

NanoFocus AG

Date: 09/26/2012

Recommendation		Buy	as of	-
before:				
Target price (EUR)		4.30		
Price (Xetra) (EUR)		3.06		
	09/25/12		2:57 PM	
Share price potential		41%		

Highlights

- ⇒ NanoFocus has returned to growth with record sales of EUR8.2m (6.5; EBIT: EURO.2m (0.1; our forecast: 0.7)) in 2011. The H1 2012 figures (sales: +0.2%; EBIT: EUR-0.8m (-0.3; our forecast: -0.6)) are less meaningful as H2 is seasonally stronger.
- ⇒ NanoFocus plans to finish the development of new, compact and high-performance sensor generations until the end of 2012. These sensors should be produced in high numbers and thus provide economies of scale.
- ⇒ 2012 is a year of transition (after capital increase EPS: EURO.11 (before: 0.12); 2013: EURO.26 (before: 0.27)).
- ⇒ We consider the financing of growth secured for the time being, amongst others, due to the capital increase. Further capital measures are possible.
- ⇒ The share should be relieved of some pressure from the capital increase. For a recovering the meeting of the guidance for 2012 is essential. In light of the moderate valuation (price-to-book ratio 2012: 0.9) we confirm our Buy recommendation with a target price of EUR4.30 (before: 4.60).

	2008	2009	2010	2011	2012E	2013E
Sales	6.5	5.0	6.5	8.2	9.6	12.3
Sales growth	23.0%	-23.1%	28.9%	26.9%	17.0%	28.2%
EBIT	0.3	-0.6	0.1	0.2	0.5	1.0
EBIT margin	3.9%	-12.7%	1.2%	2.7%	5.4%	7.9%
Net income	0.2	-0.7	-0.1	0.1	0.3	0.8
Net margin	3.2%	-14.4%	-0.9%	0.8%	3.2%	6.3%
EPS	0.09	-0.32	-0.02	0.02	0.11	0.26
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Net financial debt/EBITDA	0.1	-1.1	-0.6	-0.7	-0.2	0.1
Net Gearing	0.0	0.0	-0.1	0.0	0.0	0.0
Free cash flow (FCF)	-0.4	-0.4	-0.5	-0.5	-0.9	-0.6
FCF per share	-0.16	-0.18	-0.22	-0.16	-0.31	-0.20
EV / sales	1.2	2.0	1.5	1.1	1.0	0.7
EV / EBITDA	10.0	neg.	13.9	10.2	7.1	4.6
EV / EBIT	30.4	neg.	127.5	40.2	17.7	9.4
EV / FCF	neg.	neg.	neg.	neg.	neg.	neg.
P/E ratio	35.2	neg.	neg.	148.2	29.1	11.8
P/B ratio	1.1	1.5	1.1	1.0	0.9	0.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Figures in EURm except EPS, DPS and FCF per share (EUR), PERs based on averaged share prices

Source: Independent Research, NanoFocus AG

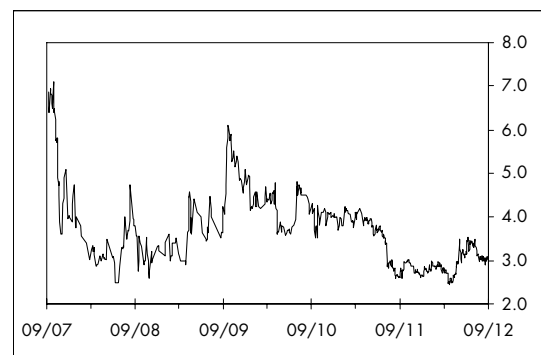
Company data	
Sector	Nano technology
Market segment	Entry Standard
ISIN	DE0005400667
Reuters	N2FGn.DE
Bloomberg	N2F

Share data	
Shares (m)	3.000
Freefloat	46.1%
Market cap. (EURm)	9.2
∅ Trading Volume	2,411
52W High	07/02/12 EUR3.70
52W Low	04/12/12 EUR2.33

Events	
Key figures FY 2012	April 2013
Figures FY 2012	May 2013

	Performance	
	absolut	related to: DAX
1 month	0.3%	-5.8%
3 months	-4.4%	-21.0%
6 months	8.7%	2.4%
12 months	16.7%	-18.3%

Index weighting	
no index membership	



Source: NanoFocus AG, Bloomberg

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Investment Case

Specialist for 3D surface analysis

- ⇒ NanoFocus is pioneer and specialist in 3D surface analysis. The pinhole technology that was self-developed permits 3D measurement in the micro and nanometre scale.
- ⇒ In our opinion, the company benefits from the trend - and partly from statutory provisions - to enhance efficiency in different industries (amongst others, automotive clients in case of cylinders) and to cut costs by quality control (for example, semiconductor MEMS).

Transition process towards manufacturing company with economies of scale

- ⇒ We consider NanoFocus in a phase of transition. NanoFocus is developing from an R&D driven company (R&D expenditures ratio: 15-20%) with a focus on standard products to a manufacturer of inline compliant products and industry solutions with significant scaling potential.
- ⇒ In this context, we have identified the four growth segments Medical Technology, Automotive, Semiconductor and Solar.

Medical Technology and µsurf cylinder with highest potential

- ⇒ We identify the largest potential in Medical Technology where NanoFocus develops a special device for a worldwide leading manufacturer. We see potential not only in sales and EBIT contributions (over the complete product life cycle, income in the low to medium double-digit million EUR area; double-digit EBIT margin), but also in an expansion of the value-added chain (possibly own production of a part of the devices).
- ⇒ The business solution µsurf cylinder also should contribute largely in the coming years (doubling of the 2012 sales realistic). The high-margin business solutions, thus, become more important.
- ⇒ 2012 should be a year of transition, in our opinion (sales: +17.0%; EBIT: EURO.5m (0.2)). Also, high preproduction costs (staff, R&D) and the increasing economic risk (very weak semiconductor and solar market; automotive sales growth in Europe remains uncertain) must be taken into account.

Management and financing of growth as a challenge

- ⇒ Due to the launch of the medical technology device we expect a significant increase in sales and earnings in 2013 (+28.2% and EUR1.0m, respectively).
- ⇒ The capital increase, the reduction of restricted cash and the gaining of a credit line should secure the growth financing for 2012 and partly for 2013, in our opinion (free liquidity including current account of about EUR2.8m at the moment). With regard to the high Capex (free cash flow 2012 and 2013: EUR-0.9m and EUR-0.6m) we still consider the financing and the management of the growth a challenge.

Reduced price target due to dilution effect

- ⇒ Due to the capital increase and the new Designated Sponsor Süddeutsche Aktiengbank (guarantees a continuous Xetra trading in the future) liquidity of the share should increase again. This could bring new momentum for the share price. Also, the fact that in the past some long-term investors have used price increases to reduce their stakes should be less significant in the future. With regard to 2013 and the moderate valuation (price-to-book ratio 2012: 0.9) of this growth share we identify a significant upside potential. Our revised target price of EUR4.30 (before: 4.60) reflects the dilution from the capital increase.

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STRENGTHS and OPPORTUNITIES

- **Self-developed multi-pinhole technology with patent protection**
- **Broad application opportunities for products in different industries**
- **Extensive value chain: developer, distributor and service provider**
- **Transition from a mass supplier for special machinery to a producer of process tools used in production**
- **Advancing medical technology project into production phase bears high sales and income potential as of 2013**
- **Products for automotive industry develop into decisive source of sales (especially μ surf cylinder)**
- **Business solutions in the segments Solar and Semiconductors have established themselves - follow-up orders were generated especially in Semiconductors**
- **High demand for more efficient machines and production methods**
- **Close cooperation with clients in the areas of development and applications**
- **Worldwide demand for user-friendly, efficient and quick quality measurement devices at a high level**

WEAKNESSES and THREATS

- **Small company size**
- **Discontinuation and postponement of projects has delayed the original timing**
- **Refinancing and working capital management remain an important topic especially against the background of large projects planned and expected high-volume orders**
- **Distribution remains a challenge in important future sales regions**
- **Possibility of a market entry by competitors with new patents or superior technology**
- **Possible delays in the replacement of existing quality measurement devices by NanoFocus products**

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Valuation

Rising EBIT margin reflects increasing scalability

WACC of 10.0%

Three-step DCF model

In our three-step Discounted Cash Flow Model (DCF Model) we have employed our specific forecasts in our detailed planning period until and including 2013. As of 2014 (until 2021) we undertake a trend analysis. Until 2016, we have assumed a decline in sales growth to 7.5%. The EBIT margin that rises to 15.0% until 2015 reflects the fact that we expect NanoFocus to generate significant economies of scale (almost none at the moment) as part of its transition from an R&D driven towards a manufacturing company (inline production). In phase III (terminal value) we expect the free cash flow to grow 2.0% along with inflation. We calculate unchanged a WACC of 10.0%. The relatively high figure is on the one hand owed to the beta of 1.4 that reflects the volatility and risk of the business model (small company; still R&D driven). On the other hand, we have assumed an equity ratio of 85% (at market value) in the long-term target capital structure as NanoFocus had a financial debt of only EUR1.7m as of June 30, 2012. We have assumed the borrowed capital interest rate at 7.0% before tax and 4.9% after tax, based on the interest rates for the loans already granted (4.4% to 6.2%) and the credit line.

DCF model										
EURm	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sales	9.6	12.3	15.0	17.1	18.4	19.8	21.3	22.9	24.6	26.4
Growth y/y	17.0%	28.2%	21.3%	14.4%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
EBIT margin	5.4%	7.9%	10.3%	12.6%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT	0.5	1.0	1.5	2.2	2.8	3.0	3.2	3.4	3.7	4.0
- Income taxes	0.0	0.0	-0.1	-0.1	-0.2	-0.9	-0.9	-1.0	-1.1	-1.2
+ Amortisation and depreciation	0.6	0.8	0.9	0.9	0.6	0.7	0.7	0.8	0.8	0.9
+/- Change in long-term provisions	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
+/- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	1.2	1.8	2.4	3.0	3.2	2.8	3.1	3.3	3.5	3.8
-/+ Change in net working capital	-1.9	-2.6	-1.4	-1.2	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0
-/+ Investments in fixed assets	-0.6	-0.9	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9
Free cash flow	-1.3	-1.7	0.4	1.2	1.9	1.3	1.4	1.6	1.7	1.9
Present values	-1.3	-1.5	0.3	0.9	1.2	0.8	0.8	0.7	0.7	0.7
Total present values	3.4									
Terminal value	9.5									
										in % of total value: 74%
Value of operating business	12.9									
+ Cash and cash equivalents	1.8									
- Financial debt	-1.7									
Fair market value of equity	13.0									
Number of shares outstanding (m)	3.000									
Fair value per share (EUR)	4.32									

Model parameters / entity DCF model:			
Target capital structure ->	Equity:	85%	Financial debt: 15%
Risk-free rate:	4.00%	Beta: 1.4	Risk prem. Debt: 3.0%
		Risk prem.: 5.0%	Tax shield: 30.0%
		Cost of equity: 10.9%	Cost of debt: 4.9%
Growth FCF:	2.0%	WACC: 10.00%	Date: 09/26/12

Source: Independent Research

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Sensitivity analysis (EUR)					
		Discount rate (WACC)			
		9.5%	10.0%	10.5%	11.0%
Growth (TV)	2.0%	4.87	4.32	3.94	3.61
	2.5%	5.02	4.55	4.14	3.77
	3.0%	5.34	4.81	4.35	3.96
	3.5%	5.70	5.11	4.60	4.17

Source: Independent Research

Fair value of EUR4.32
(before: 4.63) per share.

Little dilution from capital increase

We have calculated a fair value of equity capital of EUR13.0m (before: 12.9). Based on now 3.000m (before: 2.795) shares we have calculated a fair value per share of EUR4.32 (before: 4.63). Due to the only limited volume of the capital increase, the dilution effect, thus, is relatively moderate.

Share is currently priced
below its book value

Clearly falling valuation multiples as of 2012

Based on the fair value in 2012, there still is a high valuation with an EV/EBIT of 25.0 and a P/E ratio of 41.0. Due to the first sales and income contributions from the medical technology project, the multiples with an EV/EBIT of 13.2 and a P/E ratio of 16.7 will be clearly lower in 2013. It must further be considered that the share is valued with a price-to-book value of 0.9 and thus below its book value which is attractive for a growth share.

