to the consolidated financial statements.

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.

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 equity instruments, 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 entitled to fluctuating yields, resulting from its participation in an equity stake and can use its power of disposition over the equity stake to influence these yields. It is generally assumed that ownership of a majority of the (indirect or direct) voting rights leads to control.

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, 2018). 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 *37. 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, 2018:

Name of the subsidiary and head office	Main business	Share of capital in %	Consolidation
Nanogate Industrial Systems GmbH, Quierschied	N-Metals® surfaces systems	100.00	full
Nanogate GfO Systems GmbH, 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[3)]	full
Nanogate PD Systems GmbH, Bad Salzuflen	N-Glaze® components for 3D systems	100.00[3)]	full
Nanogate Nederland B.V., Geldrop, Netherlands	Intermediate holding company	100.00	full
Nanogate Vogler Systems GmbH, Lüdenscheid	Decorative, multifunctional surfaces	100.00[4)]	full
Nanogate Goletz Systems GmbH, Kierspe	Decorative, multifunctional surfaces	75.00[1)3)]	full
Nanogate Medical Systems GmbH, Kierspe	High-quality plastic parts for medical technology	100.00[5)]	full
Nanogate Teknoloji AS, Istanbul, Turkey	Sales company	100.00	[2)]
Nanogate Technologies Inc., Norwalk, Connecticut, USA	Intermediate holding company	100.00	full
Nanogate North America LLC (formerly: Nanogate Jay Systems LLC) Mansfield, Ohio, USA	Provider of systems and components with high-quality surfaces	80.01[1),10)]	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
Nanogate Central and Eastern Europe GmbH, Neudörfl, Austria	Intermediate holding company	100.00	full
Nanogate Electronic Systems GmbH, Neudörfl, Austria	Decorative, multifunctional surfaces	100.00[7)]	full
Nanogate Slovakia s.r.o., Vrable, Slowakia	Decorative, multifunctional surfaces	100.00[7)]	full
High Tech Plastics GmbH, Fohnsdorf, Austria	Decorative, multifunctional surfaces	50.00[8)]	at equity
HTP Germany GmbH i.L., Straßlach-Dingharting	Acquisition, ownership and management of shares in companies	100.00[7)]	[2)]
Nanogate heT Engineering GmbH, Böblingen	Design and engineering	100.00	full
Holzapfel Engineering Team India PVT. Ltd., Bangalore, India	Design and engineering	100.00[9)]	[2)]
Improof LLC, Norwalk, Connecticut, USA	Sales company (inactive)	100.00[10)]	[2)]
Nanogate Management Services GmbH, Quierschied	After-sales service company	100.00	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) Indirect shareholding: 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 North America LLC.
7) Indirect shareholding: The companies are wholly owned subsidiaries of Nanogate Central and Eastern Europe GmbH
8) Indirect shareholding: Nanogate Central and Eastern Europe GmbH holds the shares in the company
9) Indirect shareholding: The company is a 99,99 % subsidiary of Nanogate heT Engineering GmbH
10) Indirect shareholding: The company is a subsidiary of Nanogate Technologies Inc.

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, 2018, 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, 2017, the Nanogate Group obtained a controlling influence, and the company was consequently to be included in the consolidated financial statements of Nanogate SE from this date. The acquired subsidiary now operates as Nanogate North America LLC (formerly: 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 2017. 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" (without disclosure of noncontrolling interests).

The acquisition of selected business units of Austrian HTI High Tech Industries AG was concluded on January 23, 2018. Nanogate SE obtained a controlling influence on this date. The companies now trade as Nanogate Electronic Systems GmbH, Neudörfl, Austria, and Nanogate Slovakia s.r.o., Vráble, Slovakia, and are included in the consolidated financial statements of Nanogate SE due to their full consolidation from January 2018 onwards under the umbrella of the intermediate holding company Nanogate Central and Eastern Europe GmbH, Neudörfl, Austria. Part of the transaction was also an investment in High Tech Plastics GmbH, Fohnsdorf, Austria, which is recognized as an equity-accounted joint venture. For additional information on this acquisition, please refer to the details in section *37. Business Combinations*.

The acquisition of all shares in Holzapfel Engineering Team GmbH (heT GmbH), Böblingen, was concluded on July 2, 2018. At this point in time, the Nanogate Group obtained a controlling influence, and consequently, the company was included in the consolidated financial statements of Nanogate SE from this date. The acquired subsidiary now operates as Nanogate heT Engineering GmbH. For additional information on this acquisition, please refer to the details in section *37. Business Combinations*.

Currency Conversion

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 simplified with annual average prices in accordance with IAS 21. 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 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: revenue recognition, 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.

B. Notes to the Consolidated Statement of Income

5. Sales

Sales by Geographically Determined Markets

		2018	2017
		EUR ,000	EUR ,000
Gross revenue:	Germany	75,206	75,920
	Abroad*)	164,943	111,676
		240,149	187,596
Less:	Sales deductions	-976	-1,365
	Overall Group	**239,173**	**186,231**
	*) of which in		
	European Union	71,696	34,934
	USA	69,032	64,604
	Other countries	24,215	12,138
		164,943	111,676

Sales by Geographically Determined Production Sites

	2018	2017
	EUR ,000	EUR ,000
Germany	116,172	110,371
Europe	61,024	14,389
USA	61,977	61,471
	239,173	**186,231**

Significant Accounting Methods and Estimations and Assumptions:

Turnover is measured on the basis of the consideration agreed in a contract with a customer that the Nanogate Group expects to receive and recognize when the customer receives the power of disposal over the agreed goods and services. The transfer of the power of disposal can take place at a specific point in time or period of time.

The structure of construction contracts with customers of the Nanogate Group is based primarily on projects with only one performance obligation. If contracts with customers contain different performance commitments (products and services) in individual cases, these must be classified as separate performance obligations, if applicable, and a portion of the contract price should subsequently be allocated to these on the basis of "relative individual sale prices." The performance obligations resulting from contracts with customers of the Nanogate Group in connection with the manufacture of tools are only recognized for a period of time over the duration of manufacturing in accordance with the percentage of completion ("POC method") when an asset without alternative possibilities for use is created, or (in the case of an assumed contract termination by the customer) when a legally enforceable claim exists to the payment of services already performed including an appropriate markup. Otherwise, turnover is recognized at a specific point in time – just like with the delivery of products – as soon as the deliveries or services are performed, the transfer of risk has occurred and no technical risks or specific counteractive contractual arrangements are encountered. Earnings from services are recognized at a point in time or for a period of time depending on the specific facts and circumstances of the individual case.

It is generally necessary to take significant financing components into consideration in the determination of the transaction price, provided the times of performance and payment are more than one year apart.

Nanogate SE makes use of the option of non-disclosure of the transaction price attributable to residual performance obligations, since the relevant contracts have an original expected term of one year or less.

When applying the POC method, revenue recognition is based on time period in accordance with progress. The service performed, including the proportional result, is recorded as part of turnover in relation to the period of time over the duration of manufacturing. The method that most reliably measures the services performed is employed to determine the percentage of completion, in which context both input and output-based methods can apply consistently to similar performance obligations and under similar circumstances. The reporting of turnover recorded by means of the POC method takes place under either the "Contract Assets" balance sheet item or the "Other Liabilities" balance sheet item. If the cumulative performance (contract costs including proportional profits) exceeds the advance payments in an individual case, manufacturing orders are reported on the asset side in "Contract Assets." If a negative balance remains after the deduction of advance payments, this will be reported on the liabilities side as a "Contract Liability" under the "Other Liabilities" balance sheet item. Anticipated order losses are taken into consideration on the basis of identifiable risks and directly included to their full extent in the order result. Contract assets and contract liabilities are primarily reported under current assets or current liabilities, respectively, since these are always recognized within one year at the Nanogate Group. Contract assets reported as noncurrent constitute payments to customers.

Significant discretionary decisions on revenue recognition take place in the determination of separate performance obligations, in the context of the determination of the time of fulfillment of performance obligations, in the determination of the transaction price and in the determination of the method for calculating the percentage of completion, for example:

- The determination of whether a performance commitment will be considered as a separate performance obligation (e.g., in the event of warranty commitments going beyond the applicable statutory provisions) is linked with non-trivial discretionary decisions.
- The performance obligations resulting from contracts with customers of the Nanogate Group in connection with the manufacture of tools or the performance of services are either recognized on the basis of a period of time over the course of service performance in accordance with the percentage of completion ("POC method") or reported in relation to a point in time, as soon as the deliveries or services are performed. In the case of customer-specific construction contracts, a discretionary decision must be made on a case-by-case basis regarding whether an asset without alternative possibilities for use is created, and additionally (in the case of assumed contract termination by the customer) whether a legally enforceable claim exists to the payment of services already performed, including an appropriate markup.
- It is generally necessary to take significant financing components into consideration in the determination of the transaction price, provided the times of performance and payment are more than one year apart. The determination of whether any significant financing components (at all) are present in an individual case requires an assessment of all relevant facts and circumstances in the respective case.
- When applying the POC method, the method that most reliably measures the performances rendered should be designated as the method for determining the percentage of completion. At the Nanogate Group, input-based methods are primarily applied for the determination of revenue from customer-specific equipment manufacturing, particularly the "cost-to-cost" method. In this method, the percentage of completion is determined according to the ratio of the costs incurred as of the reporting date and the estimated total costs. In the opinion of the management, the cost-to-cost method is generally the most suitable method for determining progress for equipment manufacturing to be recognized based on a period of time, since a direct connection exists between the workload of the Nanogate Group and the transfer of the power of disposal to the customer.

6. Other Operating Income

	2018	2017
	EUR ,000	EUR ,000
Income from the reversal of provisions	1,863	979
Noncash benefits (for stock options, use of vehicles et al.)	967	910
Transfer of costs/reimbursements	497	388
Income from disposal of assets	137	3
Insurance compensation	117	14
Miscellaneous other income	643	246
	4,224	**2,540**

This increase was the result of higher income from the reversal of provisions, accounting profits from the disposal of property, plant and equipment and increased reimbursements. The income from the reversal of provisions results essentially from the reduction of warranty obligations. Other operating income includes income from currency conversion amounting to TEUR 10 (PY: TEUR 8).

