

2017



Annual report
2017

nanofocus[®]
see more ■

Key figures as at 12/31/2017

	2017	Change		2016
	KEUR	%	abs.	KEUR
Revenues	11,815	-4.1	-501	12,317
Total output	12,514	-0.3	-34	12,548
Gross income	8,215	5.0	394	7,821
Staff costs	5,380	-5.8	-329	5,709
EBITDA	220	n/a	1,190	-970
EBITDA margin	1.9%	n/a	9.8 PP.	-7.9%
Depreciation	4,761	n/a	3,713	1,047
EBIT	-4,541	125.1	-2,524	-2,017
Year-end result	-4,809	56.3	-1,732	-3,076
Fixed assets	4,131	-46.4	-3,573	7,704
Current assets	8,962	-10.5	-1,052	10,013
Cash and cash equivalents	1,132	-61.3	-1,791	2,922
Shareholders' equity	5,723	-41.2	-4,002	9,725
Loan capital	7,629	-14.8	-1,324	8,953
Liabilities	5,059	-10.9	-621	5,681
Balance sheet total	13,352	-28.5	-5,327	18,678

* excluding prepaid expenses and deferred taxes

	2017	Change		2016
	kEUR	%	abs.	kEUR
Cash flow from sales activities	61	-105.1	1,250	-1,189
Cash flow from current operating activities	-2,032	n/a	-2,045	13
Cash flow from investing activities	-681	-60.2	1,031	-1,712
Cash flow from financing activities	1,237	-67.1	-2,524	3,761
Working capital	6,327	31.7	1,523	4,804
Equity ratio	42.9%	-17.7	-9.2 PP	52.1%
Equity yield	-84.0%	165.6	-52.4 PP	-31.6%
Average number of employees	81	-11.0	-10	91
Sales per employee	146	7.8	11	135
Income per share (in EUR)	-0.79	44.7	-0.24	-0.55
2017 incoming orders	11,536	0.6	66.00	11,470
Order backlog (at the end of the period)	1,654	-14.4	-279.00	1,933
Development costs	1,577	-25.1	-529	2,106
Development intensity (cost in relation to sales)	13.3%	-21.9	-3.8 PP	17.1%
Average number of development employees	19	-9.5	-2	21
Avg. development employees in % of avg. employees	23.5%	1.6	+0.4 PP	23.1%

Sales performance (in kEUR)



Liquid funds (in kEUR)



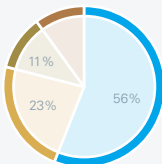
Sales per employee (in kEUR)



EBITDA margin (in percent)

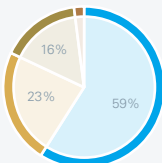


Sales by business unit



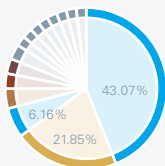
	TEUR	%
■ Standards/laboratory	6,580	56
■ Automotive	2,757	23
■ Semiconductor	1,254	11
■ OEM	1,225	10

Sales by region



	TEUR	%
■ Europe	6,999	59
■ Asia	2,659	23
■ North/South America	1,892	16
■ Africa	265	2

Shareholder structure as of 07/09/2017



Shareholders	Shares	%
Free Float	2,624,665	43.07
Carl Mahr Holding GmbH	1,331,202	21.85
Alto Invest	375,655	6.16
Robotec GmbH	200,000	3.28
Schreier family	185,721	3.05
Baden-Württembergische VA	180,000	2.95
Mrs Isabella de Krassny	168,985	2.77
tbg mbH	168,000	2.76
Eismann family	159,450	2.62
Velzel family	123,350	2.02
Bödecker family	123,350	2.02
Valentin family	121,846	2.00
Grigat family	119,332	1.96
Hansa Invest	117,900	1.93
TS Group GmbH	94,330	1.55
Total subscription shares	3,469,121	56.93
Free Float	2,624,665	43.07
Total shares	6,093,786	100.00

Company boards



Joachim Sorg
Chief Financial Officer
(CFO)



Dipl.-Ing. Marcus Grigat
Chief Operations Officer
(COO)

Supervisory Board

Ralf Terheyden, Chairman of the Supervisory Board

Stephan Gais, Deputy Chairman

Hans Wörmcke, Member of the Supervisory Board

Prof. Dr.-Ing. Stefan Altmeyer, Deputy Member of the Supervisory Board

Dr. Hans Hermann Schreier, Honorary Chairman of the Supervisory Board

Investor relations contact



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Equity story

NanoFocus AG is the technology leader in the field of optical 3D surface metrology. The core business of the Group is the development, production and sale of surface measuring instruments from laboratory use to production control. In addition to the specially developed and patented hardware, as a specialist for surface metrology it also offers its customers tailor-made software solutions and services.

Renowned users in almost all industries rely on the company's solutions - from the automotive, electronics and semiconductor industries to medical technology, micro and nanotechnology, research institutes and universities. The 3D measuring systems installed worldwide allow users to use shorter development times, reliable quality controls and dependable process controls. The Group's particular innovative strength has been honoured many times with awards, such as being recognised as one of the top innovators among German SMEs in 2017 (WirtschaftsWoche) or being awarded the "Industriepreis 2015". More than 70 company-owned patents and industrial property rights bolster its technological leadership.

Promoting the use of 3D surface metrology in production control opens up significant sales and earnings potential for NanoFocus AG. This technology will be used in the coming years. In April 2018, NanoFocus entered into an exclusive sales partnership with Mahr GmbH for standard 3D surface measuring systems.

Mahr, with its approximately 2,000 employees, is one of the world's leading full-line suppliers in production metrology. The company will take over the worldwide distribution of standardised 3D surface measuring systems and will be supplied exclusively by NanoFocus. This enables NanoFocus to make more targeted use of its own resources in sales in order to exploit the market opportunities that arise. This applies to specialised and application-specific 3D surface measuring systems for a wide variety of areas such as semiconductors, drive trains, and the OEM business.

NanoFocus

- ▶ has achieved technology leadership in the growth market of optical 3D surface metrology through consistent R&D in recent years.
- ▶ has opened up significant sales and earnings potential with the leap from laboratory equipment supplier to production control.
- ▶ has completed the investment phase in R&D and significantly reduced cost structures within the Group.
- ▶ has opened up new sales potential in the standards segment with the strategic investor and can make more targeted use of its own sales resources.

Technologies

μsurf

The μsurf sensor technology is based on NanoFocus' patented surface confocal technology. It records topography, roughness, micro contours and layer thickness in the micro and nanometer range within seconds.