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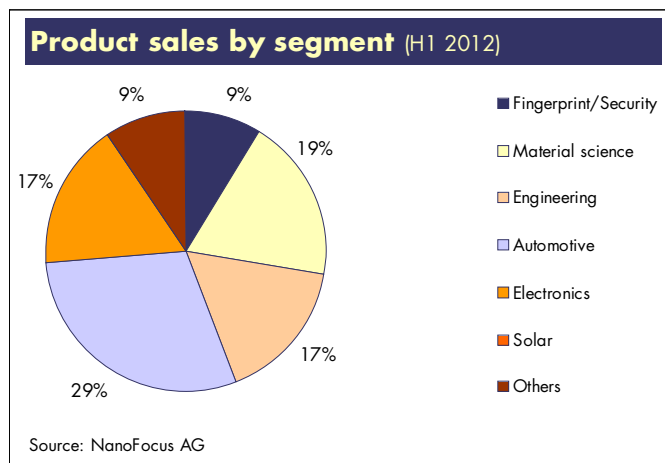
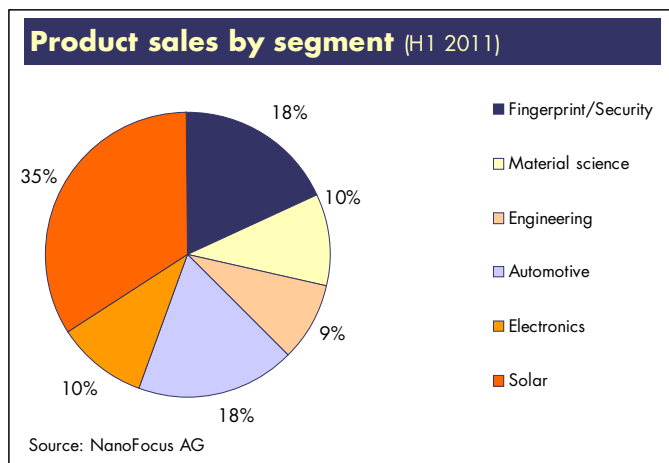
Financial, balance sheet and income analysis

Income analysis

Weakness of the solar industry, amongst others, burdens H1 2012

Record sales in business year 2011 - project delays in H1 2012

Slightly surprising to us, sales stagnated at EUR3.4m (3.4; our forecast: 3.8) in H1 2012. According to CFO Sorg, this is owed to delays in the processing of some projects. In our opinion, the weakness of the German solar industry is also decisive, though. Still, we consider that NanoFocus has returned to the growth path as is reflected by the record sales in business year 2011 (+26.9% to EUR8.2m (6.5; guidance: 8.0-8.5)). According to CFO Sorg, it is owed to the delayed settlement of two projects with a volume of EURO.3m that NanoFocus missed our more optimistic sales forecast (EUR8.9m) by 7.1% in 2011.



Sales in the automotive sector should improve in H2 2012

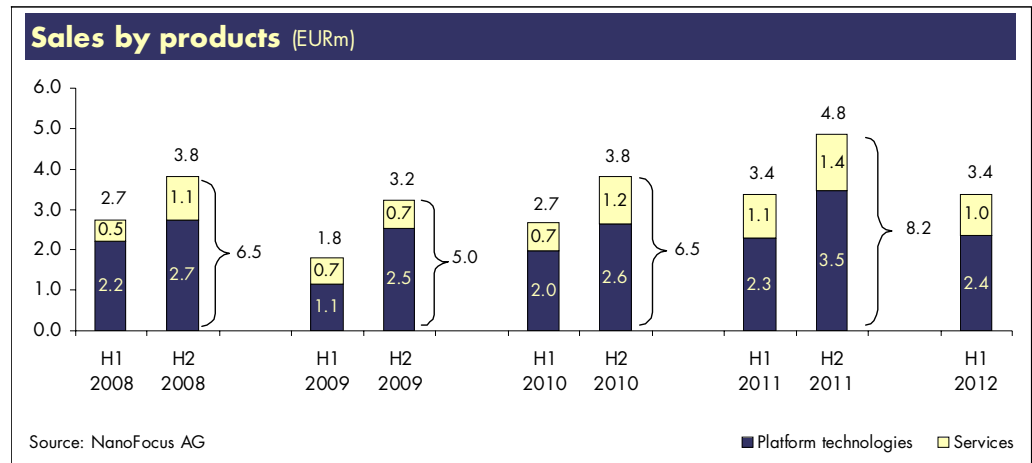
Solar and Fingerprint/Security segments hinder growth

NanoFocus benefits from rising number of devices installed

Automotive clients remain growth drivers

An important sales support in H1 2012 came from the important automotive sector (product sales: EURO.7m (0.4); 2011: EUR1.5m (0.4)). In full-year 2012, the sales increase should be higher as several µsurf cylinders will be delivered in H2 2012. Also, sales in the Material science segment increased again (EURO.5m (0.2); owed to the equipment of research institutes) after sales had been declining in the preceding year due to the extraordinarily strong 2010 (2011: EURO.8m (1.7)). The sales stagnation in H1 2012 was mainly owed to the Solar segment (EURO.0m (0.8); 2011: EURO.9m (0.3)). The weakness of some important European NanoFocus clients (centrotherm, Bosch Solar, Meyer Burger) could not be compensated for by the Asian network that is only just being set up (client LDK Solar). After the service sales had expanded clearly above average in the past years (2011: +30.0% to EUR2.5m (1.9)) they remained almost unchanged in H1 2012 with EUR1.0m (1.1). The lasting growth momentum in sales of software, maintenance and repair (+47.3% to EURO.7m (0.5); 2011: EUR1.4m (0.8)) is standing out. With regard to the rising number of devices installed, this trend should continue. In the reporting period, service sales decreased due to lower revenues for R&D projects on the other hand.

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μsprint falls short of our expectations

The number of units sold has fallen in H1 2012. This is owed to the increasing replacement of standard devices by modular tailored high-end solutions which caused stable sales of platform technologies amounting to EUR2.4m (2.3; 2011: 5.8 (4.6)). Especially the economically weak semiconductor industry affected the μsprint sales (EURO.1m (0.3); 2011: 0.9 (0.3)) that at least until now fell short of our expectations. The development of μsurf (EUR1.6m (1.3); 2011: EUR3.3m (2.9)) remained very robust.

Clear cost increase - preproduction costs for H2 2012

Increased investments in human resources burden H1 EBIT

The H1 2012 income level was slightly disappointing with EBIT of EUR-0.8m (-0.3; our forecast: -0.6) and a net income of EUR-1.0m (-0.4; our forecast: -0.7). In addition to the weaker than expected top-line and slightly lower other income from subsidised R/D projects the slightly increased material use ratio of 31.3% (30.7%; gross income EUR2.7m (2.8)) was a burden.

Key financial data of the income statement H2 2011 and FY 2011							
	Unit:						
	EURm						
Financial year:	Dec. 31	H2 2010	H2 2011	H2 2011	2010	2011	2011
Accounting standard:	HGB	Reported	Reported	Forecast	Reported	Reported	Forecast
Sales		3.8	4.8	5.5	6.5	8.2	8.9
growth yoy		18.6%	27.1%	43.6%	28.9%	26.9%	36.7%
Total operating performance		4.1	5.3	5.8	7.7	9.5	9.9
growth yoy		30.6%	28.2%	40.0%	36.5%	23.5%	29.9%
EBITDA		0.8	0.8	1.4	0.7	0.9	1.4
EBITDA margin		22.0%	16.9%	25.4%	10.7%	10.6%	16.3%
EBIT		0.5	0.5	1.0	0.1	0.2	0.7
EBIT margin		12.9%	10.0%	17.5%	1.2%	2.7%	7.8%
Net income		0.4	0.5	1.0	-0.1	0.1	0.6
as percentage of sales		11.3%	9.6%	17.5%	-0.9%	0.8%	6.2%
Earnings per share (EUR)		0.16	0.17	0.34	-0.02	0.02	0.20

Source: Independent Research; NanoFocus AG

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Key financial data of the income statement H1 2012

	Unit: EURm			
	Financial year: Dec. 31		H1 2011	H1 2012
	Accounting standard: HGB		Reported	Reported
				H1 2012
				Forecast
Sales			3.4	3.4
growth yoy			26.7%	0.2%
Total operating performance			4.1	3.9
growth yoy			17.9%	-6.6%
EBITDA			0.1	-0.5
EBITDA margin			1.5%	-14.7%
EBIT			-0.3	-0.8
EBIT margin			-7.9%	-24.7%
Net income			-0.4	-1.0
as percentage of sales			-12.0%	-29.2%
Earnings per share (EUR)			-0.14	-0.35

Source: Independent Research; NanoFocus AG

The lower EBIT was mainly owed to personnel (EUR2.0m (1.6; 62 (57) employees on average) and other costs (EUR1.2m (1.1)) rising above proportion. According to CFO Sorg, they reflect preproduction costs for project deliveries planned for H2 2012. Also, NanoFocus - especially in view of the major medical technology project - has increased R/D expenditures to EURO.9m (0.8). However, we believe that profitability needs to be improved with regard to the positive effects from capitalisation of development costs of EURO.3m (0.3).

H1 figures only of limited significance

History proves that H1 sales and earnings are only a limited indicator for the full year (usually 40%/60% sales split between H1 and H2). In 2011 for example H2 was clearly stronger with sales of EUR4.8m (H1 2012: 3.4) and EBIT of EUR+0.5m (H1 2012: -0.3).

2012 as a year of transition - sales from major projects as of 2013

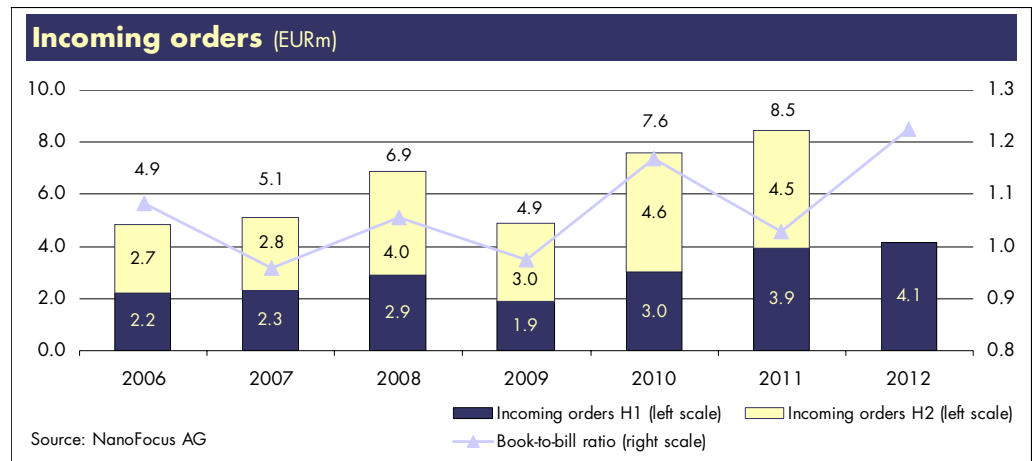
With regard to 2012, on the one hand the order inflow in H1 2012 and 2011 of EUR4.1m (3.9; +4.9%) and EUR8.5m (7.6; +11.6%; sales: +26.9%), respectively, was slightly disappointing. The book to bill ratio was 1.0 (1.2) and 1.0 (1.2), respectively. The order backlog on June 30, 2012 of EUR2.0m (December 31, 2011: 1.1; June 30, 2011: 1.9) was comparatively weak.

On the other hand, the order inflow in July and August was on a high level. Especially the demand for the μ surf cylinder is high. CFO Sorg expects that sales will be doubled here, as there still are deliveries to come from key accounts in H2 2012 (main growth driver also in 2013). The transition of a prototype developed for a large sealing manufacturer to serial production and follow-up orders from Samsung in the semiconductor segment also offer upside potential. The specified guidance for 2012 (sales: EUR9.3m (so far: over 9.0); EBIT margin: unchanged at 5.0%; EPS: EURO.11 (so far: 0.12)) shows management's optimism.