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

	2018	2017
	EUR ,000	EUR ,000
Cost of raw materials and supplies	-98,375	-75,408
Cost of external services	-13,232	-2,785
	-111,607	**-78,193**

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

	2018	2017
	EUR ,000	EUR ,000
Wages and salaries	-58,191	-46,715
Social security	-12,923	-11,180
Pensions	-1,539	-626
Noncash remuneration costs for stock options	-255	-191
	-72,908	**-58,712**

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 157,759 stock options (PY: 129,500 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 -255 for the 2018 fiscal year (PY: TEUR -191).

For further details on the stock option program, please refer to Note *24. 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

	2018 EUR ,000	2017 EUR ,000
Operating expenses	-27,075	-19,772
Sales expenses	-6,156	-6,501
Administrative expenses	-6,014	-4,188
Losses on receivables and impairment	-379	-56
Miscellaneous other expenses	-2,843	-1,950
	-42,467	**-32,467**

The increase in other operating expenses, particularly operating and sales expenses, is largely connected with the first-time consolidation of Nanogate Electronic Systems GmbH, Nanogate Slovakia s.r.o. and Nanogate Central and Eastern Europe GmbH. The decrease in sales expenses is the result of the fact that the previous year encompassed an addition to provisions for claims asserted from a customer relationship. Other operating expenses includes expenses from currency conversion amounting to TEUR 26 (PY: TEUR 22).

Significant Accounting Methods and Estimations and Assumptions:
The "other operating expenses" income statement item represents a compound item. All operations-related declines in assets that are not assigned to any of the other expense items in the income statement or are not reported separately due to their immateriality are to be assigned to 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

As in the previous year, 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.

As in the previous year, the financial expenses are essentially financial expenses for overdrafts and loans with banks, as well as expenses from the measurement of foreign currency items.

Net interest expenses from pension obligations amount to TEUR 29 for the 2018 fiscal year (PY: TEUR 19).

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

	2018 EUR ,000	2017 EUR ,000
Current taxes		
Germany	-149	-117
Abroad	-1,109	-785
Taxes, previous years	46	-122
Deferred taxes		
Germany	-908	300
Abroad	1,848	-333
(tax expense –; tax income +)	**-272**	**-1,057**

The following table shows a reconciliation of the expected and actually reported tax expenses. To determine the expected tax expenses, earnings before taxes were multiplied by the overall tax rate for the 2018 fiscal year of 30.875 % (PY: 30.875 %). 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: 15.050 %). The difference between the expected and actually reported income tax expenses can be seen in the reconciliation below.

	2018 EUR ,000	2017 EUR ,000
Earnings before taxes	1,682	3,862
Applicable tax rate	30.875 %	30.875 %
Expected tax expense	-519	-1,192
Effects of changes in tax rates	-32	3.346
Tax-free gains	-	388
Effects of different tax rates in foreign countries	531	247
Differences due to varying trade tax multipliers	-3	-53
Tax reductions / tax increase due to non-tax-deductible costs	1,438	-384
Noncapitalized tax deferrals on losses; realizable loss carryforwards on which no deferred taxes were calculated	12	-
Non-recognition of tax loss carry-forwards	-1,100	-93
Impairment on loss carry-forwards	-646	-3,135
Tax back payments for prior years	46	-122
Other tax effects	1	-59
Income tax expense recognized in the income statement	**-272**	**-1,057**

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

	2018	2017
	EUR ,000	EUR ,000
Net result for the period (in EUR ,000)	1,410	2,805
Weighted average number of shares issued		
Undiluted	4,821,413	4,402,223
Diluted	4,823,499	4,426,514
Undiluted earnings per share (in EUR)	0.29	0.64
Diluted earnings per share (in EUR)	0.29	0.63

The diluted number of shares issued refers to 7,559 (PY: 38,750) 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. One tranche (previous year: two tranches) has an effect on the diluted earnings per share. Here, the value of shares to be granted was higher than the exercise threshold of the granted stock options. Three tranches (previous year: one tranche) were not taken into consideration because the exercise price threshold was not reached and 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	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	9,961	-	17,889	-	32,974
Depreciation and amortization in the fiscal year	-1,413	-1,210	-740	-	-	-3,363
Additions	199	-	645	-	32	876
Transfers	91	-	-203	-	-	-112
Disposals	-	-	-	-	-	-
Effects on currency conversion	-630	-1,225	-	-2,154	-	-4,009
As of 12/31/2017	**14,669**	**8,671**	**5,311**	**48,844**	**32**	**77,527**
Acquisition and production costs	17,896	11,739	10,250	49,432	32	89,349
Depreciation/amortization	-3,227	-3,068	-4,939	-588	-	-11,822
As of 1/1/2018	**14,669**	**8,671**	**5,311**	**48,844**	**32**	**77,527**

	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
Change in the companies included in the consolidated financial statements	398	6,167	1,102	11,773	475	19,915
Depreciation and amortization in the fiscal year	-1,318	-1,656	-1,052	-	-	-4,026
Additions	364	-	2,474	-	174	3,012
Transfers	-	-	427	-	-427	-
Disposals	-323	-	-	-	-	-323
Effects on currency conversion	173	337	23	683	-	1,216
As of 12/31/2018	**13,964**	**13,519**	**8,285**	**61,300**	**254**	**97,322**
Acquisition and production costs	18,543	18,311	14,276	61,887	254	113,271
Depreciation/amortization	-4,579	-4,792	-5,991	-587	-	-15,949

Neither impairments nor value increases occurred for the reported intangible assets in the current fiscal year (in previous year: impairment of the word marks “ELAMET®” and “SICRALAN®” totaling TEUR 340).

The software, licenses, trademarks and patents shown are intangible assets acquired for payment. Of these, intangible assets of TEUR 7,725 (PY: TEUR 8,430) 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 1,989) 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 development costs consist of internally generated intangible assets that are assigned to nine higher-level development projects. Amortization of TEUR 1,052 (PY: TEUR 740) was carried out on the capitalized development costs during the 2018 fiscal year. Total expenses for research and development across the Group amount to EUR 11.1 million (PY: EUR 7.6 million).

As of the reporting date, intangible assets included leased assets (finance leases) with a residual carrying amount of TEUR 85 (PY: TEUR 56).

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.

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 2018 fiscal year are based.

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	from -13.6 % to 34.0 %	from 1.7 % to 10.0 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.77 %	6.80 %
Pre-tax discount rate	9.13 %	8.92 %

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	from -11.6 % to 16.1 %	from -8.8 to 16.6 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.77 %	6.77 %
Pre-tax discount rate	8.27 %	9.80 %

Name of the CGU	Nanogate Goletz Systems GmbH	Nanogate North America LLC
Carrying amount of goodwill	12,306	16,417
Sales growth p. a. in the planning period	from 2.1 % to 10.6 %	from -0.5 % to 25.0 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.77 %	9.11 %
Pre-tax discount rate	9.11 %	10.90 %

Name of the CGU	Nanogate heT Engineering GmbH	Nanogate Slovakia s.r.o.
Carrying amount of goodwill	4,459	7,314
Sales growth p. a. in the planning period	from 1.5 % to 11.1 %	from 9.2 % to 17.0 %
Duration of planning period	5 years	5 years
Sales growth p.a. at end of planning period	1.00 %	1.00 %
Discount rate	6.77 %	6.91 %
Pre-tax discount rate	9.24 %	8.00 %

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 Systems B.V.
Carrying amount of goodwill	1,662	5,442
Sales growth p. a. in the planning period	from 1.5 % to 16.6 %	from -12.6 % to 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
Buchwert Geschäfts- oder Firmenwert	2,813	10,887
Sales growth p. a. in the planning period	from -15.2 % to 12.9 %	from 0.0 % to 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 North America LLC
Carrying amount of goodwill	12,306	15,735
Sales growth p. a. in the planning period	from 0.6 % to 4.9 %	from -1.1 % to 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 %

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

Cumulative currency differences of TEUR -1,471 (PY: TEUR -2,154), which are reported in other reserves, resulted from the conversion of goodwill into foreign currency.

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 only capitalized when the requirements of IAS 38.57 are fulfilled. Research and non-capitalizable development costs are recognized as expenses in the period in which they occur. 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 that are attributable to the production process and reasonable proportions of the production-related overheads. Internally generated intangible assets that are not yet finished are subject to an annual impairment test.

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. In this context, impairment expenses are first distributed to goodwill, and in the case of amounts going beyond this, to the assets of the CGU proportionally in consideration of specific restrictions. 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 the 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	13,234	41,065	5,681	7,993	67,972
Depreciation/amortization	-3,628	-14,090	-2,867	-	-20,585
As of 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	29,218	219	377	40,704
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 of 12/31/2017	**19,480**	**52,892**	**3,214**	**8,713**	**84,299**
Acquisition and production costs	24,382	74,567	6,987	8,713	114,648
Depreciation/amortization	-4,902	-21,674	-3,773	-	-30,349
As of 1/1/2018	**19,480**	**52,892**	**3,214**	**8,713**	**84,299**
Change in the companies included in the consolidated financial statements	6,269	7,733	1,252	3,924	19,178
Depreciation and amortization in the fiscal year	-1,624	-10,311	-1,458	-	-13,393
Additions	1,623	16,303	1,247	11,033	30,206
Transfers	689	2,821	121	-3,631	-
Disposals	-47	-57	-1	-	-105
Effects on currency conversion	431	1,117	6	141	1,695
As of 12/31/2018	**26,822**	**70,498**	**4,381**	**20,180**	**121,881**
Acquisition and production costs	33,345	102,521	9,507	20,179	165,552
Depreciation/amortization	-6,522	-32,023	-5,126	-	-43,671

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 31. Disclosures on Financial Instruments). 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 4,826 (PY: TEUR 5,156).

The additions to property, plant and equipment totaling TEUR 30,206 (PY: TEUR 13,454) are the result of ongoing investment activity during the 2018 fiscal year. The additions from the change in companies included in the consolidated financial statements can be attributed to the acquisition of the plastics division of the Austrian company HTI High Tech Industries AG (now Nanogate Central & Eastern Europe GmbH, Nanogate Electronic Systems GmbH and Nanogate Slovakia s.r.o.) and the acquisition of shares in Holzapfel Engineering Team GmbH (now Nanogate heT Engineering GmbH). Disposals of TEUR 105 (PY: TEUR 107) and amortization of TEUR 13,393 (PY: TEUR 10,927) also arose during the fiscal year. Impairment losses on property, plant and equipment were not recorded in the 2018 fiscal year or in the previous year. There were also no reversals during either the 2018 fiscal year or during the previous year.