μscan

The μscan technology is based on the principle of optical 3D scanning profilometry using various flexible point sensors in the micro and nanometer range.

μsprint

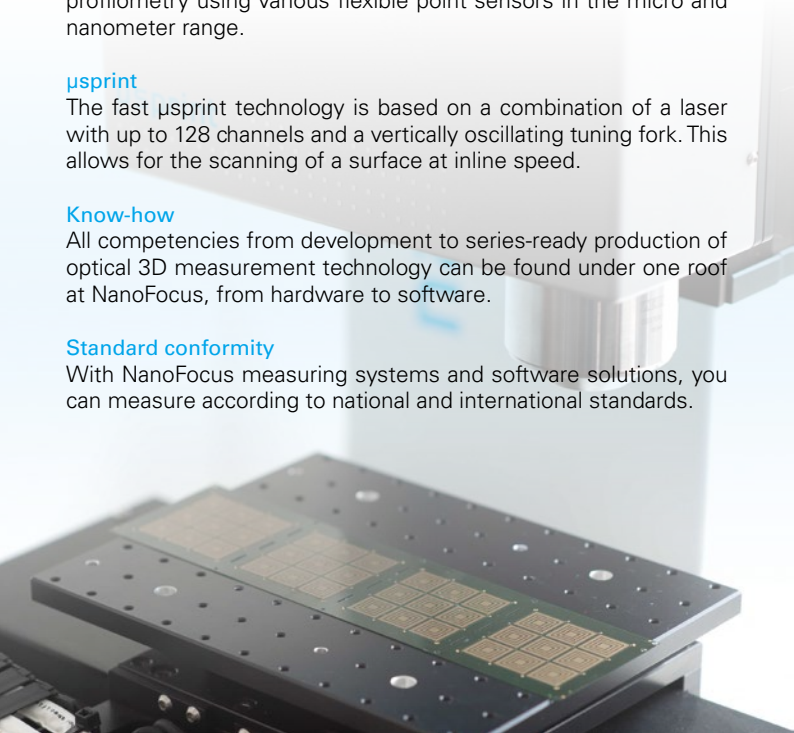
The fast μsprint technology is based on a combination of a laser with up to 128 channels and a vertically oscillating tuning fork. This allows for the scanning of a surface at inline speed.

Know-how

All competencies from development to series-ready production of optical 3D measurement technology can be found under one roof at NanoFocus, from hardware to software.

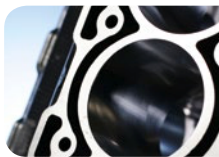
Standard conformity

With NanoFocus measuring systems and software solutions, you can measure according to national and international standards.



Applications

Selected applications from roughness measurement in the automotive industry to wear measurement in tool making:



Automotive



Fuel cell technology



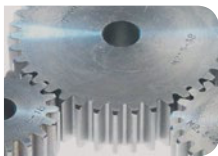
Printing and paper industry



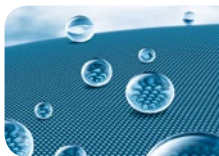
Semiconductors



Medical technology



Mechanical engineering



Materials science



Art



Microsystem engineering



Security engineering



Solar engineering



Tool manufacturing





Introduction

Letter to the shareholders ▶ 2 | Interview with the management board ▶ 4

Innovation is our motivating force

Microoptics | Implants | Leadframes | Fuel cells
Optical sensor technology for industrial measurement tasks ▶ 10

Shares

Share chart ▶ 16 | Investor Relations ▶ 17 | Share data ▶ 19

Supervisory board report ▶ 20

Financial informations

Consolidated balance sheet assets ▶ 22
Consolidated balance sheet liabilities ▶ 23
Consolidated profit and loss statement ▶ 24
Consolidated cash flow statement ▶ 25
Consolidated equity capital alteration statement ▶ 26

Dear shareholders,

the last few years have not always been an easy path for NanoFocus AG. On the one hand, we have achieved important technological milestones, on the other hand, there has been unsatisfactory economic development and the resulting painful cuts. Despite all the difficulties we have had to overcome, especially in the last two years, we have always been convinced of the technological leadership and high market potential of our optical measuring systems. This knowledge of the strength of our products was an important driving force for us to carry out the company's comprehensive restructuring with consistency and determination.

Our goal was to once again make NanoFocus AG a powerful, economically successful driver of innovation. Important points of this program were a significant reduction in risks, which resulted primarily from high project expenses and necessary capitalization of our own work, a sustained reduction in our fixed costs and the adjustment of our R&D budget. In connection with these measures, extensive optimisations were also made to the balance sheet to eliminate balance sheet risks.

Now we have succeeded in taking another important step for NanoFocus AG. In Mahr GmbH we have found an established and globally successful partner who will exclusively bring our high-quality standard systems into international distribution as part of its own new product range. In the future, our standard and laboratory systems will be available as

MarSurf CM, the new Mahr product line for optical confocal 3D surface measuring systems.

The expansion of an efficient sales structure, especially for increasingly important foreign markets, presents a medium-sized technology company the size of NanoFocus AG with major financial challenges. For this reason, we have been examining various options for cooperation for some time now, as has now been concluded with Mahr GmbH.

The exclusive sales partnership in the standards/laboratory area will enable us to redirect the focus of the renowned NanoFocus brand on the areas of our technological core competence: the adaptation and provision of sophisticated, customised solutions for industrial measurement tasks and the supply of high-quality OEM sensors.

Now that we have entered into this partnership, our technologies and basic systems will work on numerous further developments on the highest level and are market-ready. Our application specialists have extensive industry experience and NanoFocus systems have an

excellent reputation worldwide. Successful projects and customer solutions in the custom areas of microoptics, semiconductors and medical technology as well as in future markets such as fuel cells impressively demonstrate our technical expertise in the field of three-dimensional surface analysis.

We therefore believe that after our internal restructuring and in cooperation with a powerful partner, we will positively develop NanoFocus AG into the future as an exclusive technology supplier in the standards area and as a driver of innovation for system solutions in selected industrial sectors.

We would like to take this opportunity to expressly thank our employees, for whom business-related difficulties always represent a special burden. We would also like to thank our shareholders and our supervisory board, who fully supported us in the implementation of all measures.

We promise you that we will continue on our chosen path with strength and conviction. It remains our goal to realise the full potential of NanoFocus AG and to lead the company to economic success.