Order dynamics with no further increase in H1 2012

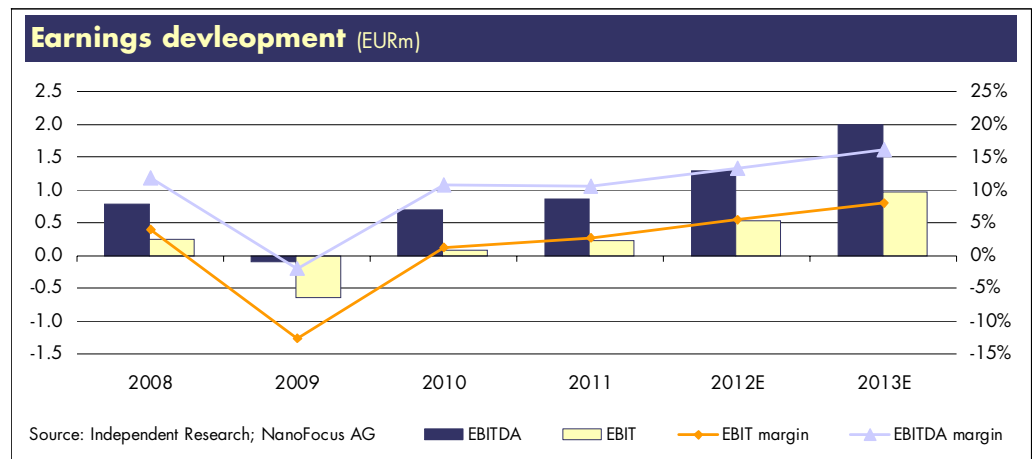
Sales 2012 are expected at EUR9.3m with an EBIT margin of 5.0%

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Sales and earnings increase in 2013 from medical technology project

We welcome that NanoFocus has received further responsibility and sub contracts in its major medical technology project. According to NanoFocus, the product development should be finished by the turn of the year 2012/13. However, there won't be substantial sales before 2013. The project marks the transition of NanoFocus from an R/D driven towards a producing company and thus is very important. Accordingly, we expect a sales increase to EUR12.3m in 2013 (2012: 9.6; 2011: 8.2). The high margin of this project should also lead to higher EBIT of EUR1.0m (2012: 0.5; 2011: 0.2) and thus should more than compensate the rising operating costs. Our EPS forecasts for 2012 (EURO.11 (before: 0.12)) and 2013 (EURO.26 (before: 0.27)) were slightly reduced due to the dilution from the capital increase.



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Financial analysis

Cash flow clearly positive in 2011

H1 cash flow reflects earnings development

In accordance with the earnings development, the cash flow from sales and the operating cash flow were negative with EUR-0.5m (+/-0.0) and EUR-0.5m (-0.3), respectively, in H1 2012. When deducting own work capitalised (added to the investment cash flow; more representative), cash flow from sales and the operating cash flow were EUR-0.8m (-0.3) and EUR-0.8m (-0.6), respectively. The stable working capital on June 30, 2012 of EUR4.2m (December 31, 2011: 4.3; June 30, 2011: 3.9) is standing out positively. With regard to the cash flow it must be pointed out that H1 is significant only to a limited extent. In 2011, the operating cash flow of EURO.4m (0.1) was clearly positive.

Investments in medical technology project and μsprint

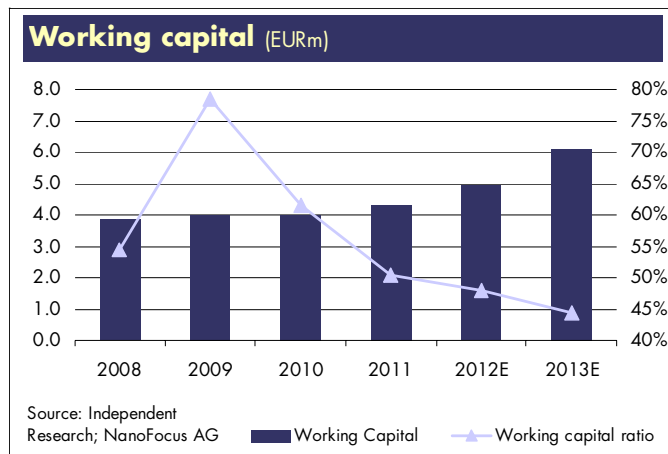
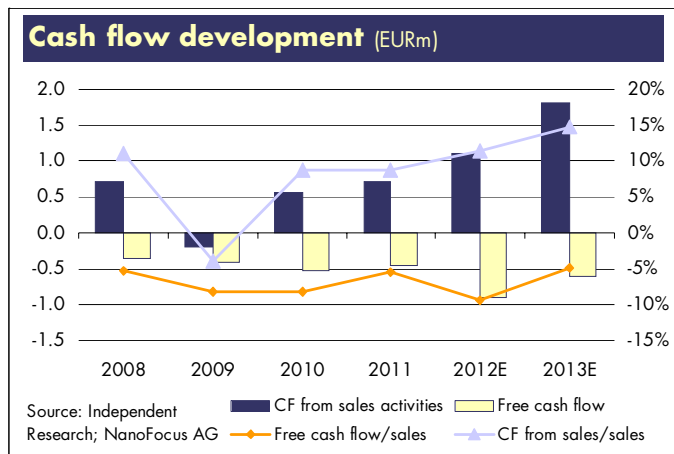
Capex should increase in 2012 and 2013

The free cash flow (H1 2012: EUR-1.0 (-0.7); 2011: -0.5 (-0.5)) should remain negative in 2012 (EUR-0.9m) and 2013 (EUR-0.6m). We expect an increase in cash flow from sales to EUR1.1m and EUR1.8m, respectively, due to the earnings improvement. This is countered by an increase in working capital (until the end of 2013: EUR+1.8m over December 31, 2011). Especially the seasonality with a strong H2 or Q4 ties up significant capital in inventories and trade payables. We also expect an increase in Capex (2012: EURO.6m (2011: 0.3); 2013: EURO.9m) due to the planned start of production of the medical technology device in 2013 (build-up of own production possible) and the μsprint R&D programme. Additional investments, for example as part of the further development of the μsurf cylinder (decision on this is made in Q2 2013), are possible.

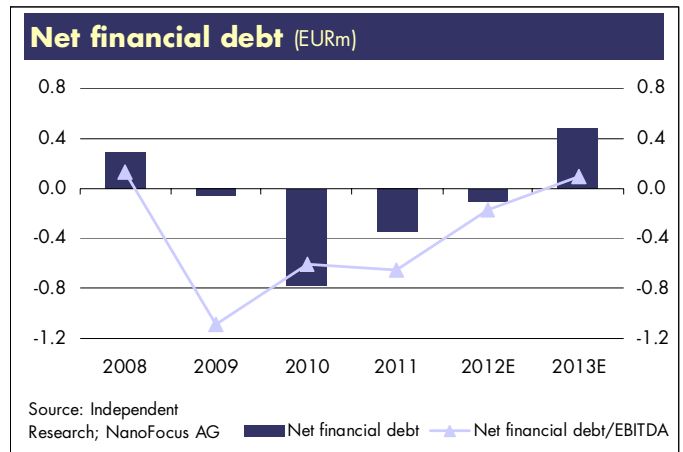
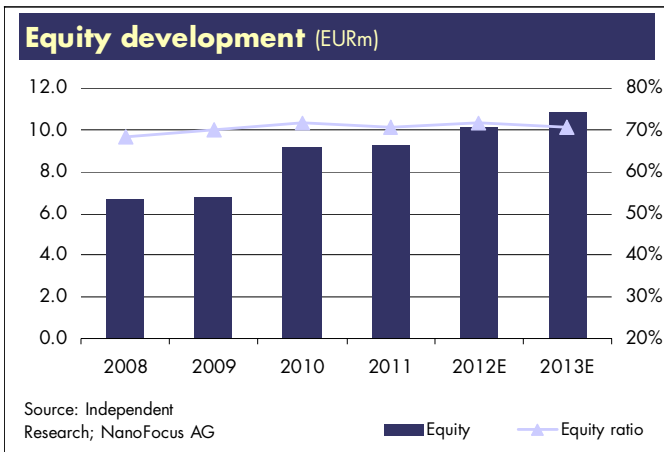
Gross issuing proceeds of just under EURO.6m

Capital increase was carried out in difficult capital market environment

The capital increase carried out in mid-June (205,000 shares or 5.7% of the original share capital) should be seen in the context of the increasing demand for working capital and the free cash flow development (Capex). It is owed to the capital market environment that the issuing price of EUR2.80 per share (gross issuing proceeds: just under EURO.6m) is below the EUR4.00 of the last capital increase at the end of 2010. However, the issuing of the shares in the current situation reflects the high interest of investors (especially two major investors have subscribed).



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Net financial debt remains low

The capital increase allows NanoFocus to limit its net financial debt (December 31, 2013: EURO.5m; on June 30, 2012: EUR+/-0.0m) at a still solid equity level (equity ratio: about 70%). This appears sensible especially against the background of the volatile earnings that are not yet established at a high level.

Free liquidity increases to EUR1.8m

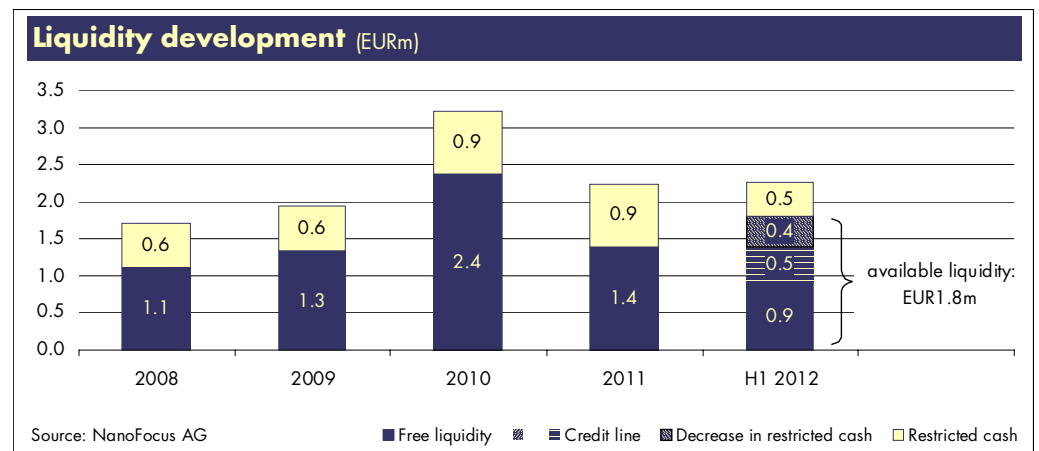
Liquidity situation clearly improved

In addition to the capital increase, NanoFocus reduced its restricted cash to EURO.5m (before: 0.9) and has secured a credit line of EURO.5m. NanoFocus thus has increased its liquidity including current accounts to EUR1.8m as of June 30, 2012 (December 31, 2011: 1.4). In our opinion, this is very important as the company usually needs a free liquidity of EUR1.6-1.8m to prefinance production (sales at end of the year) in the middle of the year.

Growth calls for further capital, in our opinion

Further capital measures remain possible, in our opinion

Towards the end of the year, we expect the free liquidity to fall again to about EUR1.6m (free cash flow of EUR-0.9m and planned loan repayment of EURO.3m). Due to the expected negative free cash flow in 2013 in view of the forecasted strong growth we still consider further capital measures an option on the debt and equity side.



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Company overview

Company and products

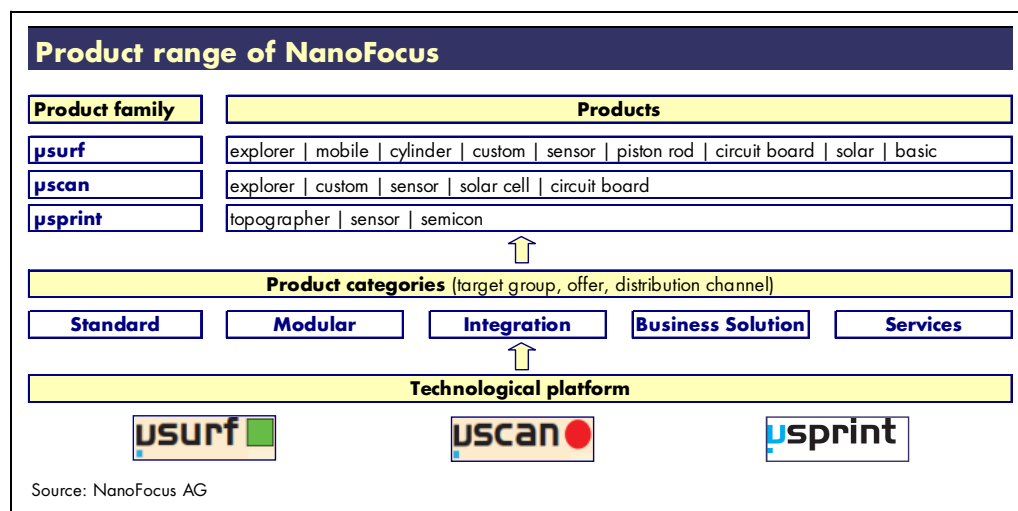
One-stop shop business model

Developer of 3D surface analysis tools in the micrometer and nanometre range

NanoFocus develops, produces and distributes 3D surface analysis tools in the micrometer to nanometre range. An innovative optical measurement system with resolutions down to the nanometre range forms the core element of the solutions offered by the company. Next to micro geometrical examination (e.g. form, outline, evenness) and roughness analysis, the company's solutions mainly evaluate structural and topological properties of modern functional surfaces.