As part of government business promotion programs, the Nanogate Group has received subsidies and other assistance from various public bodies for the establishment of production plants and the acquisition of machinery and equipment. These have been deducted from the carrying amounts of the relevant assets. Grants received in the 2018 fiscal year amounted to a total of TEUR 1,505 (PY: TEUR 0). The grants are linked to the creation of additional jobs at the respective site, the actual implementation of investments and the requirement that they remain at the site for a specified period of time.

Property, plant and equipment includes leased assets (finance leases) with a residual carrying amount as of the reporting date of TEUR 16,637 (PY: TEUR 13,867).

The loans recognized under financial liabilities to banks are secured to the amount of TEUR 18,332 (PY: TEUR 8,478) 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. Investment grants and tax-free investment subsidies are deducted from the carrying amount of the relevant asset. 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.

Expenses for maintenance and repairs are recorded as periodic expenses. Acquisition and production costs and the associated cumulative amortization are written off in the event of the scrapping or sale of items of property, plant and equipment. Any applicable accounting profits or losses are reported in other operating income or other operating expenses, respectively.

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 Property, Plant and Equipment

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. The depreciation of a leased item leased as part of a finance lease takes place over the shorter of the following two time periods: the useful economic life of the asset or the term of the lease.

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. Financial Assets

Noncurrent Financial Assets

The recognized noncurrent other financial assets as of the reporting date consist primarily of equity investments totaling TEUR 3,042 (PY: TEUR 0), financial derivatives of TEUR 153 (PY: TEUR 132), issued loans with a residual term of more than one year totaling TEUR 61 (PY: TEUR 101) and other financial assets with a residual term of more than one year for deposits amounting to TEUR 170 (PY: TEUR 9).

The shares in the joint venture High Tech Plastics GmbH are reported in noncurrent financial assets at an amount of EUR 1.00. The shares in HTP High Tech Plastics GmbH were assigned an acquisition value of EUR 1.00 as part of the purchase price allocation. These are recognized using the equity method (equity-accounted).

The following table summarizes financial information (unaudited, preliminary IFRS financial statements) on the equity-accounted joint venture High Tech Plastics GmbH:

Disclosures related to the income statement	2018
	EUR ,000
Sales	25,729
Amortization of intangible assets and depreciation of property, plant and equipment	-1,397
EBIT	-5,731
Financial result	-380
Net result for the period	-6,155

Disclosures related to the statement of financial position	12/31/2018
	EUR ,000
Noncurrent assets	11,534
Current assets	15,795
Equity	9,627
Noncurrent liabilities and provisions	2,170
Current liabilities and provisions	15,531

Current assets include cash and cash equivalents of TEUR 1,380. A loss share for 2018 corresponding to the holding in the company was attributed to the Nanogate Group following the remeasurement of effects from the purchase price allocation amounting to TEUR -137. Due to the amount at which the investment is carried of EUR 1.00, this is not depicted in the consolidated statement of income.

Please also refer to Note *37. Business Combinations*.

Current Other Financial Assets

As of the reporting date, current other financial assets mainly include the assignment of receivables of TEUR 2,441 (PY: TEUR 727) as part of factoring, granted loans of TEUR 40 (PY: TEUR 386), notes receivable of TEUR 535 (PY: TEUR 0) and receivables from bonus agreements of TEUR 207 (PY: TEUR 212).

The receivables on a contractual basis reported as of the reporting date have been measured at 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
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
12/31/2018	6,743	6,694	601	-	-	-
12/31/2017	1,634	1,634	-	-	-	-

Significant Accounting Methods and Estimations and Assumptions:

The financial assets of the Nanogate Group consist of cash and cash equivalents, trade receivables, other receivables, acquired equity and debt securities and derivatives with a positive fair value. 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. Derivatives are recognized as of the trading date.

When recognized for the first time, a financial asset is classified into one of the following categories and measured:

- Measurement at amortized cost
- Investments in debt instruments that are measured at fair value with changes in other comprehensive income
- Equity investments that are measured at fair value with changes in other comprehensive income
- Measurement at fair value through profit or loss

Classification takes place on the basis of the company's business model for managing financial assets and the properties of the contractual cash flows. A financial asset is measured at amortized cost if it is held as part of a business model that has as its objective the collection of contractual cash flows, and the contractual terms lead to payment flows at defined times that exclusively constitute repayment and interest payments on the outstanding capital amount. At the Nanogate Group, all financial assets – with the exception of derivative financial instruments and equity investments (companies not to be fully consolidated) – are currently assigned to this measurement category ("measurement at amortized cost").

For equity instruments that are not held for trading, the option exists of recording changes of the fair value in other comprehensive income. In this event, the Nanogate Group can chose to recognize follow-up changes in the fair value of the investment in other comprehensive income, in which case no reclassification into the income statement would take place at a later time. This choice is made on a case-by-case basis for every investment and is irrevocable once made. Unrealized profits and losses for equity instruments that belong to the "at fair value through equity" measurement category are recognized in other reserves in consideration of deferred taxes and are reclassified into retained earnings upon disposal.

Financial assets that are not measured at amortized cost or at fair value through equity in other comprehensive income must be measured at fair value through profit and loss. At the Nanogate Group, this primarily includes derivative financial instruments for hedging currency, price and interest risks (in the event of positive fair value) that are measured at fair value in profit and loss both upon the first-time recognition and as part of follow-up measurement. Derivative financial instruments are measured at fair value on the basis of market prices derived from an active market. The Nanogate Group does not make use of the optional right to designate a corresponding hedging relationship ("hedge accounting").

Trade receivables are measured at amortized cost (minus impairments) in the follow-up measurement. To calculate impairments, the Nanogate Group applies a simplified method for calculating expected credit losses on the basis of calculated loss rates, which are derived from historical and forecast data and which take the respective customer and the economic environment of the region into consideration. If objectively substantial indicators exist for an impairment of a financial asset, these are reviewed individually for impairment. Such indicators of the presence of an impairment may include, for example, a worsening of a debtor's credit rating and associated payment delays or an impending insolvency. For financial receivables and other receivables, the determination of expected credit losses is made in dependence on default risks on the basis of either defaults that are expected in the next twelve months or that are expected in the residual term. On each reporting date, a review is carried out of whether any significant increase of credit risk has occurred. The following information or expectations may indicate a significant increase of credit risk:

- Significant change in the external or internal credit rating of the financial instrument
- Adverse changes in business, financial or economic framework conditions that have a significant influence on the creditworthiness of the respective customer
- Indications of significant financial difficulties of a customer
- Noncompliance with credit terms

Receivables can be derecognized during factoring if essentially all opportunities and risks connected with ownership are transferred.

17. Deferred Tax Assets and Liabilities

	Consolidated statement of financial position		Consolidated income statement	
	12/31/2018	12/31/2017	2018	2017
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Intangible assets	193	135	58	-218
Property, plant and equipment	2,104	272	-92	272
Other financial assets	1,123	822	301	822
Inventories	2,975	80	3,037	10
Trade receivables	101	-	85	-
Other assets	277	248	29	248
Pension provisions	253	192	-19	6
Other provisions	721	229	234	15
Other liabilities	1,115	1,550	-1,072	-558
Loss carry-forwards offsettable for tax purposes	4,556	3,819	591	-3,164
Future offsettable expenses	207	-	207	-
Deferred tax assets	13,625	7,347	3,359	-2,567
Intangible assets	-8,130	-6,240	-263	2,113
Property, plant and equipment	-7,539	-6,603	785	1,044
Inventories	-41	-	25	-
Trade receivables	-3,087	-29	-2,876	-17
Other assets	-119	-	-94	3
Pension provisions	-	-	-	-
Other provisions	-138	-21	-30	-8
Financial liabilities	-353	-601	248	-601
Other liabilities	-214	-	-214	-
Deferred tax liabilities	-19,621	-13,494	-2,419	2,534
Net deferred taxes, deferred tax liabilities	-5,996	-6,147	940	-33

(tax expense –; tax income +)

Reported in the balance sheet as follows:

Deferred tax assets	6,327	4,105
Deferred tax liabilities	-12,323	-10,252
Deferred tax liabilities, net	-5,996	-6,147

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, 2018, 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 law on comprehensive tax reform signed by the U.S. president in 2017 ("H.R. 1/Tax Cuts and Jobs Act") provides, among other things, for a reduction of the nationwide corporation tax rate from 35 % to 21 % for companies in the U.S. from January 1, 2018, onwards and the increase of the immediate write-off option from 50 % to 100 % for new investments in specific tangible economic goods ("qualified property") between September 28, 2017, and 2023. Due to strong investment activity in the U.S., this resulted in a tax loss in 2018 of TEUR 3,573, which led to the capitalization of deferred taxes from loss carry-forwards of TEUR 751. The tax effect from the immediate write-off in 2018 amounted to TEUR 1,213 (see also: "tax reductions" item in the tax reconciliation in Note *12. Tax Income or Expenses*) and is reflected in the property, plant and equipment item of the deferred tax liabilities. The change of deferred tax assets and liabilities in comparison with the previous year resulted primarily from the first-time inclusion of companies newly acquired in 2018, from the change of deferred tax assets to loss carry-forwards, the capitalization of internally generated intangible assets, the tax effects from investments in the U.S. and from other deferred taxes recognized directly in equity (TEUR -464).

The tax loss carry-forwards as of the end of the 2018 fiscal year amounted to TEUR 45,584 (PY: TEUR 22,273). Deferred tax assets of TEUR 4,556 (PY: TEUR 3,819) were formed for tax loss carry-forwards. The increase in tax loss carry-forwards and deferred tax assets from loss carry-forwards results primarily from the newly acquired companies Nanogate Central and Eastern Europe GmbH and Nanogate Electronic Systems GmbH as well as the tax result in the U.S.

Valuation allowances of TEUR 646 were made on deferred taxes as of December 31, 2018. Tax loss carry-forwards of TEUR 29,558 remain unused. The loss exploitation 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 and the expenses for the improvement of the value chain against the backdrop of the ongoing NXI project were decisive. On the basis of estimations made about the future business development, the company anticipates with reasonable certainty that the tax income will be sufficient to realize the capitalized deferred tax assets.

The tax loss carry-forwards do not lapse. Furthermore, there are deferred tax assets from future taxable expenses eligible for offsetting amounting to TEUR 207 (PY: TEUR 49).