Sincerely,
NanoFocus AG
The Management board

Marcus Grigat

Joachim Sorg

In recent years, NanoFocus AG has been unable to achieve its annual targets. That was also the case in 2017. How are we to understand this development?

Marcus Grigat: Of course, we are not satisfied with the economic aspects. Unfortunately, with sales of EUR 11.8 million in 2017, we were still below plan. We originally planned for EUR 13 million. A large part of our sales is generated in the innovation and development areas of our customers, especially in the automotive sector. The general uncertainty in the industry caused by exhaust gas manipulation led to a noticeable decline in all investments not directly relevant to production. Our projects have nothing to do with diesel technology, but a general investment backlog in innovation areas is immediately noticeable for a technology company of our size.

A positive development for 2017 and the start of the current financial year is due to our successful crisis management. We have implemented what we set out to do and what was necessary for us to create good opportunities for an economic turnaround. The positive EBITDA of EUR 220 thousand at Group level is a first restructuring success. We are in a much better starting position than at the beginning of last year.

The last few months have been marked by restructuring, realignment and risk minimisation for NanoFocus AG. What is the current status of these measures?

Marcus Grigat: The most important thing for us is to become effective again. Effective in this case means that we had to significantly reduce fixed costs. We have done this. It also meant bringing our R&D ratio to an industry-standard level. Following the completion of important

necessary technological developments, we were also able to achieve this point in 2017. Technologically, our systems and sensors are leading in many application scenarios; the era of basic developments is over. Our R&D share of 13.3% is reasonably high for a high-tech company. Our systems are ready for the market at a high level. Our technological prowess is world-class here.

A decisive instrument for improving our cost structure was also the significant reduction of our financial project risks. We have withdrawn from major projects in the automotive and semiconductor sectors in which we, over a long period of time, have been accumulating risks that were too high in the hope of making future profits at some point. This made us too susceptible to a lot of incalculable developments, especially on the part of our project partners.

What significance does this change of direction have for major projects? Is this a new beginning?

Joachim Sorg: We are still available for attractive development projects, but only as a secured part of a customer budget. The focus here is then on order adjustments and no longer on basic developments. The central points are risk minimisation and a new orientation. As Marcus Grigat has said, it's all about effectiveness and that includes financial project security. As far as our technology and products are concerned, we will proceed with great continuity. We did a lot of things right. However, with the current strategy we have already made a necessary change in corporate policy.

This also includes the unscheduled depreciation in 2017. With the revaluation of assets, we have also completed our balance sheet realignment. We have thus successfully implemented, step by step, all the measures that we identified and communicated at the end of 2016. Right from the start, the goals were to reduce risk, refocus, and reduce costs.

In April 2018, NanoFocus AG entered into an exclusive partnership with Mahr GmbH in the field of standard systems. Certainly, this is one of the biggest changes for NanoFocus AG.

Joachim Sorg: And one of the most important. The partnership with Mahr GmbH is a milestone for NanoFocus AG. It is also part of our cost strategy. In building up an efficient sales structure with which we can be successful in Asia or other international markets, we have no limits but our own strengths. Market positions here have to be built up over years. That is why we have been pursuing the strategy for some time now of finding an international sales partner that can sell our systems worldwide. We have market-ready top devices with the new generation of μ surf and μ sprint systems. Cooperation with Mahr gives our technology access to very attractive markets. At the same time, this cooperation gives us stability, helps us to remain close to the market and allows us to be able to react quickly to technological trends in the standards area. Our competencies are sensor development and measurement know-how. We can now concentrate on this - on the development of technologically leading hardware and software for three-dimensional surface measurement.



Mahr



“We have thus successfully implemented, step by step, all the measures that we identified and communicated at the end of 2016. We are in a much better starting position than at the beginning of last year.”

Joachim Sorg
Chief Financial Officer (CFO)

A partnership with mutual benefits.
The standards systems from NanoFocus create the new optical product range of Mahr GmbH.

Joachim Sorg: This is also an important step for Mahr. The company has strategically expanded its product portfolio to include optical confocal measurement technology. The high-precision three-dimensional analysis of surfaces down to the nanometer range has gained dramatically in importance in recent decades. Many measuring tasks in semiconductor technology, medicine or materials management can only be conducted using measuring methods such as those provided by NanoFocus AG. Mahr is already one of the world's leading suppliers of tactile systems. The addition of our confocal systems is an important extension with regard to the future development of measurement technology. It also confirms what we have been doing at NanoFocus for more than 20 years in relation to measuring technology and its further development.



μsurf expert
3D confocal microscope for testing and development laboratories

What will this cooperation look like specifically?
What will change for NanoFocus AG?

Marcus Grigat: Our μsurf and μscan series standards systems form the new MarSurf product range from Mahr. This product range includes confocal measuring systems for applications in development, quality assurance and production metrology. The distribution of our standards range will be taken over completely and exclusively by Mahr. Our sales staff who have been successfully responsible for the standards/laboratory area up until this point will transfer to Mahr and form the core team for the future international sales of optical products. In this way, the necessary technological sales skills are assured right from the start.

NanoFocus AG is now the exclusive manufacturer of these systems for the Mahr Group. In addition, it is of course not ruled out that joint further developments of the systems may be brought to market in the future. Initially, the focus will be on expanding international sales of the MarSurf series. Thanks to NanoFocus, Mahr now has confocal measuring instruments that are among the most technologically efficient in the world.

“We have a wealth of experience in adapting our hardware and software to a wide variety of measurement tasks. We stand for bespoke innovations, and so we see ourselves as innovators in the industry.”



Dipl.-Ing. Marcus Grigat
Chief Operations Officer (COO)

However, we must not forget that this cooperation relates only to one of our business areas, Standards/Laboratory. Our other areas and all current projects remain unchanged. Nothing changes for our established customer base either. NanoFocus remains an independent developer and manufacturer of sophisticated solutions for industrial measurement tasks.

What does this development mean for the NanoFocus brand and for the future of your business model?

Joachim Sorg: The business model does not change, only the focus changes. NanoFocus will focus much more on specific customer solutions. These are our current “custom” and “OEM” areas. This is our technological core competence and this will be the future focus of the NanoFocus brand. These areas are completely independent of Mahr. NanoFocus has a truly excellent reputation. This reputation is based not least on our competent and reliable service and our ability to configure exactly the right measurement solutions for very special and demanding

tasks. Our custom systems are always industry solutions, be it for medical technology, the semiconductor industry, motor construction and others. For example, the μ surf cylinder, which has been successful for years, is also a custom system. Standards devices are high-end, all-round solutions. We now exclusively supply Mahr with these. Our custom systems are the nucleus for product innovations in the standards range.