One-stop shop business model

The company's strategy is based on a One-stop shop business model. Apart from standardised products, the company mainly offers customised solutions. The company is research partner of several well-known companies (e.g. ThyssenKrupp, BMW) and institutions of research/science and education (e.g. University of Dresden). It is integrated into a network that forms the basis of the expansion and development of its expertise. Furthermore, NanoFocus offers an in-house developed software (µsoft) for data analysis as well as a broad portfolio of services (e.g. training).


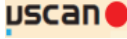



Main product lines µsurf, µscan and µsprint

Surface imaging and point scanning surface analysis

NanoFocus offers high-precision optical surface analysis tools in the nanometre range on three product platforms. The two platforms µsurf (surface imaging 3D topometry) and µscan (point scanning 2D/3D profilometry) have been established for some time and are capable of measuring in the nanometre range. The third platform µsprint is a 3D inline inspection system based on a patented confocal technology. It allows extremely fast high-precision measuring down to the nanometre range. In 2010, NanoFocus developed µsprint solar and µsprint semicon, its first business solutions. While the µsurf and µscan technologies feature extremely precise measuring in the nanometre and micrometer range but are relatively slow, µsprint is suitable for inline production thanks to its speed.

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Features of each product platform			
	Technological platform		
			
Precision	Very precise, nanometre, up to 1 nm	Precise, nano/micrometre, up to 100nm	Precise, nano/micrometre, up to 100nm
Speed and size of sample/surface area	Very slow, small samples	Relatively fast, larger samples	Very fast (on-site), medium size samples
Fields of application	Measurement of small surfaces in relation to technology; R&D, process development	Measurement of larger surfaces; R&D, process development	Inspection on wafers and laser welds etc. can be used in inline production
Comment	Further development towards inline production	-	Further development: medical/solar tech., cleantech

Source: NanoFocus AG

Multi-pinhole technology creates 3D images in the micrometer and nanometre range

Built on the company's patented proprietary base technology, µsurf, µscan and µsprint are the modules that all standard and customised devices are based on. With the help of the multi-pinhole technology, the 3D measurement systems create high-precision 3D images of surfaces and layer thicknesses in the micrometer and nanometre range. The company's products take a top-down approach, which means that they allow the customers to display structures in the nanometre range three-dimensionally. The strength of the products is in their height resolution (up to 1 nm). In the next step, the µsoft software transforms the raw optical data to usable height images and allows for their analysis according to international standards.

Product categories

Flagship product of Standard segment: µsurf explorer

Standard: In the Standard segment NanoFocus offers measurement and analysis systems as a complete package including a fixed set of modules. These systems are not customised and are sold internationally through distribution partners. The segment's flagship products are the µsurf explorer as a complete laboratory device and standard piece of equipment for industrial measurement and the portable version µsurf mobile.

Modular: In this segment NanoFocus, in collaboration with the customers, assembles measurement systems from various components meeting individual requirements. Since NanoFocus is sometimes commissioned to solve complex measurement problems, this business segment is cost-intensive. However, it offers the greatest potential for further development of the company's systems. It also gives NanoFocus access to major customers and increases customer loyalty.

Customised solutions as earnings drivers with great potential

Integration: In this segment, NanoFocus offers a range of single optical sensors for use in production plants and testing systems. Specially-developed software interfaces allow for complete integration in a larger software environment.

Business Solutions: Here, NanoFocus offers industry-specific complete analysis systems for particular measurement tasks in the automotive (e.g. µsurf cylinder), microelectronics (µscan leak), solar (µsurf solar), micro system and tool technology (µsurf blade) industries.

Software: The Software segment offers various applications of the company's proprietary µsoft software, which is used to control the NanoFocus systems and evaluate the measured data.

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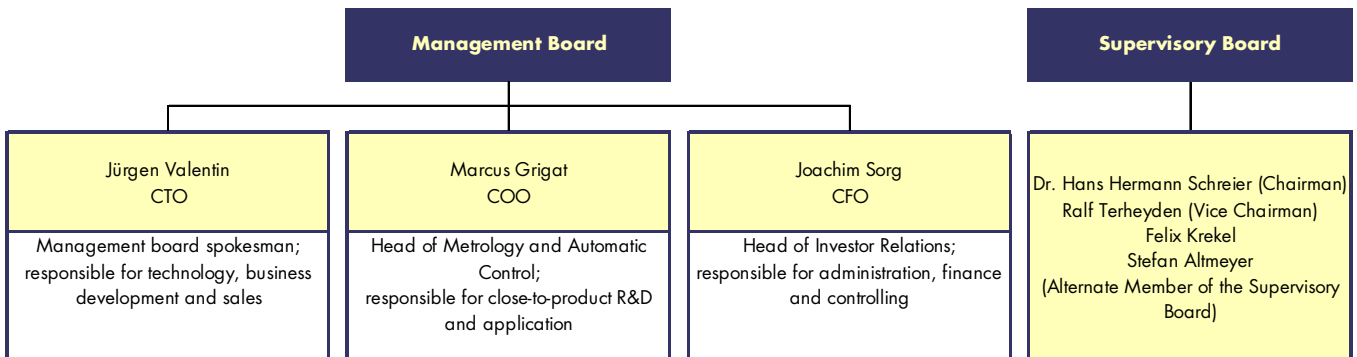
History

Milestones	
1994	<ul style="list-style-type: none"> • Foundation of NanoFocus Messtechnik GmbH in Duisburg
1997	<ul style="list-style-type: none"> • Foundation of OM Engineering Optoelektronische Messtechnik GmbH
1999	<ul style="list-style-type: none"> • Launch of NanoFocus μsurf and OM μscan
2001	<ul style="list-style-type: none"> • Integration of OM Engineering GmbH into NanoFocus GmbH and change of legal form into NanoFocus AG
2005	<ul style="list-style-type: none"> • Foundation of US distribution company NanoFocus Inc. • Listing in the Entry Standard of the Open Market of the Frankfurt Stock Exchange
2006	<ul style="list-style-type: none"> • Small capital increase for issuing the prospectus
2007	<ul style="list-style-type: none"> • Launch of the μsurf explorer standard product • Sales agreements with IMSTec GmbH (medical technology) and Heimann Graphische Technik und Handel Heimann GmbH (printing industry) • New standard automation software μsoft automation
2008	<ul style="list-style-type: none"> • Exclusive sales agreement with the specialist in coordinate metrology Werth Messtechnik GmbH and sales agreement with Olympus (Japan)
2009	<ul style="list-style-type: none"> • Capital increase (224,000 shares; EUR3.50 per share); proceeds of the issue: about EUR784,000 • Launch of high precision optic measurement solution μsurf solar • Acquisition of μsprint for application in inline production
2010	<ul style="list-style-type: none"> • Launch of the 3D microscope for industrial laboratories μsurf basic • Rights issue (321,293 shares; EUR4.00 per share); gross proceeds of about EUR1.29m
2011	<ul style="list-style-type: none"> • New 3D measurement software μsoft metrology, compatible with Windows 7 • New generation of μsurf solar receives Intersolar Award in the category PV Production Technology • μsurf cylinder: development of the third generation
2012	<ul style="list-style-type: none"> • Capital increase (205.184 shares; EUR2.80 per share) in June; proceeds of the issue of about EUR575,000

Source: NanoFocus AG

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Management



Source: NanoFocus AG

Dipl.-Phys. Jürgen Valentin (born 1964)

- Practical training as material tester with Siemens AG in Mühlheim/Ruhr
- Studies of physics and two-year activity as research assistant at Duisburg University
- After 1995: Head of software and analytics at NanoFocus Messtechnik GmbH
- in charge of Technology, Business Development and Sales
- Management Board Spokesman since January 1, 2010

Dipl.-Ing. Marcus Grigat (born 1970)

- Practical training as electrical systems installer and energy systems technician at Thyssen AG in Duisburg
- Studies of electronic technology and one-year activity as research assistant at Duisburg University
- After 1996: Head of Metrology and Automatic Control at NanoFocus Messtechnik GmbH
- responsible for research & development and production

Joachim Sorg (born 1971)

- Training as medium-level bank clerk in the savings bank sector
- After 1999: work in the investor relations sector of IntraWare AG
- Four-year activity in IR at syzygy AG
- DVFAA CIAA course
- Project activity at F+P Multimedia AG
- Work in relationship management at AHBR AG
- After 2006: Head of IR at NanoFocus
- Head of administration, finance and controlling

Dr. Hans Hermann Schreier (born 1946)

- Co-founder and long-year CEO of NanoFocus
- Following a two-year cooling-off period in compliance with the Corporate Government Code, Dr. Schreier was elected to the supervisory board from the AGM (on July 11, 2012)
- At its first meeting, the supervisory board appointed Dr. Schreier as chairman

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Company contact and shareholder structure

Stock cooperation under German law

NanoFocus AG is a stock cooperation under German law. Its head office is in Oberhausen (Nordrhein-Westfalia).

Company data

NanoFocus AG
Lindnerstr. 98
46149 Oberhausen, Germany
Internet: www.nanofocus.de

Contact Investor Relations

Joachim Sorg (CFO)	Kevin Strewginski
Telephone: +49 (208) 62000-54	Telephone: +49 (208) 62000-55
Telefax: +49 (208) 62000-99	Telefax: +49 (208) 62000-89
E-mail: ir@nanofocus.de	E-mail: ir@nanofocus.de

Large shareholder subscribes substantial part of capital increase

After the capital increase in mid-June, the number of shares has increased to 3.000m (before: 2.795). Investment company Alto Invest has subscribed the largest part of the 0.205m newly issued shares (first investment in 2010 as part of the last capital increase). It now holds 429,000 (before: 250,000) shares or 14.3% and is the largest stakeholder. The management (7.2%) and founding members including tgb (26.4%) hold 33.6%. The free float has slightly reduced after the capital increase to 46.1% (before: 48.8%).

Shareholder structure (after capital increase)	
	Share
Management Board	
Jürgen Valentin (CTO)	3.6%
Marcus Grigat (COO)	3.6%
Founding members	
Dr. Hans H. Schreier	6.6%
Family Eismann	5.9%
Dr. Christiaan Velzel	4.1%
Dr. Volker Bödecker	4.1%
tbg Technologie-Beteiligungs-Gesellschaft mbH	5.6%
Strategic investors	
LBBW	6.0%
Alto Invest	14.3%
Free float	46.1%

Source: NanoFocus AG

Improved liquidity of the share

Since September 15, 2012, Süddeutsche Aktienbank is the Designated Sponsor for the NanoFocus share. The Designated Sponsor guarantees now a continuous Xetra trading, which we think should significantly strengthen the liquidity of the share.