No deferred taxes were formed on differences between carrying amounts of the IFRS individual statements and the tax carrying amounts (outside basis differences) amounting to TEUR 211 (PY: TEUR 177), 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.

Significant Accounting Methods and Estimations and Assumptions:

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

The carrying amount of the deferred tax assets is reviewed on each balance sheet date and reduced if it is no longer likely that sufficient taxable income will be available to satisfy the claim either wholly or partly. If there is a change in tax rates, its impact on the deferred tax assets and liabilities is recognized in profit and loss. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are offset against each other when the Nanogate Group has an enforceable claim to offset the actual current tax assets against the actual current tax liabilities and when the deferred tax assets and deferred tax liabilities pertain to income taxes that are collected by the same tax authority for the same taxable entity.

Current and deferred taxes are posted to expenses or income, unless they have arisen in connection with items that were recognized directly in equity. In this case, the taxes are also recognized in equity without effect on profit and loss.

The estimates with regard to deferred taxes on loss carry-forwards depend to a large extent on the development of income at the relevant taxable entities. The amounts that actually arise in future periods can therefore differ from the estimates.

18. Inventories

	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Raw materials and supplies	10,485	7,499
Work in progress	3,553	8,358
Finished goods and merchandise	7,240	5,523
	21,278	21,380

The 2018 fiscal year resulted in expenses from the impairment of inventories of TEUR 1,026 (PY: TEUR 79). The loans recognized under financial liabilities to banks are secured with inventories in the amount of TEUR 1,952 (PY: TEUR 992).

Significant Accounting Methods and Estimations and Assumptions:

Inventories are recognized at their date of addition at acquisition cost. The "first-in-first-out" (FIFO) 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. In this context, the net realizable value represents the expected recoverable selling price less the costs incurred prior to the sale.

19. Contract Assets

Customer orders for the manufacture of customer-specific tools are accounted for using the POC method whereby the manufacturing costs incurred, including proportional profits, exceeding the prepayments received ("POC receivables") are reported under contract assets. The POC receivables consist of the following:

	12/31/2018
	EUR ,000
POC receivables (gross book value)	20,692
Less impairment	-40
Less advanced payments	-1,373
Contract assets (net book value)	19,279

The valuations of the previous year are unchanged and do not take the corresponding IFRS 15 adjustment effects into consideration.

	12/31/2018
	EUR ,000
Impairment as of December 31, 2017	0
Initial application of IFRS (see Note 2)	30
Impairment as of January 1, 2018 (adjusted)	30
Changes to companies included in the consolidated financial statements	4
Utilization of impairments	-
Reversal of impairments	-
Allocation of impairments	6
Impairment at the end of the year	40

20. Trade Receivables

	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Domestic receivables	5,000	4,275
Foreign receivables	19,249	17,640
	24,249	21,916
Impairments on receivables at risk	-715	-282
	23,534	21,634

As part of subsequent measurement of trade receivables, any impairments that may be necessary are taken into account (amortized cost). The impairments 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 2018 fiscal year and during the previous year are shown in the table below.

	2018	2017
	EUR ,000	EUR ,000
Position at the start of the year	282	314
Initial application of IFRS (see Note 2.)	89	-
Impairment as of January 1, 2018 (adjusted)	371	314
Change in the companies included in the consolidated financial statements	7	7
Utilisation of impairments	-19	-20
Reversal of impairments	-17	-50
Allocation of impairments	373	31
Position at the end of the year	715	282

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 Management Board is of the opinion that no further risk provision is necessary beyond the impairment already recognized.

The following listed arrears resulted from 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
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
12/31/2018	23,534	12,610	7,024	2,305	852	28
12/31/2017	21,634	16,076	4,615	679	149	30

As of the reporting date of the fiscal year, loans from banks of TEUR 1,100 (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 impairments of doubtful trade receivables comprise estimations of the customers' creditworthiness. The anticipated impairments may vary in the event of a deterioration in the financial figures of customers.

21. Other Current Assets

	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Prepayments/payments on account/prepaid expenses	1,510	1,661
Sales tax and other taxes	1,192	926
Creditors with debit balances	137	93
Receivables from staff	33	17
Other	31	35
	2,903	2,732

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 impairments of doubtful receivables comprise estimations of the customers' creditworthiness. The anticipated impairments may vary in the event of a deterioration in the financial figures of customers.

22. Cash and Cash Equivalents

The cash and cash equivalents of TEUR 38,209 (PY: TEUR 20,281) 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 8 for the 2018 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*.

23. 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 19, 2018, the approval of the Supervisory Board on January 23, 2018, and entry into the commercial register on February 23, 2018, a capital increase from EUR 4,552,395.00 to EUR 4,827,395.00 from authorized capital was effected by issuing 275,000 new shares for subscription in kind.

Following a resolution of the Management Board dated June 27, 2018, the approval of the Supervisory Board on June 27, 2018, and entry into the commercial register on September 12, 2018, a capital increase from EUR 4,827,395.00 to EUR 4,838,433.00 from authorized capital was effected by issuing 11,038 new shares for subscription in kind.

Following a resolution of the Management Board dated June 29, 2018, the approval of the Supervisory Board on June 29, 2018, and entry into the commercial register on October 24, 2018, a capital increase from EUR 4,838,433.00 to EUR 4,886,452.00 from authorized capital was effected by issuing 48,019 new shares for subscription in kind.

At the same time, 27,181 new shares were issued in 2018 from conditional capital to holders of subscription rights. This increased share capital from EUR 4,886,452.00 to EUR 4,913,633.00. The capital increase from the conditional capital was entered in the commercial register on April 2, 2019.

Subscribed capital was therefore set at EUR 4,913,633.00 as of December 31, 2018. It is divided into 4,913,633 no-par-value bearer shares with an arithmetical share of the company's subscribed capital of EUR 1.00 per share.

In 2017, the subscribed capital increased from EUR 3,793,233.00 to EUR 4,552,395.00 Of this, EUR 337,771.00 is attributable to capital increases from authorized capital against contribution in cash, EUR 391,771.00 to capital increases from authorized capital against contribution in kind and EUR 29,620.00 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 shareholders' meeting on June 26, 2018, agreed on an additional conditional increase of the share capital (Conditional Capital V). 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 the Management Board as well as to members of the management, employees of the company and affiliated companies as part of stock option plans (see Note *24. 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, 2018, the conditional capital totals EUR 442,997.00 (PY: EUR 228,506.00). This comprises:

- Conditional Capital I
  of EUR 0.00 (previous year: EUR 0.00)
- Conditional Capital II
  of EUR 0.00 (previous year: EUR 6,150.00)
- Conditional Capital III
  of EUR 7,559.00 (previous year: EUR 32,600.00)
- Conditional Capital IV
  of EUR 181,206.00 (previous year: EUR 189,756.00)

- Conditional Capital V
  of EUR 254,232.00 (previous year: EUR 0.00)

The change from the previous year resulted from 27,181 actually exercised subscription rights, 4,010 forfeited subscription rights, 8,550 canceled subscription rights and subscription rights newly created as part of Conditional Capital V in 2018.

Authorized Capital

In accordance with Section 4 (3) of the articles of association, 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 that 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 1,914,094.00 as of the reporting date (PY: EUR 2,248,151.00).

Capital Reserves

The capital reserves of TEUR 98,465 (PY: TEUR 83,451) 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 2,153 (PY: TEUR 2,123).

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 1,193 (PY: TEUR 938) (see also Note *24. Share-Based Remuneration*).

Other Reserves

The other reserves include the reserve for the revaluation of property, plant and equipment amounting to TEUR 1,115 (PY: TEUR 1,211), the reserve for actuarial gains and losses from obligations regarding post-employment benefits amounting to TEUR -242 (PY: TEUR -240) and the reserve for the currency translation of foreign operations of TEUR -2,394 (PY: TEUR -3,996).

The changes to other reserves during the 2018 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, 2017	**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**
Transfer to retained earnings, net	-96	-	-	-96
Other comprehensive income/ gains and losses, net	-	-2	-	-2
Foreign operations / currency conversion	-	-	1,602	1,602
As of December 31, 2018	**1,115**	**-242**	**-2,394**	**-1,521**

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 2018 fiscal year as calculated in accordance with the principles of the German Commercial Code (HGB). This would result in a dividend payout totaling TEUR 540 (PY: TEUR 501). A dividend of EUR 0.11 per share was paid for the 2017 fiscal year.

24. 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. 20,840 stock options from the 2010 Stock Option Plan have so far been exercised and 4,010 of the stock options issued have expired. As of the reporting date, there are therefore no stock options to subscribe to no-par-value bearer shares from the 2010 Stock Option Plan (PY: 6,150).

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. 52,541 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 7,559 (PY: 32,600) 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 V) 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; of these, 8,550 were canceled in 2018. In addition, a further 25,000 stock options were issued to holders of subscription rights in two tranches in 2018.

The shareholders' meeting of June 27, 2018, agreed a stock option program and therefore the creation of conditional capital (Conditional Capital IV) of EUR 254,232.00 (2018 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 254,232 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 26, 2023, and must also be concluded during an issue period. Based on this authorization, 43,000 stock options were issued to holders of subscription rights for the first time in 2018.

Stock options are issued to Management Board members, members of the management and selected employees. There are five (PY: three) extended and not yet expired tranches as of the reporting date. The exercise period per tranche was set at three years, and 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.

	2018		2017	
	Weighted average exercise price per option in EUR	Options	Weighted average exercise price per option in EUR	Options
As of January 1	28.49	129,500	26.51	159,120
Granted	36.57	68,000	-	-
Expired	21.07	-4,010	-	-
Exercise waived	33.16	-8,550	-	-
Exercised	17.20	-27,181	17.87	-29,620
As of December 31	33.85	157,759	28.49	129,500

Of the 157,759 outstanding options (PY: 129,500), 7,559 can be exercised (PY: 38,750). Options exercised in 2018 resulted in the issue of 27,181 shares (PY: 29,620) at an average price of EUR 17.20 per share (PY: EUR 17.87). The weighted average share price at the time of exercising was EUR 39.99 (PY: EUR 49.56). The corresponding transaction costs amounted to TEUR 1 (PY: TEUR 4) and were offset against the revenues received.

The expiration dates and exercise prices of the stock options outstanding at the end of the 2018 fiscal year can be seen in the table below.