Marcus Grigat: The custom devices and OEM sensors have the same NanoFocus core technology used in standards devices. In the custom business area, we adapt these technologies to specific development and production processes for specific customers and industries. One example is our μ print sensor, which has become even more powerful thanks to the successful completion of the HiCOS3D project.



WirtschaftsWoche has awarded the 50 most innovative German medium-sized companies of the year for the fourth time. NanoFocus AG has been named one of the innovation champions in 2017 and ranks 30th out of 3,500 companies.

<https://goo.gl/WVjnRJD>

The development of such customised customer systems requires experience and innovative strength. We have a wealth of experience in adapting our hardware and software to a wide variety of measurement tasks. We stand for bespoke innovations, and so we see ourselves as innovators in the industry.

This reputation as a driver of innovation was once again confirmed in 2017 and 2018.

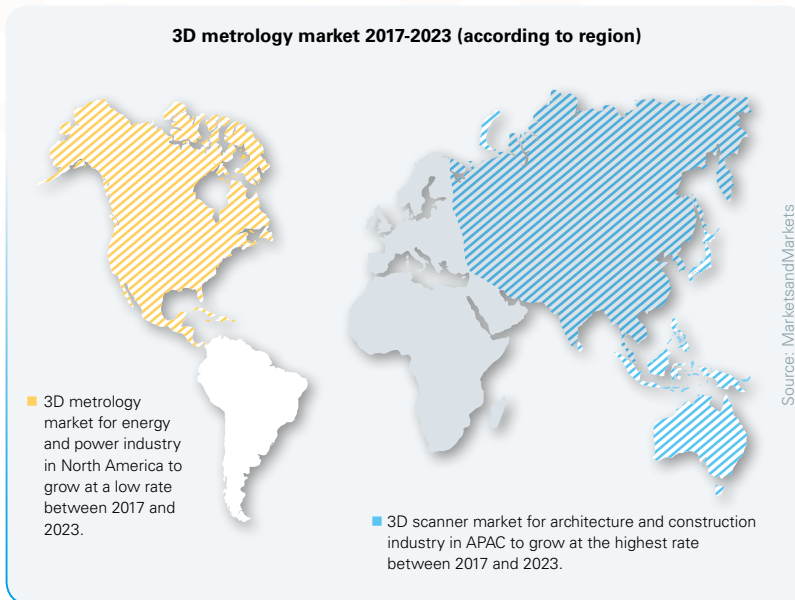
Joachim Sorg: Yes, and we are very proud of that fact. NanoFocus AG has been named as one of the 50 most innovative medium-sized companies in Germany for the fourth time in a row. Of the 3,500 companies evaluated by

the magazine WirtschaftsWoche, we ranked 30th, making NanoFocus AG one of the champions of innovation.

We are once again named among the leaders of innovation in the innovation monitor of “brand eins” magazine. The editorial team asked 25,000 experts to identify what they considered to be the most important companies. NanoFocus AG is one of the most innovative companies in the fields of electronics, electrical engineering, automation, and measurement technology.

In which industries do you see particular potential for this innovative strength? Can you give examples of successful custom measurement solutions and OEM projects?

Marcus Grigat: Previous years have shown that our technology is of interest for many industries. We already mentioned the μ surf cylinder. Our new measuring stations for the quality assurance of microlenses are a very current project. Due to the continuous further development of sensors and electronic devices, the entire field of microoptics will certainly gain in importance in the coming years. The same applies to medical technology, where we recently completed and sold a new application for the monitoring of hip implants. For semiconductor production, we are currently working on systems for controlling so-called leadframes. These measuring tasks can be solved much better with the fast, contactless 3D systems from NanoFocus. In addition, there are areas in which we have been very successful worldwide for decades, for example in the measurement of razor blades. In this case, we supply almost all manufacturers. We are also strongly committed to future topics such as the production control of fuel cells.





Of course, the example of an OEM business that has been stable for many years is our cooperation with Ultra Electronics Forensic Technology Inc. in Canada. The analysis systems of the forensic criminal technology specialist have long been equipped with technology and software from NanoFocus. If you watch an episode from the well-known television series CSI, you will eventually see a device in the background in which we put sensors.

Joachim Sorg: For us, the Canadian customer is a good example of how something like this could also look in other industries. We see some prospects as far as possible future OEM collaborations are concerned, especially in the semiconductor industry. With the μ sprint sensor, we have developed a worldwide leading technology for use in fast production control. We already know from numerous on site discussions that this is particularly interesting for the production sites in Asia.

After several years of crisis, do you look positively to the future of NanoFocus AG?

Joachim Sorg: Yes. We have successfully completed our restructuring, have minimised risks and secured the necessary liquidity, including through innovative formats such as crowd-invest models. We have also found a strategic partner that gives us significantly greater economic stability. In our reorientation we have set new priorities for our custom and OEM segments. All these points offer us good chances of success for the current and coming years. The foundation has been established. The aim now is to achieve the turnaround. We are confident of this.