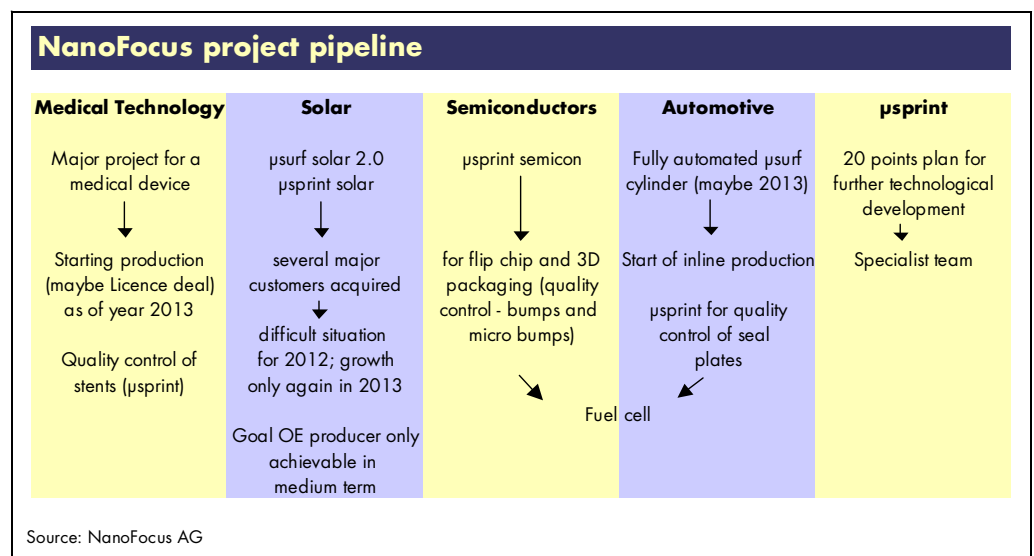
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Strategic perspectives

Automotive, Medical Technology, Solar and Semiconductors

Still four central growth areas

Especially the H2 2011 (+27.1% to EUR4.8m) sales development, in our opinion, shows that the discontinuation of investments in the target industries has not only stopped but that NanoFocus with record sales has returned to the growth path. The main areas of growth remained unchanged, Automotive, Medical Technology, Solar and Semiconductors. We consider particularly the first two sectors to be the main pillars of growth in the coming years as NanoFocus should master the transition from an R&D driven corporation to a manufacturing company or one that is integrated into inline production. respectively.



Automotive: larger projects in the pipeline

High demand for µsurf cylinder

Even though the development of the fully-automated µsurf cylinder was discontinued some years ago due to the financial crisis and the problems of a development partner, clients remained interested in the semi-automated version. Meanwhile, a large German automotive group has introduced µsurf cylinder as a standard test device in its R&D segment (meaning that only the NanoFocus product is ordered when new devices for cylinder inspection are introduced). After last year’s upgrade, the demand from other automotive groups has clearly increased. According to CFO Sorg, there are several orders for µsurf cylinder. We think this product will be one of the main growth drivers also in 2013 since a variety of automotive companies have expressed their interest to place orders.

Full automation could return on the agenda

NanoFocus currently evaluates together with a large car producer the integration of the µsurf cylinder into a larger cylinder inspection system. A decision about the development of such a device is to be made in Q2 2013. Full automation of the technology and the integration of the µsurf cylinder into the inline production process, thus, return on the agenda. The sales and income potential become clear when visualizing the target price in the first batch of EUR1.0-1.5m apiece - even though the development will take some more time.

Prototype with positive client feedback

The prototype development of a quality control device for seal plates (µsprint technology) for a leading producer of seals has been successfully completed according to CFO Sorg. Further follow-on orders are expected in 2012 as the client's feedback was very positive.

NanoFocus receives more responsibility

Medical Technology: production start planned for 2013

For its large medical technology project, NanoFocus has received further responsibilities and sub orders. We consider this pivotal as NanoFocus - measured by the client, its usual suppliers and another partner - is the smallest partner. In our opinion, this proves technological and management competence. The timing - development of the prototype and the initial batch at the turn of 2012/13 and product launch in 2013 - was confirmed again.

Launch of production or license agreement as of 2013

We, thus, expect the first sales and income in 2013. It is not completely agreed, if NanoFocus will produce a significant share of the devices itself or if there will be a license agreement. With an own, high-margin production (high double-digit EBIT margin) NanoFocus would clearly enhance its value-added chain (forward integration) and keep expertise within the company. However, the capital demand would be significant as production would have to be set up and working capital locked up. NanoFocus could minimize these costs by granting licenses for its technology, but it would lose its process expertise at the same time. Over the product cycle of five to six years, CFO Sorg expects double-digit millions of sales.

Business solutions establishing themselves

Solar: acquisition of an OEM client realistic only in the medium term

In our opinion, NanoFocus has achieved considerable success in 2011 (product sales: EURO.9m (0.3)) with its meanwhile well-established business solutions µsurf solar 2.0 and µsprint solar. However, the company remained unsuccessful in trying to establish itself as an OEM producer. As such, NanoFocus would act as mass producer of sensors for solar cell manufacturers. In view of the OEM sales with FTI (product sales 2011: EURO.9m (0.8)) the potential would be significant.

Stronger international expansion sensible in our opinion

In our opinion, acquiring an OEM client will become a challenge also in 2012 due to the difficult situation in the industry, especially in Germany. After a downturn in 2012 we do not expect growth in the solar sector before 2013 as some German NanoFocus clients (amongst others, centrotherm) should reduce their investments. We consider another expansion of the business in Asia strategically sensible (Chinese LDK Solar already as client) to counter the industry consolidation in Germany and to facilitate the stronger international growth of the solar market in the future (see Market and Competition from page 23).

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Market and competition

Automotive, medical technology, semiconductors and solar as target sectors

Global car sales to increase by 4.5% p.a. until 2018

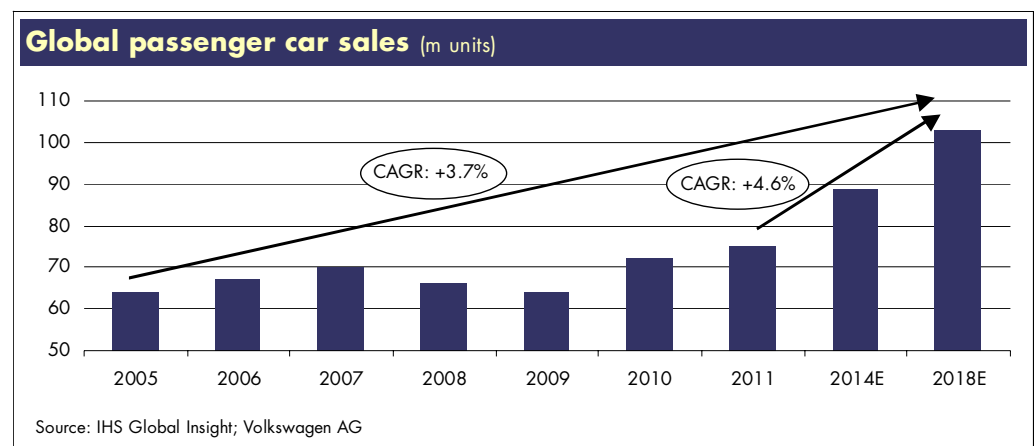
Europe faces strong sales decline in 2012

In our opinion, analysis of target markets more sensible

The measurement technology is a relatively large sector with many different methods. With its 3D measurement system, NanoFocus has a new technological approach and targets four markets with its current and future main products: automotive, medical technology, semiconductor and solar cell manufacturers. Thus, it is sensible, in our opinion, to analyse the target markets instead of the general market environment for measurement technology.

Automotive sector: optimisation of engines remains the focus

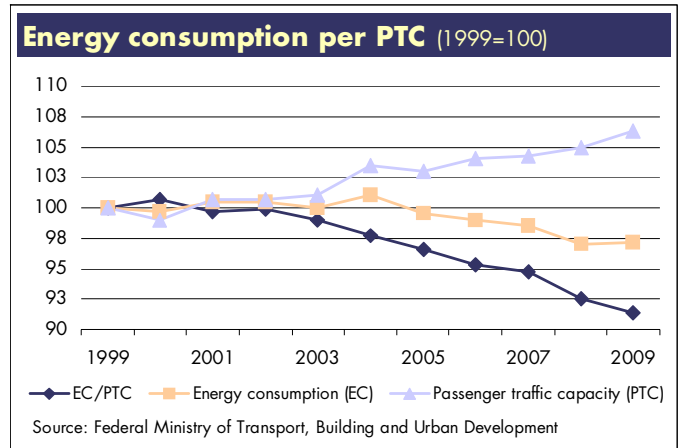
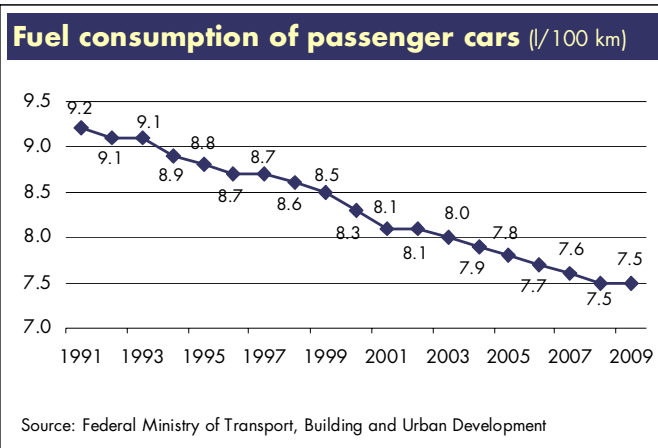
The automotive industry further increased its sales in 2011 with 75m (2010: 72) units sold worldwide. The general situation, thus, has further improved. According to current figures of LMC Automotive, this trend has continued in 7M 2012 with a worldwide sales increase of 6.9% to 47.8m (44.7) units (July: +7.6%). The lasting sales boom in the US slowed down somewhat (7M 2012: +14.0%; July 2012: +9.0%). The Western European market clearly suffered from the economic downturn (7M 2012: -7.5%; July 2012: -7.1%). LMC expects a global sales growth of 5% in 2012. However, Europe is bound to suffer a serious drop in sales (-5%) and production (-6%). In the long term, HIS Global Insight expects a sales increase to 103m units until 2018. The highest growth is expected in India (CAGR 2011-2018: +9.9%) and China (CAGR 2011-2018: +7.5%) while growth of only +1.3% p.a. is forecasted for Western Europe.



Improvement of engine efficiency remains main target

Our valuation of the further development of the market environment for NanoFocus is decisively influenced by the increasing pressure on automobile manufacturers to raise the engine efficiency (fuel consumption) and reduce emissions rather than the short-term fluctuating sales figures. This should be seen in the context of the fact that the combustion engine will remain the dominating technology for the time being. According to a study of PwC, only 9m units or about 9% of the cars sold will have an electronic or hybrid drive in 2020. According to the International Energy Agency, CO₂ emissions will be limited to 130 g/km until 2015 and even to 95 g/km by 2020. This means a reduction of 23% (2015) and 67% (2020), respectively, compared to 2006 (160 g/km), respectively. Thus, the EU has the toughest standards in the world (target 2015: US: 157 g/km; Japan: 141 g/km; China: 132 g/km).

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µsurf cylinder to enhance efficiency of cylinders

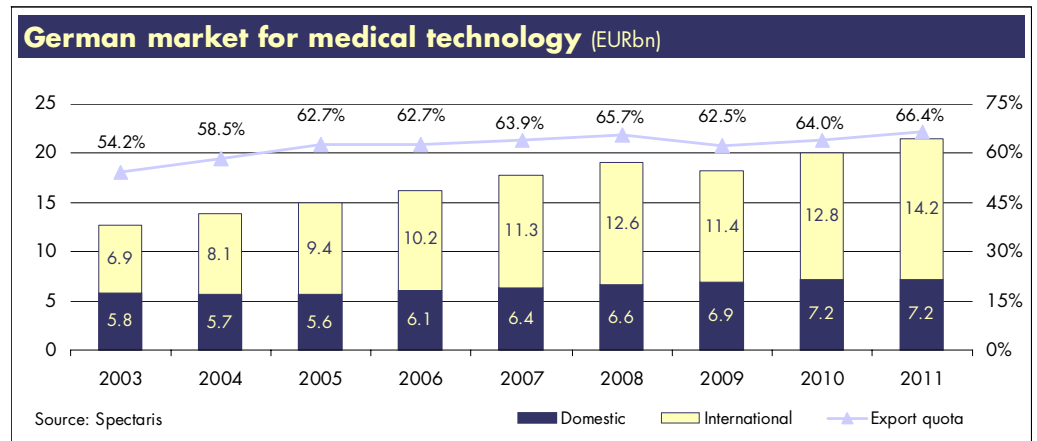
The important engine parts for the reduction of fuel consumption and CO2 emissions are the cylinders and seals. Regarding the former, NanoFocus provides the already established µsurf cylinder. The close cooperation with several manufacturers enables NanoFocus to be part of the development processes from the beginning and, thus, to lock in the following product sales. The prototype of a 3D measurement system for seal inspection was developed for a worldwide leading manufacturer of seals in 2011. This market position - higher-priced high-tech measurement systems to enhance engine efficiency - should enable NanoFocus to expand even in stagnating developed countries. There, it is all about replacing old technologies to meet regulatory demand and reducing production costs (NanoFocus equipment also for quality control) in the highly competitive automotive sector.