Granting/ exercise	Expiry date	Exercise price per share in EUR	Shares	
			2018	2017
2011 – 2015	10/29/2018	21.07	-	6,150
2012 – 2016	10/20/2019	16.87	7,559	32,600
2016 – 2020	10/20/2023	33.16	82,200	90,750
2018 – 2022	10/21/2025	36.64	19,000	-
2018 – 2022	10/21/2025	34.93	6,000	-
2018 – 2022	10/21/2025	36.77	43,000	-
			157,759	129,500

No stock options were issued during the fiscal years 2013 through 2015. No 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 2016 fiscal year averaged EUR 14.29 per stock option (2012: EUR 7.67).

In the 2018 fiscal year, two new tranches from the 2014 Stock Option Plan and one new tranche of stock options for holders of subscription rights from the 2018 Stock Option Plan were issued. Significant parameters are the respective exercise prices of EUR 36.64, EUR 34.93 and EUR 36.77, a volatility of 39.0 %, a dividend yield of 0.42 %, a risk-free interest rate of 0.26 % or 0.39 % and an expected option period of 87 months or 84 months. A period of five years was set to determine the volatility of the standard deviation of stock yields with continuous interest. An employee fluctuation of 0 % was assumed for the tranches issued. The fair value of the stock options granted during the 2018 fiscal year averaged EUR 14.47, EUR 11.03 and EUR 10.72 per stock option for each respective stock option.

A total of TEUR 255 (PY: TEUR 191) in expenses from share-based remuneration was recognized in personnel expenses during the 2018 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 the 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.

25. 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. The company pension provision is financed by plan assets and by carrying a pension provision as a liability in the case of deficient cover.

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 was performed as of December 31, 2018, by Denneberg & Denneberg GbR, Heidelberg. The fair value of plan assets was substantiated by a confirmation of insurance as of December 31, 2018. The anticipated earnings were determined on the basis of the expected earnings of the assets in accordance with the current investment policy.

In the area of defined benefit plans, the first-time inclusion of subsidiary Nanogate Electronic Systems GmbH, Neudörfl, Austria, resulted in an addition of TEUR 728 concerning provisions for severance payments pursuant to the (Austrian) Employee Severance Act. Under this law, severance is a one-time payment upon termination of the employment relationship. For employment contracts that were concluded before January 1, 2003 ("old severance"), the employer must save up or invest the funds for severance. The claim to severance under the "old severance" is established after three years of uninterrupted employment. The employment relationship must be terminated by mutual agreement or by the employer. The amount of the severance is graduated according to the duration of employment and measured in accordance with Section 23 of the Austrian Employee Act.

The actuarial measurement of the present value of the defined benefit obligations of subsidiary Nanogate Electronic Systems GmbH was performed as of December 31, 2018, by AKTUAR Versicherungsmathematik GmbH, Vienna.

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

	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Present value of defined-benefit obligations	2,150	1,437
Fair value of plan assets	522	521
Recorded provision	1,628	916

Changes to the pension obligations during the 2018 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 1/1/2018	**1,437**	**-521**	**916**
Addition on 1/31/2018 due to the changes in group consolidation	728	-	728
Addition due to the transfer of an employee (transitional amount)	26	-	26
Ongoing service cost	33		33
Interest expense/interest income	39	-10	29
	72	-10	62
Revaluations:			
Income from plan assets excluding amounts included in the interest listed above	-	-5	-5
Actuarial gains arising from changes in the financial assumptions	-4	-	-4
Actuarial gains arising from changes in the demographic assumptions	11	-	11
	7	-5	2
Contributions:			
Employer	-	-10	-10
Ongoing payments made from the plan	-120	24	-96
As of 12/31/2018	**2.150**	**-522**	**1.628**

The pension obligations changed in the previous fiscal year, as shown below

Development of pension obligations	Present value of obligation	Fair value of plan assets	Total
	EUR ,000	EUR ,000	EUR ,000
As 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**

As of the valuation date, the present value of defined benefit obligations comprised TEUR 355 (PY: TEUR 329) relating to active employees, TEUR 89 (PY: TEUR 81) relating to former employees, TEUR 1,005 (PY: TEUR 1,027) relating to employees in retirement and TEUR 701 relating to severances (active employees).

All pension commitments do not lapse.

The plan assets relate exclusively to reinsurance polices with an insurance company for the pension commitments of Nanogate GfO Systems GmbH.

The material actuarial assumptions made for the measurement of defined benefit plans at Nanogate GfO Systems GmbH can be seen in the following table.

	12/31/2018	12/31/2017
	%	%
Discount rates	1.90	1.90
Future salary increases	2.00	2.00
Future pension increases	2.00	2.00

The 2018 G mortality tables by Klaus Heubeck were used as the biometric basis of calculation; the previous year's value was calculated with the 2005 G mortality tables by Klaus Heubeck.

The measurement of severance provisions at Nanogate Electronic Systems GmbH took place as of December 31, 2018, with a discount rate of 1.90 % and the assumption of an annual wage/salary increase of 2.50 %. The severance claims are distributed up to the respective departure, weighted by probabilities (up to a maximum of retirement age). The AVÖ 2018-P ANG retirement tables were used as the biometric basis of calculation.

The average weighted term of defined-benefit obligations at Nanogate GfO Systems GmbH as of December 31, 2018, amounts to 12.9 years (PY: 13.2 years); the average weighted residual term of severance obligations as of December 31, 2018, at Nanogate Electronic Systems GmbH amounts to 13.2 years.

The actual income from plan assets is TEUR 16 (PY: TEUR 20).

Cash outflows of TEUR -58 are expected for the 2019 fiscal year. These comprise the planned remuneration of reinsurance policies (TEUR -6) on the one hand, and payment of pension obligations (TEUR -73), less planned pension obligation payments from the reinsurance policies (TEUR 28), on the other; severance payments of TEUR 6 are expected for 2019.

The sensitivity analysis below clarifies the effect of singular parameter changes on the present value of the defined benefit obligation at Nanogate GfO Systems GmbH:

	Effect on the defined-benefit obligation	
	2018	2017
	EUR ,000	EUR ,000
Assumptions for the pension plan		
Discount rate:		
Increase of 0.5 %	-86	-87
Decrease of 0.5 %	95	96
Future pension increases:		
Increase of 0.25 %	43	43
Decrease of 0.25 %	-41	-41
Life expectancy:		
Increase of 1 year	56	53
Decrease of 1 year	-55	-53

The sensitivity analysis below clarifies the effect of singular parameter changes on the present value of the defined benefit obligation at Nanogate Electronic Systems GmbH:

	Effect on the defined-benefit obligation
	2018
	EUR ,000
Assumptions for the pension plan	
Discount rate:	
Increase of 0.5 %	-43
Decrease of 0.5 %	48
Future salary increases:	
Increase of 0.5 %	45
Decrease of 0.5 %	-42
Life expectancy:	
Increase of 1 year	1
Decrease of 1 year	-1

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 4,556 (PY: TEUR 2,299) were made to the statutory pension scheme in the reporting year as well as TEUR 518 (PY: TEUR 387) 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. 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. Profits 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.

26. 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.

	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Cost of personnel *	357	302	55	291	249	42
Clients and suppliers **	5,600	-	5,600	6,283	-	6,283
Litigation	51	-	51	53	-	53
Removal and dismantling obligations	101	101	-	98	98	-
Other provisions	1,728	150	1,578	1,572	137	1,435
	7,837	553	7,284	8,297	484	7,813

** 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 2018 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 1/1/2018	291	6,283	53	98	1,572	8,297
Changes to companies included in the consolidated financial statements	38	1,158	12	-	59	1,267
Utilization	-30	-1,072	-86	-	-1,319	-2,507
Addition/creation	58	1,025	73	3	1,448	2,606
Reversal	-	-1,795	-1	-	-67	-1,863
Currency conversions	-	1	-	-	35	36
As of 12/31/2018	357	5,600	51	101	1,728	7,837

Contracts with customers generally encompass defect and warranty periods following the completion of the specific projects. These obligations are not considered separate performance obligations and are included in the total costs of the contracts as estimates. If necessary, amounts are recorded under other provisions in line with IAS 37. Provisions for warranty issues are included in the provisions for obligations from customers and suppliers (along with provisions for bonus and commission payments). The decrease can primarily be attributed to the reduction of warranty obligations.

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.

27. Financial Liabilities to Banks

Of the financial liabilities to banks totaling TEUR 129,835 (PY: TEUR 66,453), TEUR 19,699 (PY: TEUR 16,044) have a residual term of up to one year. Liabilities to banks increased primarily due to the placement of various tranches of a promissory note loan and the conclusion of a syndicated loan agreement. In addition to the diversification of the financing structure, this enabled the repayment of existing liabilities and the optimization of borrowed capital costs and strengthened the financial foundations for our further growth trajectory.

Total financial liabilities to banks include secured loans in the amount of TEUR 59,153 (PY: TEUR 54,777).

Of the financial liabilities to banks, TEUR 64,017 pertain to redeemable and annuity loans, TEUR 60,000 pertain to loans with a final maturity (of which TEUR 50,000 pertain to promissory note loans with terms between three and seven years and interest rates between 0.7 % and 2.1 %) and TEUR 5,818 pertain to overdrafts.

The total sum of financial liabilities includes USD loans worth TEUR 15,413 with residual terms between two and five years. Interest is charged at a rate between 4.05 % and the three-month USD Libor + 2.75 %.

Interest is charged on the EUR loans with final maturities at rates of 0.7 % to 3.47 %. The interest rates for redeemable and annuity loans are between 1.00 % and 4.70 %.

The noncurrent financial liabilities to banks have residual terms between two and ten years.

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 where necessary.

Financial liabilities are classified upon initial recognition either at amortized cost or at fair value through profit or loss (FVTPL). A financial liability is classified as FVTPL when it is classified as held for trading, is a derivative or is designated as such upon initial recognition. Financial liabilities at FVTPL are measured at fair value, and net profits or losses, including interest expenses, are recorded in profit or loss. Other financial liabilities are measured at amortized cost using the effective interest method on subsequent valuation. Interest expenses and foreign currency translation differences are recorded in profit or loss.

Financial liabilities to banks are derecognized if the obligation underlying a liability is fulfilled, eliminated or ceases to exist. Profits or losses from the derecognition are recorded in profit or loss.

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.