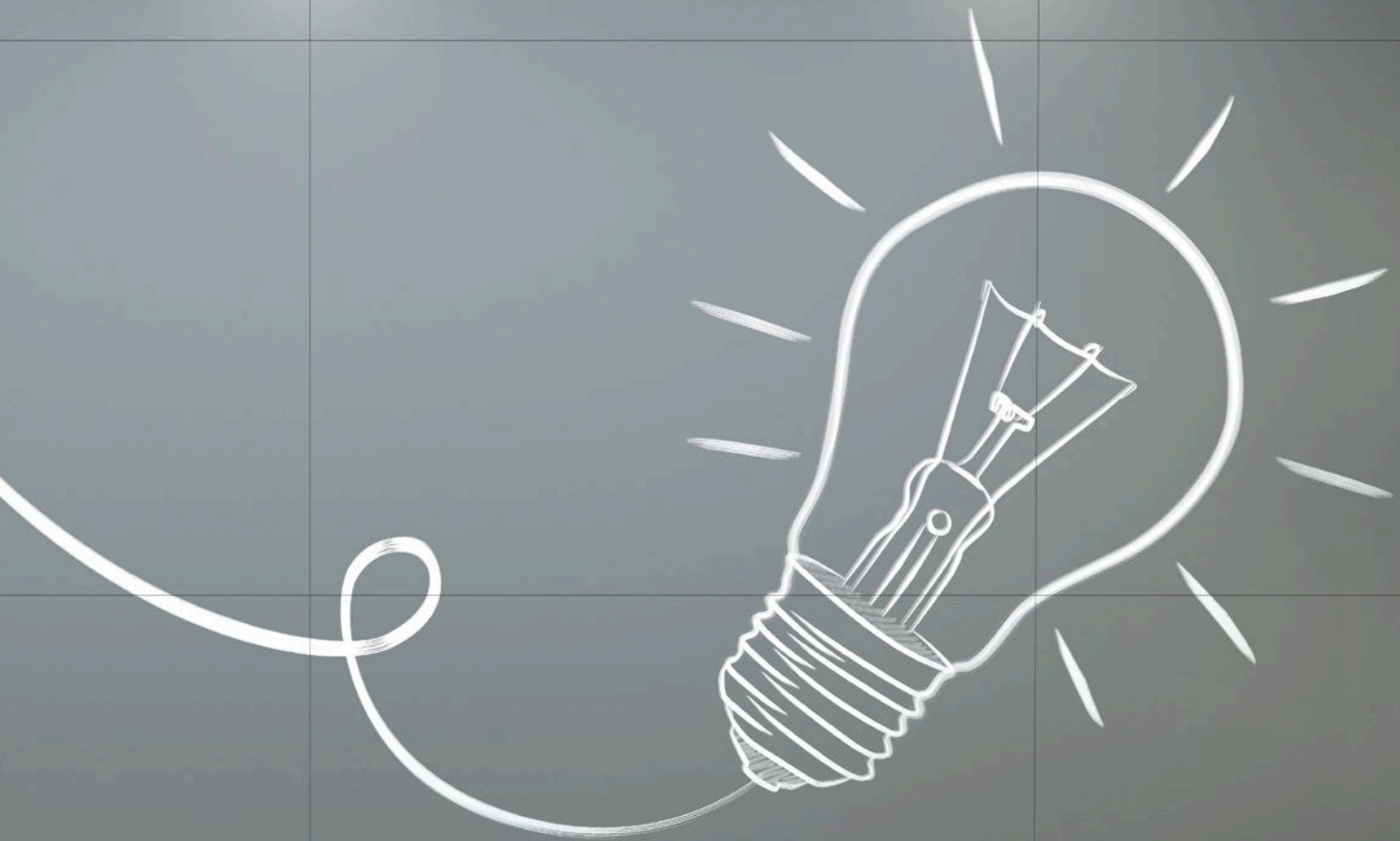
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Innovation is our motivating force

Industrial Analytics and
Measurement Solutions





Microoptics | Implants | Leadframe | Fuel cells

Smaller, faster, more powerful - the further development of materials and industrial production processes presents measurement technology with new tasks. Without micro- and nanometer-precise analysis of surface properties, neither innovative products nor economical quality assurance are possible in many industries today.

Optical sensor technology for industrial measurement tasks

From digitisation and consumer electronics to energy and medical technology, new requirements are constantly being placed on the accuracy and production capability of the components used. The industrial use of high-quality measuring processes requires special systems that comply with industry-specific standards and production conditions.

NanoFocus AG has the technology and experience to solve such measurement tasks. Our optical sensors are at the forefront of the world's technology.

In our customer-specific solutions they enable a high-precision surface analysis suitable for industry.

Production control for a key technology

The application of microoptics will have a decisive impact on the future of many industries. Microlenses are indispensable for digital development through fibre optic networks, as they are important components for coupling and converting



optical signals into electrical signals. High-quality cameras and face recognition in smartphones and tablets are also based on complex optical components. Last but not least, the computers of the future will significantly increase their performance, above all through the use of light as an information carrier.

The microoptics used today are manufactured using the semiconductor process: many thousands of microlenses on a single wafer. Fast, precise and reliable production control cannot be guaranteed without optical measurement technology.

NanoFocus has developed innovative automated microlens measuring stations that make such production controls possible. The core of this industrial solution is our μ surf measuring head. By specifically adapting the hardware and software components, we have created an analysis system with unprecedented precision that is suitable for industrial use.

Quality assurance for the medical field

In hardly any other field is the quality of the products used as decisive as in medical technology, because the patient and her health are at the centre.



For manufacturers, this means a safe manufacturing process that complies with all specified medical standards. The required quality must therefore be reliably monitored and proven while in production.

New requirements for the medical technology industry follow the increasing demands of lawmakers for improved documentation and quality assurance. This requires high-precision systems that ensure error-free compliance with medical standards, even for demanding test objects such as artificial joints and bone implants.

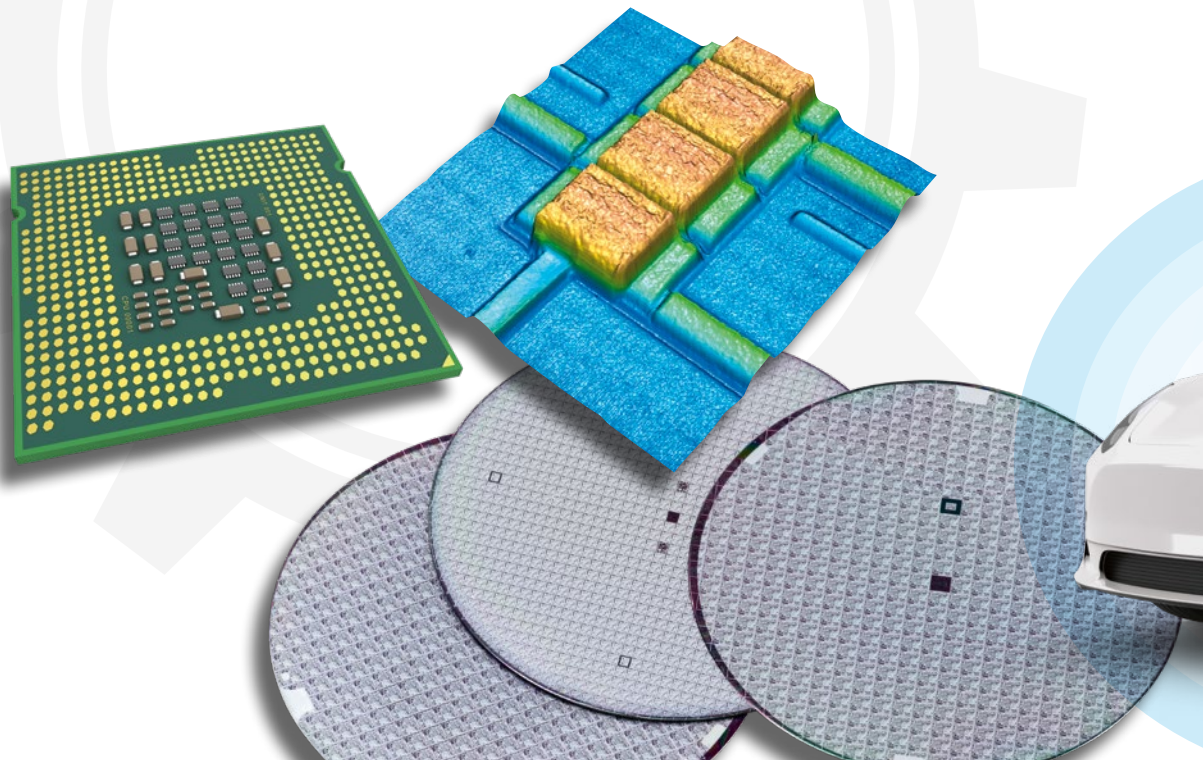
As a leader in innovation in the speciality area of hip joints, NanoFocus has developed a μ surf measurement system that was specially configured for this measurement task.