Stable growth makes medical technology attractive

Medical and analysis technology: continuous sales increase

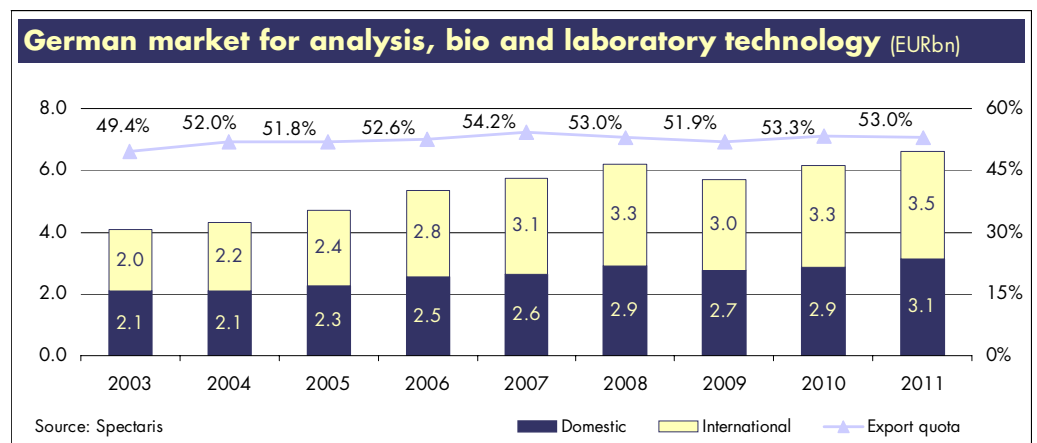
According to the German industry association for optical, medical and mechatronical technologies (Spectaris), sales of the German medical technology manufacturers increased by 6.9% to EUR21.4bn (20.0) in 2011 (international: +10.6%; domestic: +0.4%). After there had been growth of just under 10% in H1 2011, there was a slight downturn in H2 2011. This trend continued from January to April 2012 (industry sales: +4.7%), while international growth (+6.5%; domestic: +1.3%) remained dominating. However, Spectaris hints that growth will decelerate especially internationally due to the economic situation. Still, the association remained optimistic regarding 2012. Growth in Asia is expected at 13%, while the forecast for the Western European market is +2% to +3%. According to a study of the Hamburg Institute of International Economics, the demand will continue to increase until 2020 (US: +4% p.a.; Western Europe: +4% p.a.; China: +10% p.a.). This is, amongst others, due to demographic structures and rising personal incomes in the emerging markets. Also, the market for analysis, bio and laboratory technology (ABL) further expanded in 2011. Industry sales rose by 8.4% to EUR6.6bn (6.1). The companies mainly benefited from high demand from Asia and Eastern Europe while the European market was slightly down. Domestic business (+9.4%) rose stronger than international business (+7.6%) which is mainly owed to public authorities as customers (sales share: 25%) and their independence of economic cycles. Growth of 5% to 6% is expected for 2012.

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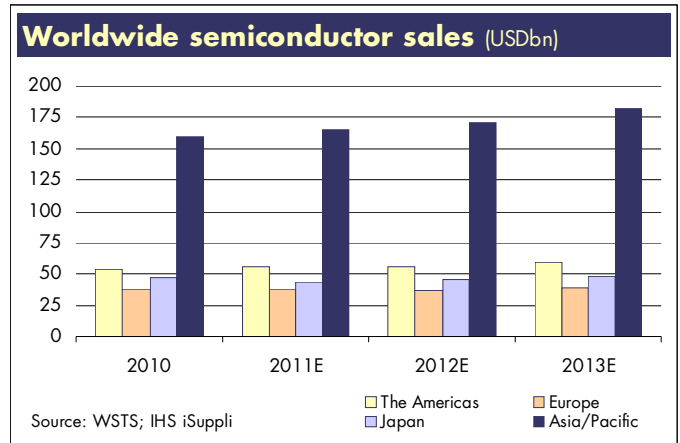
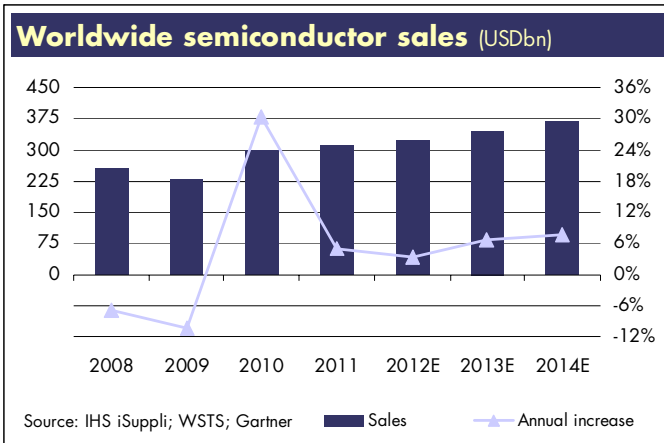


No substantial sales of NanoFocus expected before 2013

Even though NanoFocus supplies companies like Straumann with analysis technology for dental implants, for example, sales in the medical technology sector so far are of less importance (product sales 2011: EURO.0m (0.2); service sales from major project: estimated EURO.7m). In our opinion, the technology of NanoFocus is most interesting for medical technology companies, as especially for medical technology components the surface characteristics in the micro and nanometre dimension are decisive for the therapeutic and, thus, economic success of a product. The surface quality and 100% compliance with the product specifications are essential especially with implants (for example artificial hip joints, dental implants, stents). The development project that we consider most important (medical technology sensor for a worldwide leading medical technology group) targets the characterisation of parts of the human body exactly to the nanometre and the quality control of the reproduction. We consider medical technology an interesting field of activity due to its high innovation and, thus, high demand for new analysis techniques and the stable development even in times of crisis. After the development of the prototype and pilot lot at the turn of the year 2012/13, we expect the first income from the project in 2013.



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HIS iSuppli reduces forecasts for 2012

µsprint semicon is established at Samsung

New application is currently developed with Epcos

Semiconductor industry: weak 2012, no growth before 2013

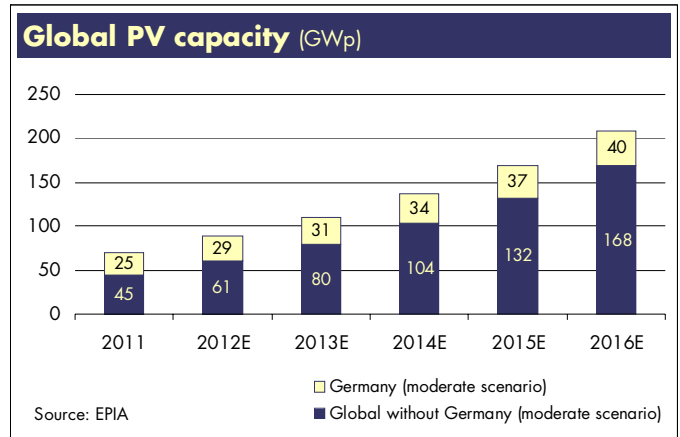
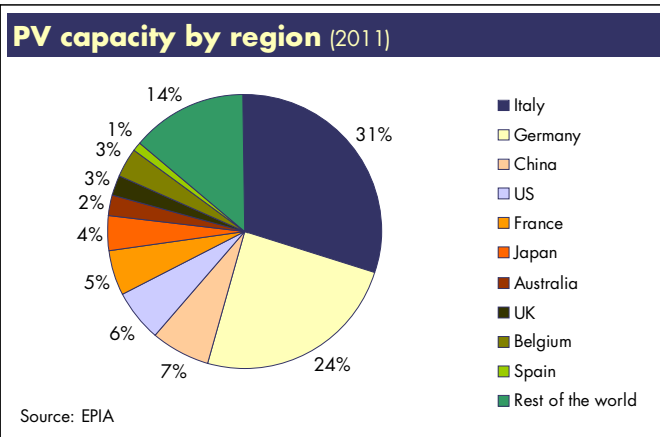
After the clear sales increase of 30.9% in 2010, the semiconductor market further expanded in 2011. Global sales increased by 4.9% to USD312.8bn (298.3). Due to the government debt crisis in Europe, the growth deceleration in China and the insufficient demand for PCs this positive trend ended in Q2 2012. Global semiconductor sales dropped 3% to USD75.2bn (77.5) in Q2 2012. The increase over the seasonally weaker Q1 2012 of +3% was also very limited (usually at least +4%). There were sales decreases especially in Europe (-8.3%) and Japan (-7.5%). In addition, IHS iSuppli reduced its sales forecast for 2012 to -0.1% (before: +3.3%; first reduction since 2009) at the end of August due to the very conservative guidance of major chip manufacturers for Q3 2012. However, we welcome that the forecasts for 2013 (about +9%) and 2014 (about +4%) were confirmed. According to IHS iSuppli, risks have increased, however (among others intensification of the euro crisis, further growth decline in China, budget reductions in the US etc.).

Ever more exact and quicker measurement techniques are necessary in the manufacturing of ever smaller parts. The positioning of GHz chips, coating characteristics or sub-micrometer structures are measured and controlled, for example. With the NanoFocus measurement systems, the geometry of micro parts can be measured three-dimensionally, contactless and non-destructively and it can be analysed automatically. Industry solution µsprint semicon that was launched in 2010 is getting more and more established in the market which, in our opinion, is reflected in the increased product sales of EURO.8m (0.5) with semiconductor clients in 2011. Reference client Samsung has posted several follow-up orders according to CFO Sorg. Also, NanoFocus is launching a new R&D project with Epcos at the moment. However, the product development in the semiconductor segment is not as far advanced as in the automotive (especially µsurf cylinder) and medical technology (major project) segments, in our opinion. The industry solutions are mainly used in R&D applications and manufactured in smaller quantities. The in-line capability has not yet been achieved.

Solar sector: 2012 a year of transition

The global market for photovoltaic systems continued its dynamic development in 2011. The number of annually installed new capacities rose by 76.5% to 29.7 GW (16.8) in 2011 according to the European Photovoltaic Industry Association (EPIA). Total capacity increased by 74.1% to 69.7 GW (40.0). The installation of capacities will diversify in the coming years, according to EPIA. In its moderate scenario, EPIA forecasts an increase of global

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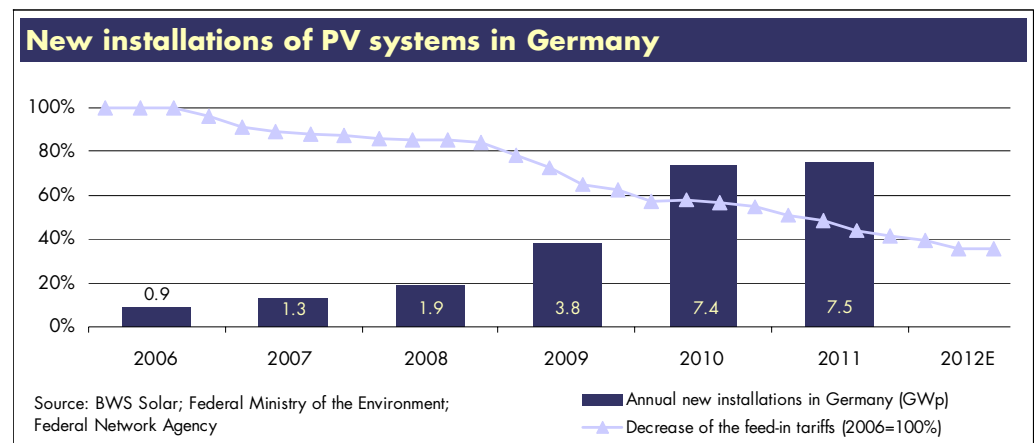


Further increase in installed capacity - manufacturers with excess capacities

capacities to 207.9 GW (CAGR 2011-2016: +24.5%; CAGR Germany: +10.0%) until 2016. The main reason that growth in Germany has slowed down so much should be the one-time reduction of solar subsidies by 20% to 30% decided retroactively as of April 1, 2012. Also, solar subsidies will now be reduced by at least 1% every month. Despite the increase in installed capacity high excess capacities caused significant price pressure for example for silicon solar cells. Capacity expansion will decelerate according to IMS Research (2012: +10%; +50% in 2011). However, the surplus in supply (production capacities of 55 GW expected in 2012) should continue to put module prices under pressure as EPIA is expecting new installations of only 20.2 GW in 2012.