28. Trade Payables

The reported trade liabilities amounting to TEUR 27,143 (PY: TEUR 12,260) 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 *27. Financial Liabilities to Banks.*

29. Other Financial Liabilities

Of the other financial liabilities of TEUR 36,375 (PY: TEUR 35,362) reported as of the reporting date, TEUR 10,607 (PY: TEUR 9,653) is attributable to obligations from finance leases, of which TEUR 6,450 (PY: TEUR 7,287) have a residual term of over one year. The other financial liabilities also include purchase price obligations associated with the 2016 acquisition of Nanogate Goletz Systems GmbH and with the 2017 acquisition of Nanogate North America LLC (formerly: Nanogate Jay Systems LLC) totaling TEUR 23,246 (PY: TEUR 23,142). Current other financial liabilities essentially include loan liabilities of up to one year amounting to TEUR 1,005 (PY: TEUR 25) and liabilities from factoring of up to one year amounting to TEUR 969 (PY: 668).

Of the other financial liabilities reported, TEUR 20,202 (PY: TEUR 6,624) 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 *27. Financial Liabilities to Banks*.

30. Other Liabilities

As of the reporting date, there are other liabilities of TEUR 10,437 (PY: TEUR 6,880), of which TEUR 9,681 (PY: TEUR 6,286) have a residual term of up to one year.

The noncurrent other financial liabilities essentially include personnel obligations of TEUR 650 (PY: TEUR 480).

The current other liabilities particularly include personnel obligations of TEUR 5,507 (PY: TEUR 4,165), liabilities for sales tax and other taxes of TEUR 1,222 (PY: TEUR 769) and social security liabilities of TEUR 788 (PY: TEUR 219). The current other liabilities also include contract liabilities of TEUR 1,214 (PY: TEUR 968). Customer orders for the manufacture of customer-specific tools accounted for using the POC method for which the prepayments received exceed the contract costs incurred including proportional profits ("POC liabilities") are reported under contract liabilities. Prepayments received by customers concerning product sales and services that are not recognized by means of the POC method are also reported under contract liabilities. In the previous year, these prepayments had been reported separately under current other liabilities. The contract liabilities consist of the following:

	12/31/2018
	EUR ,000
POC liabilities	1,049
Advance payments on sales and services	165
Contract liabilities (net carrying amount)	1,214

The POC liabilities consist of the following:

	12/31/2018
	EUR ,000
Advance payments	2,418
Less contract costs (including proportional profit)	-1,369
POC liabilities (balance)	1,049

Of the customer prepayments reported as liabilities under contract liabilities of TEUR 774 as of January 1, 2018, TEUR 774 was recorded as turnover in the 2018 reporting year.

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

31. Disclosures on Financial Instruments

Financial Risks

The Nanogate Group is exposed to various financial risks in the course of its ordinary business. These include default, liquidity and market risks (currency and interest rate risks). The Nanogate Group uses derivative financial instruments, among other things, to hedge against certain risks. The debt financing instruments currently in use include tranches with variable interest. Nanogate employs interest rate hedging to manage the interest rate risk. Nanogate has refrained from forming valuation units.

The 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 impairments.

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.

2018	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	22,394	25,907	66,511	24,989
Trade payables	27,143	-	-	-
Liabilities from finance leases	4,546	3,033	3,065	264
Other financial liabilities	16,051	9,717	-	-

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

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 because 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 risk of burdens due to currency fluctuations is increasing as the level of internationalization grows. At the same time, we are currently still invoicing the majority of our sales in euros, meaning that currency fluctuation risks currently exist mainly in relation to the sales of our subsidiary in the U.S. However, this is limited by “natural hedging” (i.e., production, purchasing and sales, as well as financing in the respective national currency) and occasional hedging transactions. Due to the regular net annual profit and liquidity surpluses of our subsidiary in the U.S., however, it cannot be ruled out that a weakening of the U.S. dollar against the euro could lead to negative effects for Group earnings and the consolidated statement of financial position.

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 2018. A hypothetical change in these interest rates of 100 basis points or 1 percentage point per annum from January 1, 2018, onward would have either increased earnings by TEUR 129 or decreased earnings by TEUR 136 as of December 31, 2018.

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 equity, financial liabilities to banks and other financial liabilities as of the reporting date of the fiscal year and of the previous year are listed in the table below.

	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Equity	**112,455**	**93,728**
Share of total capital	33.2 %	39.9 %
Noncurrent financial liabilities	126,309	79,147
Current financial liabilities	39,901	22,669
Financial liabilities total	**166,210**	**101,816**
Share of total capital	49.1 %	43.3 %
Total capital	**338,438**	**235,104**

Risk Management

In the course of its business activities, Nanogate is exposed to unavoidable risks that are linked with business activities and taking advantage of opportunities. For the Group, risk management therefore means both reducing dangers and, at the same time, dealing consciously with opportunities.

An important goal of risk management is to protect the company and to increase the risk coverage potential and company value in a sustainable, risk-conscious manner. In doing so, both external risks affecting Nanogate and risks that arise internally are taken into consideration. The risk management pertains to all affiliated companies of the Group. No risks are taken that could endanger the company’s continued existence.

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 assets by category						
	Financial assets			Financial liabilities			
Financial instruments in the balance sheet as of 12/31/2018	Financial assets meas-ured at fair value through profit or loss	Financial assets meas-ured at amor-tized cost	Financial assets meas-ured at fair value through equity	Financial assets meas-ured at fair value through profit or loss	Financial assets meas-ured at amor-tized cost	No classifica-tion to a measure-ment category (not in scope of IFRS 7)	Total
2018	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Noncurrent assets	**153**	**231**	**3,007**	**-**	**-**	**35**	**3,426**
Noncurrent financial intruments	153	231	3,007	-	-	35	3,426
Current assets	**5,925**	**59,135**	**-**	**-**	**-**	**-**	**65,060**
Trade accounts receivables	5,925	17,609	-	-	-	-	23,534
Other current financial instruments	-	3,317	-	-	-	-	3,317
Cash and cash equivalents	-	38,209	-	-	-	-	38,209
Noncurrent liabilities	**-**	**-**	**-**	**9,717**	**110,142**	**6,450**	**126,309**
Financial liabilities	-	-	-	-	110,136	-	110,136
Noncurrent financial liabilities	-	-	-	9,717	6	6,450	16,173
Current liabilities	**-**	**-**	**-**	**13,529**	**49,358**	**4,157**	**67,044**
Financial liabilities	-	-	-	-	19,699	-	19,699
Trade accounts payable	-	-	-	-	27,143	-	27,143
Other current financial liabilities	-	-	-	13,529	2,516	4,157	20,202
Total	**6,078**	**59,366**	**3,007**	**23,246**	**159,500**	**10,642**	**261,839**

The fair value of shares in non-listed companies in the noncurrent financial assets is determined in accordance with generally recognized measurement procedures based on discounted cash flow analyses.

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 (if they are measured at amortized cost), 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 receivables from deliveries that are intended for sale, the fair value is derived from the expected disposal value in the context of factoring. In the case of financial liabilities to banks 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 fair values of the financial liabilities to banks do not differ materially from the carrying amounts reported in the statement of financial position.

The fair value of the other financial liabilities from contingent considerations in the context of company acquisitions was recognized at the discounted expected value on the basis of corporate planning and term-appropriate discounting factors between 1.2 % and 4.9 %

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

Financial instruments in the balance sheet as of 12/31/2017	Loans and receiva-bles	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*

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.

2018	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	-	153	-	153
Trade receivables	-	5,925	-	5,925
Financial assets measured at fair value through equity				
Other financial assets	-	-	3,007	3,007
Total assets	**-**	**6,078**	**3,007**	**9,085**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Contingent considerations	-	-	-23,246	-23,246
Total liabilities	**-**	**-**	**-23,246**	**-23,246**

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
Total assets	**-**	**132**	**-**	**132**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Contingent considerations	-	-	-23,142	-23,142
Total liabilities	**-**	**-**	**-23,142**	**-23,142**

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:

	2018	2017
	EUR ,000	EUR ,000
Financial assets and liabilities (balance)		
Net carrying amount of assets / liabilities (-) 1/1	-23,010	-10,229
Additions to assets / liabilities (-)	1,824	-18,683
Disposals of assets (-) / liabilities	1,716	2,140
Gains / losses recognized in profit or loss (-)	157	1,326
of which assets / liabilities held as of the balance sheet date	*157*	*251*
Gains / losses recognized without effect on profit or loss (-)	-	-
of which assets / liabilities held as of the balance sheet date	-	-
Reclassifications	-	-
Currency conversion	-773	2,436
Net carrying amount of assets / liabilities (-) 12/31	-20,086	-23,010

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:

	2018
	EUR ,000
Financial assets measured at amortized cost	-2,032
Financial assets measured at fair value through profit or loss	19
Financial assets measured at fair value through equity	-
Financial liabilities measured at amortized cost	-2,488
Financial liabilities measured at fair value through profit or loss	136
Total	**-4,365**

In the previous year, the net result was derived as follows:

	2017
	EUR ,000
Loans and receivables	-2,694
Financial assets measured at fair value through profit or loss	-150
Financial assets available for sale	-
Financial assets held to maturity	-
Other financial liabilities at cost	-1,485
Financial liabilities measured at fair value through profit or loss	1,468
Total	**-2,861**

Interest expenses for financial instruments amount to TEUR 4,108 (PY: TEUR 3,791) for the 2018 fiscal year; the interest income amounted to TEUR 589 (PY: TEUR 12).

The impairments of financial instruments measured at amortized cost amount to TEUR 3,387 (PY: TEUR 130) in the 2018 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 *27. Financial Liabilities to Banks*.

32. Notes on the Consolidated Statement of Cash Flows

Cash Flow From Operating Activities

Cash flow from operating activities amounts to TEUR 18,384 (PY: TEUR 14,878) in the 2018 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 -40,856 for the 2018 fiscal year (PY: TEUR -51,432). Of this, TEUR -31,234 (PY: TEUR -11,292) is attributable to investments in innovation, capacities and plant, and TEUR -4,600 (PY: TEUR -40,792) to payments for the acquisition of fully consolidated subsidiaries.