It guarantees standard-compliant and documentable three-dimensional surface measurement with the highest degree of accuracy.

At present, NanoFocus is the only measurement specialist that can supply such a system at this level.

High speed semiconductor construction

Semiconductor production quality requirements include fast inspection speed with high measuring accuracy while handling large quantities. One example is the inspection of so-called leadframes—punched metal carrier foils—on which the power electronics are bonded in high packing density.



Up to 50 connecting elements per millimetre can be placed here. A single deviation is enough to render the component worthless. A further development of the μ sprint sensor is used in our new industrial measuring system used for leadframe quality control. With μ sprint, NanoFocus has manufactured the fastest 3D confocal sensor in the world, which is ideally suited for this area of application due to its accuracy at high measuring speeds. Its combination of speed and accuracy—up to five million 3D measuring points per second at a resolution of less than 50 nanometers—is unique worldwide.

Further development of innovative drive technologies

Sensors and systems from NanoFocus are also used for the further development of fuel cell technology. Fuel cells are an important component in the future implementation

of a resource-saving energy supply. They are part of the electric mobility design in the context of new drive designs.

NanoFocus works in cooperation with manufacturers and users to develop processes that improve the production quality of fuel cells. For this particular use, NanoFocus has presented for the first time a process in which, in addition to confocal chromatic sensors, the new generation of μ sprint high-speed sensors can also be used to control important fuel cell elements. This is another step towards making the production of this technology more error-free, and thus more economical.





from 01/02/2017 – 05/15/2018

Share price performance and analysts' assessment

Global stock markets continued their upward trend in 2017. Despite a weak phase from June to September, Germany's leading DAX index performed very well in 2017. It closed at 12,917 points on 29 December 2017. The DAX thus gained 12.5% over the course of the year. The TecDax developed even more strongly. The technology index rose by 39.6% in 2017.

NanoFocus shares also developed positively in 2017. After an initial price of EUR 1.85, it closed the year at EUR 2.50. NanoFocus shares thus gained around 35.2% in 2017.

The start to the year was initially restrained. After the adjustment of the forecast, the low for the year was marked at EUR 1.71 on January 19. By the end of March, NanoFocus shares were trading in a narrow corridor around EUR 1.80. The upward trend then began with the publication of the positive order development at the end of March. On 20 April, Mahr GmbH entered the picture as a strategic investor. Among other things, it subscribed for a capital increase of 453,000 shares at a price of EUR 1.92. Mahr now holds more than 20% of NanoFocus.

With the publication of the annual financial statements for 2016, NanoFocus also provided information on the implementation of measures to reduce costs and further develop sales activities. Subsequently, GBC Research raised the price target for NanoFocus shares to EUR 3.20. Shares also benefited from these reports and reached their annual high of EUR 3.42 on 19 June. However, this price level could not be maintained in the second half of the year.

Investor Relations

NanoFocus AG maintains a regular dialogue with the capital market. It is in the interest of the company to further increase the level of awareness, maintain contacts and establish new ones. Regular meetings with investors were therefore held for this reason. The business model and market opportunities of NanoFocus AG were presented to existing investors and interested parties at various capital market conferences. NanoFocus AG presented itself at the 24th MKK in Munich.

Of course, shareholders and interested parties were always able to contact the company at any time by telephone, e-mail, or via the NanoFocus website. At the time of publication of this annual report, NanoFocus AG is rated by the analysts of GBC Research GmbH and Independent Research. Both establishments recommend buying NanoFocus shares. At GBC the price target is 3.20 EUR. Independent estimates its potential to be 3.80 EUR.

2018 Forecast

The achievement of sustainable profitability is the focus of the company for the current year. Measures have been taken to reduce balance sheet risks and personnel costs, and the staff structure has been further reorganised. Personnel costs will fall significantly again in 2018 due to the cooperation with the Mahr Group, which will take on up to 14 NanoFocus employees. The same applies to other distribution costs. As the Mahr Group will pay the distribution costs for the standards and laboratory systems, NanoFocus will hand over the systems to Mahr at correspondingly lower prices. Taking into account the cooperation agreement, the current order backlog as well as economic expectations and current business developments, we are planning an increase in sales for the 2018 financial year to 13.1 million EUR. Due to steady sales development and a reduced cost structure, we are planning a positive EBITDA margin of more than 9%. A positive EBIT is expected due to the absence of depreciation charges. We expect additional debits on the financial result due to debt capital measures. Nevertheless, we expect a positive annual result.



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References



Share data as at 12/31/2017

Total number of shares	6,093,786 no-par-value bearer shares
Amount of share capital	6,093,786 EUR
Market capitalisation	15,234,465 EUR
Transparency level	m:access, Basic Board

2017 share statistics (XETRA)

Year-end share price	2.50 EUR
Annual high	3.42 EUR
Annual low	1.71 EUR
Average number of shares traded per day	2,508 shares

Company information

Date of incorporation	Foundation on 08/24/1994 in the legal form of a GmbH. Transformation of legal form into an AG by resolution of the shareholders' meeting on 10/26/2001
Accounting standard	HGB/BilMoG
End of financial year	12/31

Stock market listing

Start of trading	11/14/2005
Securities identification number / ISIN	540066 / DE0005400667
Bloomberg code	N2FGR
Market segment	Open Market (Basic Board)
Stock exchanges	XETRA (continuous auction with specialist), Munich (m:access), Frankfurt (Basic Board), Berlin, Bremen, Dusseldorf, Stuttgart
Designated sponsor in XETRAtrading	ICF BANK AG Wertpapierhandelsbank
Research	GBC AG (Rating: Buy, price target: 3.20 EUR) Independent Research (Rating: Buy, price target: 3.80 EUR)



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Dear shareholders,

the aim of business restructuring is not only to restore a sustainable economic and financial environment. The trust of investors and customers, our partners and, most importantly, our own employees, is always at the centre of our corporate success.