No new expenses for Nano Focus

Therefore, we expect that sales of NanoFocus will be weaker in the solar segment in 2012. However, development work for industry solutions is already completed (customers are Bosch Solar, centrotherm and Meyer Burger, amongst others). Accordingly, NanoFocus will not charge new costs. In 2013, we see the potential for a return to the growth path as there is still the need for cost reduction and efficiency enhancement in the industry. The business solutions μ surf solar 2.0 and μ spint solar target these aspects and allow an analysis of different types of solar cells which is exact to the nanometre, contactless and non-destructive. In our opinion, especially high tech solar companies will be customers of the products of NanoFocus. We would also welcome a transfer of these business solutions internationally. With LDK Solar as a new customer, a first step has already been made.



Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

Income Statement

	Unit: Financial year: Accounting standard:	EURm Dec. 31 HGB	2008	2009	2010	2011	2012E	2013E
Sales			6.5	5.0	6.5	8.2	9.6	12.3
Change in inventory			0.3	0.2	0.1	0.3	0.1	0.1
Own work capitalised			0.0	0.0	0.5	0.6	0.7	0.3
Other operating income			0.1	0.4	0.7	0.3	0.3	0.3
Total operating performance			7.0	5.6	7.7	9.5	10.7	13.1
Cost of materials			-2.4	-1.8	-2.1	-2.8	-3.0	-3.8
Gross profit			4.6	3.8	5.6	6.6	7.6	9.2
Personnel expenses			-2.2	-2.4	-2.9	-3.4	-3.8	-4.1
Other operating expenses			-1.7	-1.5	-2.0	-2.3	-2.6	-3.1
EBITDA			0.8	-0.1	0.7	0.9	1.3	2.0
Depreciation and amortisation			-0.5	-0.5	-0.6	-0.6	-0.8	-1.0
EBIT			0.3	-0.6	0.1	0.2	0.5	1.0
Financial results			0.0	-0.1	-0.1	-0.1	-0.1	-0.1
EBT			0.2	-0.7	-0.1	0.1	0.4	0.9
Extraordinary expenses			0.0	0.0	0.0	0.0	0.0	0.0
Income taxes and other taxes			0.0	0.0	0.0	-0.1	-0.1	-0.1
Minority interests			0.0	0.0	0.0	0.0	0.0	0.0
Net income			0.2	-0.7	-0.1	0.1	0.3	0.8
Weighted average number of shares (m)			2.250	2.293	2.480	2.795	2.915	3.000
Earnings per share (EUR)			0.09	-0.32	-0.02	0.02	0.11	0.26
Dividends per share (EUR)			0.00	0.00	0.00	0.00	0.00	0.00

Source: Independent Research; NanoFocus AG

Income Statement (positions in % of sales)

	Unit: Financial year: Accounting standard:	in % Dec. 31 HGB	2008	2009	2010	2011	2012E	2013E
Sales			100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Change in inventory			4.6%	3.5%	0.9%	4.1%	1.0%	0.9%
Own work capitalised			0.5%	0.0%	7.1%	7.3%	6.9%	2.5%
Other operating income			2.3%	8.2%	10.3%	3.6%	3.1%	2.4%
Total operating performance			107.4%	111.7%	118.3%	115.0%	111.1%	105.9%
Cost of materials			-36.8%	-36.3%	-32.5%	-34.2%	-31.5%	-30.9%
Gross profit			70.6%	75.4%	85.8%	80.8%	79.5%	75.0%
Personnel expenses			-33.4%	-47.6%	-44.9%	-41.9%	-39.0%	-33.5%
Other operating expenses			-25.5%	-29.9%	-30.2%	-28.3%	-27.1%	-25.4%
EBITDA			11.7%	-2.1%	10.7%	10.6%	13.4%	16.1%
Depreciation and amortisation			-7.9%	-10.7%	-9.5%	-7.9%	-8.0%	-8.2%
EBIT			3.9%	-12.7%	1.2%	2.7%	5.4%	7.9%
Financial results			-0.6%	-1.6%	-2.1%	-1.3%	-1.1%	-0.9%
EBT			3.3%	-14.4%	-0.9%	1.4%	4.3%	7.0%
Extraordinary expenses			0.0%	0.0%	0.0%	0.0%	-0.3%	0.0%
Income taxes and other taxes			0.0%	0.0%	0.0%	-0.6%	-0.8%	-0.7%
Minority interests			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income			3.2%	-14.4%	-0.9%	0.8%	3.2%	6.3%

Source: Independent Research; NanoFocus AG

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Balance sheet

Unit: EURm							
Financial year: Dec. 31		2008	2009	2010	2011	2012E	2013E
Accounting standard: HGB							
Capital subscribed not paid in		0.0	0.0	0.0	0.0	0.0	0.0
Expenditures for start-up and expansion of business operations		0.1	0.0	0.0	0.0	0.0	0.0
Intangible assets		2.8	2.5	2.6	2.8	3.0	2.6
Property, plant and equipment		0.1	0.1	0.5	0.5	0.8	1.4
Financial assets		0.1	0.1	0.1	0.1	0.1	0.1
Total non-current assets		3.1	2.8	3.2	3.4	3.9	4.1
Inventories		2.4	2.4	2.0	2.7	2.9	3.6
Receivables and other assets		2.6	2.5	3.0	3.2	3.7	4.5
Trade receivables		2.2	2.1	2.6	2.8	3.3	4.1
Other current receivables/assets		0.4	0.4	0.4	0.4	0.4	0.5
Securities		0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents		1.7	1.9	3.2	2.2	2.0	1.6
Total current assets		6.6	6.8	8.2	8.1	8.6	9.7
Deferred expenses and accrued income		0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax assets		0.0	0.0	1.3	1.5	1.5	1.5
Total assets		9.8	9.7	12.8	13.1	14.1	15.4
Subscribed capital		2.2	2.5	2.8	2.8	3.0	3.0
Kapitalrücklage		4.3	4.8	5.8	5.8	6.1	6.1
Retained earnings related to deferred taxes		0.0	0.0	1.2	1.2	1.2	1.2
Capital contributions		0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss carried forward		0.0	0.0	0.0	0.0	0.0	0.0
Retained earnings		0.0	0.0	0.0	0.0	0.0	0.0
Net income		0.2	-0.5	-0.6	-0.5	-0.2	0.6
Total equity		6.7	6.8	9.2	9.2	10.1	10.9
Investment grants to non-current assets		0.0	0.0	0.0	0.0	0.0	0.0
Provisions		0.2	0.3	0.2	0.2	0.2	0.3
Financial liabilities		2.0	1.6	2.2	1.8	1.9	2.1
Advanced payments received		0.1	0.1	0.1	0.1	0.1	0.1
Trade payables		0.5	0.3	0.5	1.1	1.2	1.4
Liabilities to affiliated companies		0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities		0.2	0.5	0.4	0.3	0.2	0.2
Total liabilities		2.9	2.6	3.3	3.3	3.4	3.8
Deferred income and accrued expenses		0.0	0.1	0.0	0.0	0.0	0.1
Deferred tax liabilities		0.0	0.0	0.2	0.3	0.3	0.3
Total equity and liabilities		9.8	9.7	12.8	13.1	14.1	15.4

Source: Independent Research; NanoFocus AG

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Balance sheet (Positions in % of balance sheet total)

Unit: Financial year: Accounting standard:	in % Dec. 31 HGB	2008	2009	2010	2011	2012E	2013E
Capital subscribed not paid in		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expenditures for start-up and expansion of business operations		0.5%	0.3%	0.0%	0.0%	0.0%	0.0%
Intangible assets		28.5%	26.1%	20.2%	21.3%	21.2%	16.9%
Property, plant and equipment		1.4%	1.4%	3.6%	3.8%	5.8%	9.1%
Financial assets		1.3%	1.3%	1.0%	1.0%	0.9%	0.8%
Total non-current assets		31.1%	28.7%	24.8%	26.0%	27.8%	26.9%
Inventories		23.9%	24.4%	15.9%	20.5%	20.6%	23.1%
Receivables and other assets		26.1%	25.6%	23.2%	24.4%	26.2%	29.4%
Trade receivables		22.1%	21.3%	20.3%	21.5%	23.3%	26.3%
Other current receivables/assets		4.0%	4.3%	3.0%	2.9%	2.9%	3.0%
Securities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash and cash equivalents		17.4%	20.0%	25.2%	17.2%	14.3%	10.4%
Total current assets		67.4%	70.0%	64.3%	62.1%	61.1%	62.9%
Deferred expenses and accrued income		1.0%	1.0%	0.5%	0.4%	0.5%	0.6%
Deferred tax assets		0.0%	0.0%	10.4%	11.4%	10.6%	9.7%
Total assets		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Subscribed capital		22.8%	25.6%	21.9%	21.4%	21.2%	19.5%
Kapitalrücklage		43.2%	49.8%	45.2%	44.1%	43.5%	39.9%
Retained earnings related to deferred taxes		0.0%	0.0%	9.1%	8.9%	8.2%	7.6%
Capital contributions		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit/loss carried forward		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Retained earnings		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income		2.1%	-5.3%	-4.5%	-3.9%	-1.4%	3.7%
Total equity		68.2%	70.1%	71.8%	70.5%	71.6%	70.7%
Investment grants to non-current assets		0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions		2.4%	2.8%	1.5%	1.7%	1.7%	1.8%
Financial liabilities		20.3%	16.6%	17.6%	13.6%	13.3%	13.5%
Advanced payments received		1.2%	0.9%	0.6%	0.9%	0.9%	0.8%
Trade payables		5.3%	3.5%	4.3%	8.3%	8.2%	9.2%
Liabilities to affiliated companies		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other liabilities		2.2%	5.5%	3.0%	2.2%	1.6%	1.5%
Total liabilities		29.0%	26.5%	25.5%	24.9%	24.0%	25.0%
Deferred income and accrued expenses		0.3%	0.5%	0.0%	0.3%	0.3%	0.3%
Deferred tax liabilities		0.0%	0.0%	1.2%	2.6%	2.4%	2.2%
Total equity and liabilities		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Independent Research; NanoFocus AG

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Cash flow statement

Unit:	EURm						
Financial year:	Dec. 31	2008	2009	2010	2011	2012E	2013E
Accounting standard:	HGB						
Net income		0.2	-0.7	-0.1	0.1	0.3	0.8
+/- Loss/gain on the disposal of PP&E		0.0	0.0	0.0	0.0	0.0	0.0
+ Depreciation and amortisation		0.5	0.5	0.6	0.7	0.8	1.0
+/- Own work capitalised		0.0	0.0	0.0	0.0	0.0	0.0
+/- Changes in provisions		0.0	0.0	0.0	0.0	0.0	0.0
+/- Other non-cash expenses/income		0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from sales activities		0.7	-0.2	0.6	0.7	1.1	1.8
-/+ Changes in inventories, receivables/other current assets		-1.1	0.1	-0.5	-0.9	-0.7	-1.5
+/- Changes in payables and other liabilities		0.3	-0.1	0.0	0.6	0.0	0.3
+/- Gain/loss from extraordinary items		0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities		-0.1	-0.2	0.1	0.4	0.4	0.6
+ Proceeds from sale of assets		0.0	0.0	0.0	0.0	0.0	0.0
- Expenses for purchase of assets		-0.2	-0.2	-0.1	-0.3	-0.6	-0.9
- Own work capitalised		0.0	0.0	-0.5	-0.6	-0.7	-0.3
Cash flow from investing activities		-0.2	-0.2	-0.6	-0.9	-1.3	-1.2
+ Proceeds from equity increases		0.0	0.8	1.3	0.0	0.6	0.0
+ Proceeds from finance lease		0.0	0.3	-0.1	-0.1	0.0	0.0
-/+ Repayments of/proceeds from financial liabilities		0.1	-0.4	0.6	-0.5	0.1	0.2
Cash flow from financial activities		0.1	0.6	1.8	-0.5	0.7	0.2
Change in financial position		-0.3	0.2	1.3	-1.0	-0.2	-0.4
Other non-cash items		0.0	0.0	0.0	0.0	0.0	0.0
Financial position - start of period		2.0	1.7	1.9	3.2	2.2	2.0
Financial position - end of period		1.7	1.9	3.2	2.2	2.0	1.6