Cash Flow From Financing Activities

The cash flow from financing activities is determined on a cash basis and amounts to TEUR 40,011 for the 2018 fiscal year (PY: TEUR 34,397). This primarily includes the inflow of funds from new bank loans of TEUR 74,734 (PY: TEUR 48,281), which essentially served to pay off existing liabilities for the purpose of optimizing borrowed capital costs and to prepare the financial foundation for the further growth trajectory, and from the cash capital increase of TEUR 426 (PY: TEUR 14,271). The scheduled repayment of existing loans of TEUR -25,516 (PY: 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:

	12/31/2017	Changes in cash and cash equivalents	Noncash changes				12/31/2018
			Acquisitions	Currency effects	Fair value changes	Other	
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Financial liabilities to banks	66,454	49,418	12,547	674	-	742	129,835
Financial liabilities – finance leases	9,653	-3,934	4,833	-	-	56	10,608
Other financial liabilities	23,141	-1,339	2,227	773	-284	-268	24,250
	99,248	**44,145**	**19,607**	**1,447**	**-284**	**530**	**164,693**

In the previous year, changes to liabilities due to payment flows from financing activities occurred as follows:

	12/31/2016	Changes in cash and cash equivalents	Noncash changes				12/31/2017
			Acquisitions	Currency effects	Fair value changes	Other	
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Financial liabilities to banks	37,136	30,941	-	-2,520	-	897	66,454
Financial liabilities – finance leases	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
	60,130	**24,467**	**20,903**	**-4,956**	**-1,960**	**664**	**99,248**

As of the reporting date, the Nanogate Group had unused credit lines of EUR 35.8 million.

For the breakdown of cash and cash equivalents, please refer to the details in Note *22. 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 direct method, i.e., by comparing gross receipts and expenditures.

33. Other Financial Obligations

As part of its business activities, the Nanogate Group has acquired operating equipment 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, 2018, are as follows.

2018	Due			
	< 1 year	2–5 years	> 5 years	Total
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Building rental agreement	4,149	16,258	17,219	37,626
Other rental/lease agreements	634	1,495	260	2,389
Order commitments	37,094	-	-	37,094
	41,877	17,753	17,479	77,109

The contractual obligations (operating lease agreements and order commitments) of the Nanogate Group to third parties in the previous year (December 31, 2017) were as follows.

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

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 4,777 (PY: TEUR 4,012) under leases and subleases were recognized as expenses in the 2018 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*.

34. 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 2.6 % and 7.8 % 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) and minimum lease payments are subdivided according to their residual term as shown in the table below.

Present value of minimum lease payments	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Due within one year	4,019	2,365
With a remaining term of more than one year and up to five years	6,343	6,234
With a remaining term of more than five years	246	1,053
	10,607	9,653

Minimum lease payments	12/31/2018	12/31/2017
	EUR ,000	EUR ,000
Due within one year	6,013	3,224
With a remaining term of more than one year and up to five years	4,509	6,696
With a remaining term of more than five years	264	495
	10,786	10,416
Less as yet unrealized interest expenses	-775	-1,367
Plus remaining lease liability	597	603
Present value of the minimum lease payments to be made	10,607	9,653

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*.

35. Events After the Reporting Date (December 31, 2018)

Hartmut Gottschild, who has been a member of the Supervisory Board since the IPO in 2006, has resigned his membership of the Supervisory Board of Nanogate SE for personal reasons as of January 31, 2019. He will remain connected to the Group as a member of the advisory board of our subsidiaries. Martin Hendricks will succeed him. Upon the recommendation of the Supervisory Board and at the request of the Management Board, he has been appointed a member of the Supervisory Board by the Saarbrücken district court as of February 1, 2019, until the shareholders' meeting in June 2019. The plan is to suggest to the shareholders' meeting in June 2019 that Mr. Hendricks be confirmed in his position so that he is permanently available to the Supervisory Board.

Effective March 14, 2019, profit and loss transfer agreements were concluded between Nanogate SE and the subsidiaries Nanogate heT Engineering GmbH, Böblingen, and Nanogate Management Services GmbH, Quierschied, in order to establish a fiscal unit. The contracts were concluded subject to the condition precedent that the shareholders' meeting of Nanogate SE and Nanogate SE in its capacity as a shareholder issue their consent. Upon subsequent entry in the respective commercial registers, the profit and loss transfer agreements became retroactively effective from the beginning of the 2019 fiscal year onwards.

36. Number of Employees

The average number of employees of the Nanogate Group in the 2018 fiscal year and in the previous year is shown in the table below.

	2018	2017
Blue-collar employees	1,219	897
White-collar employees	451	288
	1,670	1,185
Apprentices	47	24
	1,717	1,209

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 1,703 industrial employees and salaried staff (PY: 1,197) and 51 trainees (PY: 29).

37. Business Combinations

Acquisition of the Plastics Division of the Austrian Company HTI High Tech Industries AG (100.00 %)

The acquisition of selected business units of Austrian HTI High Tech Industries AG was concluded in January 2018 (closing). Nanogate SE obtained a controlling influence on this date. The companies now trade as Nanogate Electronic Systems GmbH, Neudörfl, Austria, and Nanogate Slovakia s.r.o., Vráble, Slovakia, and are included in the consolidated financial statements of Nanogate SE due to their full consolidation from January 2018 onwards under the umbrella of the intermediate holding company Nanogate Central and Eastern Europe GmbH, Neudörfl, Austria. Part of the transaction was also an investment amounting to 50 % of HTP High Tech Plastics GmbH, Fohnsdorf, Austria, which is recognized as an at-equity-accounted associated company. The shares in HTP High Tech Plastics GmbH are being held as part of a strategic partnership, including a later purchase option. The shares in HTP High Tech Plastics GmbH were assigned an acquisition value of EUR 1.00 as part of the purchase price allocation. For the purpose of first-time inclusion in the consolidated financial statements (full consolidation) and as part of equity consolidation (HTP High Tech Plastics GmbH), the assets, liabilities and contingent liabilities were revalued in the amount of the newly acquired shares as of the acquisition date of January 23, 2018, as part of the purchase price allocation.

In addition to many years of experience in the automotive business, Nanogate Slovakia s.r.o. also has a considerable non-automotive business with first-class references. 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. Future strategic partner HTP High Tech Plastics 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 total purchase price amounted to TEUR 12,664 and was paid exclusively in shares as part of a noncash capital increase amounting to 275,000 shares. The associated capital increase against contributions in kind was implemented in February 2018, so that the share capital increased by EUR 275,000.00 to EUR 4,827,395.00, accordingly divided into 4,827,395 shares. The new shares will only be entitled to profits from the 2018 fiscal year.

The fair values of the identifiable assets and liabilities of the acquired companies as of the date of first-time inclusion are as follows:

	Fair value (for 100 % shares)
	EUR ,000
Goodwill	7,314
Client base	2,796
Other intangible assets	1,816
Property, plant and equipment	17,532
Inventories	4,473
Trade receivables and other receivables	16,675
Cash and cash equivalents	255
Deferred tax assets	2,562
Total of assets acquired	**53,423**
Other provisions	-1,821
Financial liabilities	-12,733
Trade payables and other liabilities	-24,413
Deferred tax liabilities	-1,792
Total of liabilities acquired	**-40,759**
Net assets acquired	**12,664**
Purchase price	**12,664**
of which paid for with cash and cash equivalents	-
of which equity instruments	12,664
of which purchase price liabilities	-

Goodwill primarily consists of inseparable synergies in administrative processes, employee expertise and cost savings in the area of sales.

As part of the acquisition, cash and cash equivalents of TEUR 255 were added, which are reported in the consolidated statement of cash flows under changes in cash and cash equivalents due to companies included in the consolidated financial statements.

The equity instrument used comprises 275,000 common shares issued in Nanogate SE. The fair value of the common shares, which represent the consideration transferred for the acquisition of the former plastics division of HTI High Tech Industries AG, was determined using the publicly quoted price as of the date of issue of the shares.

Taking into consideration the effects arising from the purchase price allocation and the integration costs, Nanogate Central and Eastern Europe GmbH, Nanogate Electronic Systems GmbH and Nanogate Slovakia s.r.o. contributed revenue of TEUR 45,465 and net profit of TEUR 1,623 in the consolidated financial statements from the acquisition date of January 23 through December 31, 2018. If these companies had already been fully consolidated by January 1, 2018, turnover of TEUR 48,635 and profit of TEUR 1,736 would have been reported in the consolidated statement of income of Nanogate SE.

Acquisition of Shares in Holzapfel Engineering Team GmbH, Böblingen (100.00 %)

The acquisition of all shares in Holzapfel Engineering Team GmbH (heT GmbH), Böblingen, was concluded on July 2, 2018. At this point in time, the Nanogate Group obtained a controlling influence, and consequently, the company was included in the consolidated financial statements of Nanogate SE from this date, in accordance with the provisions on full consolidation. The acquired subsidiary now operates as Nanogate heT Engineering GmbH.

With this acquisition, the Nanogate Group strengthens its competitive position as an integrated provider of plastic components. The growth step is part of Nanogate's strategy of placing increasing focus on the development and manufacture of complex components with a high level of design relevance.

The definitive contractually agreed purchase price for 100 % of shares amounts to TEUR 8,216 after subsequent purchase price adjustment in accordance with the provisions of the share purchase agreement. Of this amount, TEUR 2,000 is intended to be paid in Nanogate shares. At the time of acquisition, the shares provided were attributed a fair value of TEUR 1,827. The associated capital increase against contributions in kind was implemented in October 2018, so that the share capital increased by EUR 48,019.00 to EUR 4,886,452.00, accordingly divided into 4,886,452 shares. The new shares will only be entitled to profits from the 2018 fiscal year.

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 July 2, 2018, as part of the purchase price allocation.

The fair values of the identifiable assets and liabilities of Nanogate heT Engineering GmbH as of the date of first-time inclusion are as follows:

	Fair value (for 100 % shares)
	EUR ,000
Goodwill	4,459
Client base	3,203
Orders on hand	168
Other intangible assets	51
Property, plant and equipment	82
Trade receivables and other receivables	1,314
Cash and cash equivalents	1,401
Deferred tax assets	63
Total of assets acquired	**10,741**
Other provisions	-83
Trade payables and other liabilities	-270
Deferred tax liabilities	-1,161
Total of liabilities acquired	**-1,514**
Net assets acquired	**9,227**
Purchase price	**9,227**
of which paid for with cash and cash equivalents	6,001
of which equity instruments	1,827
of which purchase price liabilities	1,399

Goodwill primarily consists of inseparable synergies in administrative processes, employee expertise and cost savings in the area of sales.
Cash and cash equivalents totaling TEUR 1,401 have been received as part of the acquisition, which reduced the payment amount according to the consolidated statement of cash flows for the acquisition of consolidated companies.