After several unprofitable financial years, it became particularly clear at the 2017 Annual General Meeting that, in addition to economic stabilisation, the company must make every effort to regain lost confidence. The activities of the Supervisory Board were therefore decisively shaped by actively supporting and advising the Management Board in achieving this goal.

Intensive activities of the Supervisory Board

The starting position in 2017 was marked by the difficult situation that results were significantly worse than expected and many forecasts were not achieved. The Management Board and the Supervisory Board settled on a comprehensive restructuring programme. These measures were accompanied by a large number of Supervisory Board meetings with and without the Management Board.

At the Annual General Meeting, the Supervisory Board was partially replaced and the Management Board was previously streamlined. The new Supervisory Board also maintained very close contact with the Management Board and was involved in all important decisions at all times. In connection with the restructuring, an extensive optimisation of the balance sheet, which the Supervisory Board considered important, was also implemented.

The cooperation of the new Supervisory Board with the reduced size of the Management Board was extremely constructive and goal-oriented in all phases. From our perspective, the improved dynamics and effectiveness of these corporate bodies were also an important basis for the successful implementation of the future cooperation with Mahr GmbH.

A milestone for NanoFocus AG

The Supervisory Board was closely involved in the contract negotiations with Mahr GmbH. We are convinced that the exclusive cooperation agreement represents a milestone in the company's development. Stephan Gais, Chairman of the Management Board of Mahr GmbH, has already joined the Supervisory Board of NanoFocus AG as a signal for the future security and market opportunities of the company. Based on the exclusive cooperation in the field of standards and laboratory instruments, NanoFocus AG now has a worldwide sales network for one of its most

important business areas. NanoFocus will remain a strong, independent brand and can focus better than ever on its technological core competence.

Unsatisfactory 2017 financial statements

NanoFocus AG was still unable to achieve its economic targets in 2017, and forecasts had to be revised once again. Nevertheless, we as the Supervisory Board see considerable progress and the opening up of growth opportunities through the expansion of sales as a result of the Mahr cooperation.

The 2017 result is massively burdened by the amortisation of all risk positions. These are one-off expenses and revaluations, in particular of development projects. The initial focus of a restructuring is on immediate financial soundness, not primarily on the financial results. This soundness has improved significantly; since last year's Annual General Meeting, NanoFocus AG no longer had to draw on the capital market by issuing new shares as it had done in the previous year.

We are convinced that NanoFocus AG is on the right track. This development must continue. The Management Board and employees are called upon to consolidate NanoFocus' position as a technological leader and to open up and exploit new opportunities in other business areas as well.

Unanimous approval of the annual financial statements

The Management Board submitted the annual financial statements, the management report and the auditor's report, which received an unqualified audit opinion, to the Supervisory Board. The auditor provided the Supervisory Board with all information and answered all questions in detail. The Supervisory Board raised no objections to the annual financial statements or the results of the audit. At its meeting on 2 May, 2018, the Supervisory Board unanimously approved the annual financial statements and adopted them in accordance with Section 172 of the AktG.



Forecast

Financially, the company is certainly not where we would want it to be. However, after the successfully completed cost reduction program, the cooperation agreement in the standards area in particular represents an opportunity for sustainable growth. Positive and promising foundations were laid in a year that demanded a lot from many employees, but also from the Management Board and the Supervisory Board. Nothing more, but nothing less.

We would like to thank the Executive Board for their positive cooperation. Our thanks also go to our employees, for whom restructuring in many cases means considerable burdens. It must be one of NanoFocus AG's goals that such painful processes will not be repeated in the future.

The Supervisory Board will continue to provide critical and attentive support and advice to the company and the Management Board in the interests of the shareholders. A new course has been set in all areas of the company, but we must now look to the future. The real work is just beginning.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Ralf Terheyden', written over a light blue circular graphic.

Ralf Terheyden
Chairman of the Supervisory Board

The Supervisory Board of
NanoFocus AG (from left to right):
Hans Wörmcke
Member of the Supervisory Board
Ralf Terheyden
Chairman of the Board
Stephan Gais
Deputy Chairman of the Board

Consolidated balance sheet assets

	2017	Change		2016
	EUR	%	absolute	EUR
A. Fixed assets	4,131,081			7,704,462
I. Intangible assets				
1. Self-created industrial property rights, similar rights and values	760,654	-76.16	-2,429,970	3,190,624
2. Concessions, industrial property rights and licenses acquired against payment	1,948,504	-37.04	-1,146,104	3,094,608
3. Goodwill	932,258	-11.11	-116,532	1,048,790
	3,641,416			7,334,022
II. Property, plant, and equipment				
1. Technical equipment and machinery	258,967	31.61	62,193	196,774
2. Other plant, factory, and office equipment	230,697	32.84	57,032	173,665
	489,665			370,440
B. Current assets	8,961,549			10,013,371
I. Inventories				
1. Raw, auxiliary, and operational materials and supplies	2,244,292	-0.76	-17,259	2,261,551
2. Unfinished products, works-in-progress	1,431,541	45.32	446,436	985,105
3. Finished goods and merchandise	847,344	-11.30	-107,950	955,294
4. Advance payments for inventories	43,890	1,310.80	40,779	3,111
	4,567,067			4,205,061
II. Receivables and other assets				
1. Trade accounts receivable	2,928,677	9.04	242,904	2,685,773
2. Miscellaneous assets	334,090	No information	133,772	200,318
	3,262,767			2,886,091
III. Cash and cash equivalents, bank balances and cheques	1,131,715	No information	-1,790,504	2,922,219
C. Accrued and deferred items	99,231	-23.76	-30,932	130,163
D. Deferred tax assets	159,644	-80.77	-670,487	830,131
	13,351,505	-28.52	-5,326,622	18,678,127