Source: Independent Research; NanoFocus AG

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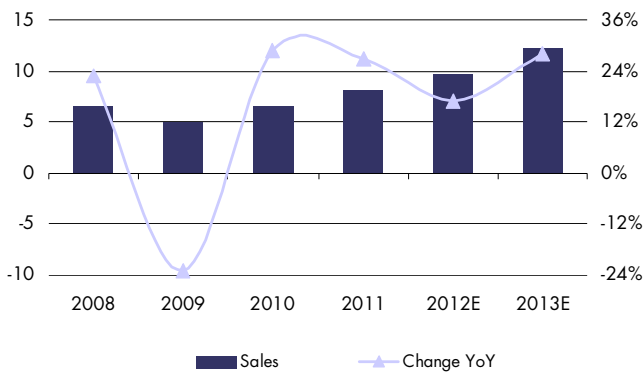
Key figures

Financial year: Accounting standard:	Dec. 31 HGB	2008	2009	2010	2011	2012E	2013E
Growth rates							
Sales growth		23.0%	-23.1%	28.9%	26.9%	17.0%	28.2%
EBITDA growth		280.7%	-	-	26.1%	48.1%	53.7%
EBIT growth		-	-	-	192.7%	134.3%	88.8%
EBT growth		-	-	-	-	262.0%	108.5%
EPS growth		-	-	-	-	373.4%	145.2%
Margins							
EBITDA margin		11.7%	-2.1%	10.7%	10.6%	13.4%	16.1%
EBIT margin		3.9%	-12.7%	1.2%	2.7%	5.4%	7.9%
EBT margin		3.3%	-14.4%	-0.9%	1.4%	4.3%	7.0%
Net margin		3.2%	-14.4%	-0.9%	0.8%	3.2%	6.3%
Yield analysis							
ROI		2.2%	-7.4%	-0.5%	0.5%	2.3%	5.2%
ROCE		3.7%	-9.3%	1.1%	1.6%	5.1%	9.2%
ROE before taxes		3.2%	-10.7%	-0.7%	1.2%	4.3%	8.2%
ROE after taxes		3.2%	-10.7%	-0.7%	0.7%	3.2%	7.4%
ROIC		2.9%	-7.4%	0.7%	1.1%	3.6%	7.0%
Balance sheet analysis							
Equity ratio		68.2%	70.1%	71.8%	70.5%	71.6%	70.7%
Equity/non-current assets ratio		2.2	2.4	2.9	2.7	2.6	2.6
Equity + non-current debt/non-current assets ratio		2.7	3.0	3.5	3.1	3.0	3.0
Asset intensity		31.7%	29.0%	24.8%	26.0%	27.8%	26.9%
Inventory turnover		3.2	2.1	3.0	3.5	3.4	3.8
Receivables turnover		3.3	2.4	2.8	3.0	3.2	3.4
Days of sales outstanding		109.3	153.6	130.8	119.8	115.9	108.8
Working capital/sales ratio		54.3%	78.4%	61.6%	50.4%	47.9%	44.5%
Days of payables outstanding		62.1	85.7	76.6	105.4	135.1	123.2
Debt ratios							
Net financial debt		0.3	-0.1	-0.8	-0.4	-0.1	0.5
Net financial debt/EBITDA		0.1	-1.1	-0.6	-0.7	-0.2	0.1
Net Gearing		0.0	0.0	-0.1	0.0	0.0	0.0
EBITDA interest coverage		6.6	-	4.4	6.2	10.3	15.0
EBIT interest coverage		2.2	-	0.5	1.6	4.1	7.4
Cash flow analysis							
Free cash flow (FCF)		-0.4	-0.4	-0.5	-0.5	-0.9	-0.6
FCF/sales		-5.4%	-8.1%	-8.3%	-5.5%	-9.4%	-5.0%
FCF/net income		-166.5%	-	-	-723.8%	-294.7%	-79.2%
FCF per share (EUR)		-0.16	-0.18	-0.22	-0.16	-0.31	-0.20
FCF yield		-4.7%	-4.1%	-5.2%	-4.9%	-10.1%	-6.7%
Capex		0.2	0.2	0.1	0.3	0.6	0.9
Capex /depreciation		149.6%	118.1%	49.2%	92.7%	149.0%	137.0%
Capex/sales		3.8%	4.4%	2.0%	3.4%	6.6%	7.3%
Valuation multiples							
EV / sales		1.2	2.0	1.5	1.1	1.0	0.7
EV / EBITDA		10.0	neg.	13.9	10.2	7.1	4.6
EV / EBIT		30.4	neg.	127.5	40.2	17.7	9.4
EV / FCF		neg.	neg.	neg.	neg.	neg.	neg.
P/E		35.2	neg.	neg.	148.2	29.1	11.8
P/B		1.1	1.5	1.1	1.0	0.9	0.8
P/CF		neg.	neg.	126.7	21.3	22.9	15.3
P/S		1.1	2.0	1.6	1.1	1.0	0.7
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Independent Research; NanoFocus AG

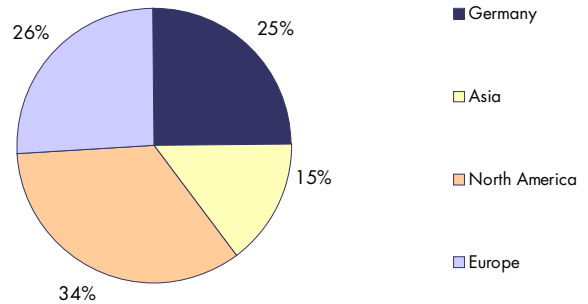
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Sales development (EURm)



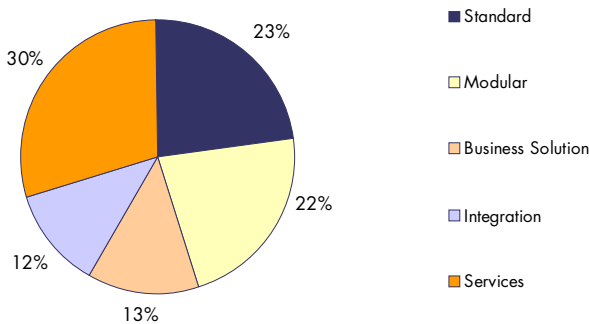
⇒ After the economic downturn in 2009 and 2010 led to a dip in growth NanoFocus achieved record sales in 2011 again
 ⇒ Especially the medical technology project will be a growth driver in 2013

Sales by region (2011)



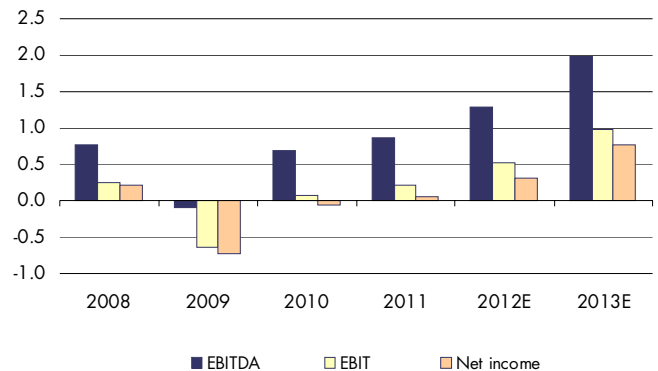
⇒ NanoFocus still makes about half its sales in Germany
 Through the strong growth in the segment semiconductors (e.g. customer Samsung) the Asian business gained in importance

Sales by segment (2011)



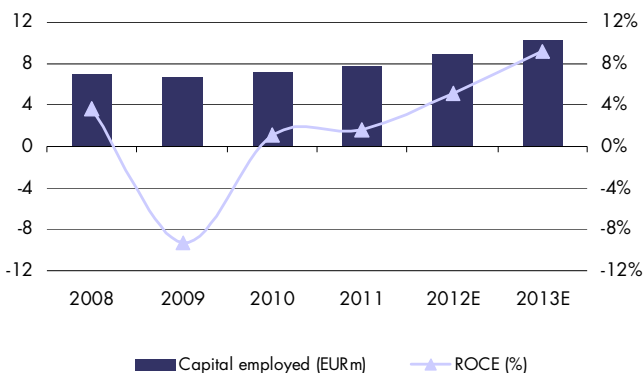
⇒ The importance of the high-margin Services business should be highlighted
 ⇒ We expect a strengthening of the customer-specific segment Business Solution (e.g. medical tech. project; µsurf cylinder) in the coming years

Earnings development (EURm)



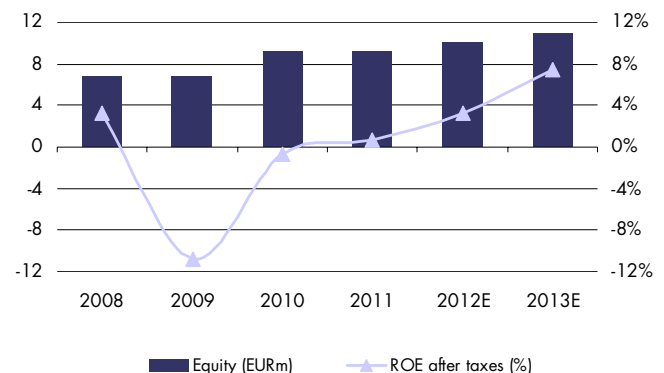
⇒ The economic downturn is reflected in 2009 losses
 ⇒ Along with the change towards a producing company economies of scale will gain importance with significantly increasing earnings

ROCE and capital employed



⇒ Due to the low EBIT, ROCE is currently low
 ⇒ In spite of the increasing capital employed (e.g. capex) we expect significantly higher ROCE due to the earnings improvement

ROE and equity



⇒ The capitalisation of development costs lead to an equity increase in 2010
 ⇒ The increase of ROE to more than 7% reflects the earnings improvement. We think further improvement is to be expected and necessary

Source: Independent Research; NanoFocus AG

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Disclaimer

Recommendations concerning particular shares (starting December 18, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
- Hold: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
- Sell: According to our assessment, the stock will decline in absolute terms within a 6-month period.

Recommendations concerning particular shares (until December 17, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
- Accumulate: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
- Reduce: According to our assessment, the stock will decline by between 0% and 15% in absolute terms within a 6-month period.
- Sell: According to our assessment, the stock will decline by least 15% in absolute terms within a 6-month period.

Compulsory information required under Section 34b of the German Securities Trading Act (WpHG) and the Financial Analysis Regulation

Key sources of information

Key sources of information used in the preparation of this document are publications in foreign and domestic media such as information services (e.g. Reuters, VWD, Bloomberg, DPA-AFX etc.), the financial press (e.g. Börsenzeitung, Handelsblatt, FAZ, FTD, Wall Street Journal, Financial Times etc.), specialised journals, published statistics, rating agencies and publications of the issuers under coverage.

Summary of the valuation principles used:

Analyses of shares:

In valuing companies standard and accepted valuation methods (amongst others the Discounted Cash Flow Method (DCF Method), Peer-Group Analysis) are applied. Under the DCF Method the net value of the issuer is calculated, which represents the sum of the discounted company results, i.e. the net present value of the issuer's future net cash flows. The net value is therefore determined with reference to the company's anticipated future results and the discount rate applied. Under the Peer-Group Analysis Method issuers quoted on the Stock Exchange are valued with reference to the comparison of valuation multiples (e.g. price/earnings ratio, price/book value, enterprise value/sales, enterprise value/EBITDA, enterprise value/EBIT). Comparability of the valuation multiples is primarily determined by business activity and economic prospects.

Sensitivity of the valuation parameters:

The figures taken from the income statement, the cash flow statement and the balance sheet, upon which the valuation of companies is based, are numerical estimates and therefore subject to risks. These may change at any time without prior notice.

Quite apart from the valuation method applied, there is a very real risk that the share price target may not be reached in the anticipated period of time. Risks include unforeseen changes in competitive pressure or in demand for the issuer's products. Such fluctuations in demand may arise as a result of changes of a technological nature, the overall level of economic activity or in some cases as a result of changes in moral concepts. Changes in tax law, in exchange rates and, in certain business segments, in regulations are other factors which can influence valuations. The above discussion of valuation methods and risk factors makes no claim to be exhaustive.

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Emittent	Conflicts of interest
NanoFocus AG	5, 6

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