The equity instrument used comprises 48,019 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 heT Engineering GmbH, was determined using the publicly quoted price as of the date of issue of the shares.

The purchase price obligations recognized, along with the outstanding payment for the subsequent purchase price adjustment (TEUR 215), are contingent considerations of TEUR 1,184 for future payments to the former shareholders of Nanogate heT Engineering GmbH for the acquired shares.

If EBITDA for the fiscal years of 2017 through 2020 exceeds certain thresholds, the purchase price will increase up to an undiscounted maximum amount of TEUR 1,200. The fair value of this contingent consideration was recognized at the discounted expected value of TEUR 1,184. This is a measurement of the third rating level of the fair value hierarchy as defined by IFRS 13 (see also Note *31. 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 heT Engineering GmbH contributed revenue of TEUR 2,470 and net profit of TEUR 145 in the consolidated financial statements from the acquisition date of July 2 through December 31, 2018. If the company had already been fully consolidated by January 1, 2018, turnover of TEUR 4,082 and profit of TEUR 406 would have been reported in the consolidated statement of income of Nanogate SE.

Majority acquisition of Nanogate North America LLC (previously: Nanogate Jay Systems LLC), Mansfield, Ohio, USA (80.01 %) in 2017

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 had obtained a controlling influence, and consequently, the company was included in the consolidated financial statements of Nanogate SE from this date. The acquired subsidiary now operates as Nanogate North America LLC.

With the acquisition, the Nanogate Group expanded its access to the market, acquired its own production capacities in North America and strengthened 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 amounted 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 were only 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 North America LLC as of the date of first-time inclusion were as follows:

	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
Property, plant and equipment	40,704	42,497
Inventories	7,246	7,565
Trade receivables and other receivables	10,321	10,776
Deferred tax assets	406	424
Total of assets acquired	**91,652**	**95,691**
Other provisions	-319	-334
Trade payables and other liabilities	-5,656	-5,905
Deferred tax liabilities	-9,221	-9,627
Total of liabilities acquired	**-15,196**	**-15,866**
Net assets acquired	**76,456**	**79,825**
Purchase price	**76,456**	**79,825**
of which equity instruments	40,792*)	43,204
of which purchase price liabilities	14,782*)	15,570
of which currancy conversion	20,162	21,050
	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 12.0 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 North America LLC, 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 TEUR 17,324 as of December 31, 2018. This is a measurement of the third rating level of the fair value hierarchy as defined by IFRS 13 (see also Note *31. 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 North America LLC (including Nanogate Technologies Inc. as a first-time consolidated intermediate holding company) had contributed revenue of TEUR 61,471 in the consolidated financial statements from the acquisition date of January 3 through December 31, 2017.

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 contingent liabilities 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 contingent liabilities, 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*.

38. 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.

	2018	2017
	EUR ,000	EUR ,000
Auditing services	395	320
Other certification services	86	10
Tax advisory services	16	50
Other services	134	363
	631	743

39. Relationships With Associated Persons and Companies

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

	Acquisition of assets		Assumption of liabilities		Services and interests rendered		Services and interests received	
	2018	2017	2018	2017	2018	2017	2018	2017
	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Subsidiaries – not consolidated	-	-	-	-	240	146	229	-
Joint ventures	1,101	-	31	-	2,391	-	1,575	-

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

	Liabilities		Receivables	
	2018	2017	2018	2017
	EUR ,000	EUR ,000	EUR ,000	EUR ,000
Subsidiaries – not consolidated	1,039	-	785	896
Joint ventures	1,378	-	1,188	-

Transactions between Nanogate SE and its subsidiaries, with the exception of Nanogate Teknoloji AS, Istanbul, Turkey, Holzapfel Engineering Team India

PVT Ltd., Bangalore, India, HTP Germany GmbH and Improof LLC, USA, which are not included in the consolidated financial statements, were fully eliminated in the consolidated financial statements for the 2018 fiscal year, and as such are not part of these Notes.

Relationships with associated persons and companies not included in the consolidated financial statements existed during the 2018 fiscal year exclusively with HTP High Tech Plastics GmbH, which is recognized as an equity-accounted associated company. There were no major transactions with other companies or related parties having significant influence over the Nanogate Group during the 2018 fiscal year.

During the reporting year, expenses from impairments of financial assets (loans) and trade receivables from associated companies amounted to TEUR 583 (PY: TEUR 0).

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.

	12/31/2018		12/31/2017	
	No. of shares	No. of options	No. of shares	No. of options
Management Board				
Götz Gollan	-	18,000	-	-
Michael Jung	28,365	34,200	6,824	43,741
Ralf M. Zastrau	71,600	47,059	64,600	39,059
Daniel Seibert	6,000	5,000	6,000	13,550
Supervisory Board				
Oliver Schumann	8,175	-	8,175	-
Dr. Farsin Yadegardjam	10,000	-	10,000	-
Klaus-Günter Vennemann	5,500	-	2,500	-
Dr. Clemens Doppler	1,000	-	1,000	-
Dr. Peter Merten	-	-	-	-
Hartmut Gottschild	2,000	-	2,000	-

The shares 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 1,384 during the fiscal year as current payments (PY: TEUR 982). 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 554 (PY: TEUR 573). No long-term benefits were paid in the 2018 fiscal year (PY: TEUR 1,400).

Significant Accounting Methods and Estimations and Assumptions:

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.

40. Company Boards

Supervisory Board

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

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

Dr. Clemens Doppler, Heidelberg,
Managing Director of HeidelbergCapital Asset Management GmbH and HeidelbergCapital General Partner GmbH

Mr. Hartmut Gottschild, Aalen,
Management Consultant (until January 31, 2019)

Martin Hendricks, Hamburg
Executive Director of International Operations at the Trico Group (since February 1, 2019)

Dr. Peter Merten, Heppenheim,
Management Consultant

Mr. Klaus-Günter Vennemann, Waidring, Austria,
Corporate and Management Consultant

The remuneration of the members of the Supervisory Board amounts to TEUR 218 for the 2018 fiscal year (PY: TEUR 170). 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 (until August 31, 2018)
Mr. Götz Gollan, Kelkheim, CFO (since September 1, 2018)

Quierschied-Göttelborn, Germany, April 12, 2019

Nanogate SE

Ralf M. Zastrau Chairman of the Management Board/CEO	Michael Jung Member of the Management Board/COO	Götz Gollan 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, 2018, 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 to December 31, 2018, as well as the Notes to the consolidated financial statements, 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 to December 31, 2018.

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, 2018 as well as its earnings position for the fiscal year from January 1 to December 31, 2018.
- 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.

Other Information

The Supervisory Board is responsible for the report of the Supervisory Board. Otherwise, the legal representatives are responsible for the other information. Other information includes other components intended for the annual report, of which we have obtained a version before issuing this auditor's report, in particular the "Letter to Shareholders," the "Report of the Supervisory Board" and other sections of the annual report.

Our audit opinions on the consolidated financial statements and the Group management report do not extend to the other information and, accordingly, we do not express an audit opinion or any other form of audit conclusion thereon.

As part of our audit, we have the responsibility to read the other information and to assess whether it
- is materially inconsistent with the consolidated financial statements, the Group management report or the knowledge we have obtained during the audit,
- or otherwise appears to be materially misstated.

If we determine, based on the work we have performed, that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this context.

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 content 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 12, 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Zabel	Delizia
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)

	2018	2017
Net sales	**8,183**	7,883
Overall performance	**12,051**	11,564
Gross earnings	**10,634**	10,057
Earnings before taxes	**-1,299**	226
Net income/loss	**-1,305**	287
Balance sheet total	**219,577**	157,804
Balance sheet profit	**3,420**	5,226
Equity	**106,752**	92,929
Equity ratio	**48.6 %**	58.9 %
Cash and cash equivalents	**19,070**	8,115
Dividend in euros*	**0.11**	0.11

** proposal for 2018*

Irrespective of the new record highs for sales and operating result (EBITDA) within the Group, earnings for Nanogate SE as a parent company with numerous holding and service functions were burdened by expenses for the implementation of the Phase5 growth strategy. The largest cost factors include opening up new international markets, comprehensive M&A activities and business development. Further causes include lower contributions from profit and loss transfer agreements with individual subsidiaries as well as increasing costs in light of additional tasks of the holding company, which has further optimized its structures and processes due to the rapidly increasing business volume. In contrast, the profit and loss transfer agreement concluded and implemented with Nanogate Textile & Care Systems GmbH during the fiscal year had a positive effect on the net result for the year, which totals EUR -1.3 million (previous year: EUR 0.3 million).

In light of persistently good prospects, the Management Board once again proposes the distribution of a dividend of EUR 0.11 per share. In this manner, Nanogate would like to involve its shareholders in its success. Despite the dividend payment, the financial leeway for taking the forthcoming expansion steps has been maintained.

Contact

Nanogate SE
Zum Schacht 3
66287 Göttelborn
Tel. +49 6825 9591 0
Fax +49 6825 9591 852
E-mail info@nanogate.com
www.nanogate.com
twitter.com/nanogate_se

Contact for Investor Relations
WMP Finanzkommunikation GmbH
Christian Dose
Tel. +49 69 57 70 300 0
Fax +49 69 57 70 300 10
E-mail nanogate@wmp-ag.de

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

Imprint

Responsible
Nanogate SE
Zum Schacht 3
66287 Göttelborn
Tel. +49 6825 9591 0
Fax +49 6825 9591 852
E-mail info@nanogate.com
www.nanogate.com
twitter.com/nanogate_se

Text
WMP Finanzkommunikation GmbH, Frankfurt

Design & Production
IDEEN! Netzwerk, Saarbrücken

Translation
EnglishBusiness AG · www.englishbusiness.de

Photos
Nanogate SE
© Author: spainter_vfx , Image-ID: 161661879, fotolia.de
© Author: metamorworks, Image-ID: 138315218, fotolia.de
© Author: EPSTOCK, Image-ID: 43149103, fotolia.de
© Author: Umberto Shtanzman, Image-ID: 87201394, shutterstock.com
© Author: vege, Image-ID: 60959791, fotolia.de
© Author: Brian A. Jackson, Image-ID: 19741115, istockphoto.com

Please visit our website for the online version of the annual report: www.nanogate.com.

Nanogate SE
Zum Schacht 3 · 66287 Göttelborn, Germany
Tel. +49 6825 9591 0 · Fax +49 6825 9591 852
E-mail: info@nanogate.com
www.nanogate.com