Consolidated balance sheet liabilities

	2017	Change		2016
	EUR	%	absolute	EUR
A. Shareholders' equity				
I. Share capital	6,093,786	8.03	453,000	5,640,786
II. Capital reserves	10,381,299	4.18	416,760	9,964,539
III. Retained earnings	1,165,000	0.00	0	1,165,000
IV. Equity difference from currency translation	-120,075	111.55	-63,316	-56,759
V. Loss carried forward	-6,988,588	78.63	-3,076,291	-3,912,297
VI. Annual loss	-4,808,631	56.31	-1,732,340	-3,076,291
	5,722,791	-41.15	-4,002,187	9,724,978
B. Accruals				
1. Tax accruals	0	-100.00	-55,754	55,754
2. Other accruals	1,169,693	-5.67	-70,366	1,240,059
	1,169,693	-9.73	-126,120	1,295,813
C. Liabilities				
1. Bonds (convertible)	1,350,000	0.00	0	1,350,000
2. Liabilities to banks	0	-100.00	-331,370	331,370
3. Advances received on contracts	112,500	-81.81	-505,994	618,494
4. Trade accounts payable	1,388,961	-16.83	-280,993	1,669,954
5. Miscellaneous liabilities	2,207,904	29.06	497,174	1,710,730
	5,059,365	-10.94	-621,183	5,680,548
D. Accrued and deferred items	68,596	-2.04	-1,426	70,022
E. Deferred tax liabilities	1,331,060	-30.19	-575,706	1,906,766
	13,351,505	-28.52	-5,326,622	18,678,127

Consolidated profit and loss statement

	2017		Change	2016
	EUR	%	absolute	EUR
1. Revenues	11,815,315	-4.07	-501,229	12,316,544
2. Inventory changes of finished goods and works-in-progress	551,885	n/a	613,565	-61,680
3. Other own work capitalised	595,791	1.74	10,182	585,609
4. Other operating income	147,250	-49.78	-145,964	293,214
– of which are from currency translation: 12,999 EUR (previous year: 46 kEUR)				
5. Cost of materials	4,152,180	-6.35	-281,480	4,433,660
5a. Expenses for raw, auxiliary, and operational materials and supplies and purchased goods	4,082,390	-3.40	-143,605	4,225,995
5b. Expenses for purchased services	69,789	-66.39	-137,876	207,665
6. Staff costs	5,379,555	-5.77	-329,320	5,708,875
6a. Wages and salaries	4,528,797	-4.92	-234,144	4,762,941
6b. Social security and expenses for pensions and other benefits	850,758	-10.06	-95,176	945,934
– of which are for pensions: 36,492 EUR (previous year: 34 kEUR)				
7. Depreciation	4,760,884	354.54	3,713,474	1,047,410
7a. on intangible assets and fixed assets and property, plant and equipment	4,486,309	328.32	3,438,899	1,047,410
7b. on current assets to the extent that these exceed the depreciation and amortisation customary in the corporation	274,575	n/a	274,575	0
8. Other operating expenses	3,358,233	-15.21	-602,566	3,960,799
– of which are from currency translation: 275 EUR (previous year: 2 kEUR)				
9. Other interest and similar income	11,008	1,107.02	10,096	912
10. Interest and similar expenses	318,825	3.07	9,508	309,317
– of which are interest costs: 14,532 EUR (previous year: 50 kEUR)				
11. Taxes on income and earnings	-42,996	-105.75	-790,305	747,309
– of which are deferred taxes: 94,782 EUR (previous year: 747 kEUR)				
12. Earnings after taxes	-4,805,432	n/a	-1,732,661	-3,072,771
13. Miscellaneous taxes	3,199	n/a	-321	3,520
14. Annual loss	-4,808,631	56.31	-1,732,340	-3,076,291

Consolidated cash flow statement

Metrics

	2017	Change	2016
	kEUR	absolute	kEUR
Cash and cash equivalents at the beginning of the period	2,627	2,065	562
Income for the period	-4,809	-1,733	-3,076
Depreciation of tangible fixed assets	4,486	3,439	1,047
Depreciation of current assets	275	275	0
Increase/decrease in accruals	-112	2	-114
Other non-cash expenses/earnings	37	-17	54
Profit/loss from the disposal of fixed assets	-21	-21	0
Interest expenses / interest income	308	-1	309
Income tax expense / earnings	-43	-790	747
Income tax payments	-60	96	-156
Cash flow from sales activities	61	1,250	-1,189
Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-1,308	-2,276	968
Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	-785	-1,019	234
Cash flow from current operating activities	-2,032	-2,045	13
Payments for investments in intangible fixed assets	-629	294	-923
Proceeds from the disposal of property, plant and equipment	25	25	0
Proceeds from the disposal of financial assets	0	-800	800
Payments for investments in property, plant and equipment	-77	62	-139
Payments for the repayment of purchase price liabilities of already consolidated units	0	1,450	-1,450
Cash flow from investing activities	-681	1,031	-1,712
Proceeds from capital contributions	870	-1,932	2,802
Proceeds from the issue of bonds and the raising of (financial) loans	600	-1,370	1,970
Repayment of bonds and (financial) loans	-156	1,021	-1,177
Proceeds from subsidiaries received	147	-219	366
Interest paid	-224	-24	-200
Cash flow from financing activities	1,237	-2,524	3,761
Cash changes in cash and cash equivalents	-1,476	-3,538	2,062
Exchange rate-related fund changes	-19	-22	3
Cash and cash equivalents at the end of the period	1,132	-1,495	2,627

Consolidated equity capital alteration statement

	Share capital	Capital reserve	Retained earnings	Equity difference from currency translation	Balance sheet losses	Consolidated equity
	EUR	EUR	EUR	EUR	EUR	EUR
Shareholders' equity at 01/01/2017	5,640,786	9,964,539	1,165,000	-56,759	-6,988,588	9,724,978
Capital increases						
Capital increase against cash contribution (April 2017)	453,000	416,760				869,760
Currency translation				-63,316		-63,316
Year-end result					-4,808,631	-4,808,631
Shareholders' equity at 12/31/2017	6,093,786	10,381,299	1,165,000	-120,075	-11,797,219	5,722,791

2018 financial calendar

05/18/2018	Publication of the 2017 financial report	Oberhausen
06/27/2018	Annual general meeting	Oberhausen
08/31/2018	Publication of the 2018 half-year statement	Oberhausen
12/11-12/2018	MKK – Munich Capital Market Conference	Munich

Contact/Imprint

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Management board: Marcus Grigat, Joachim Sorg

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