Annual Financial Statements Nabaltec AG 2009

OUR KNOW-HOW FOR YOUR SAFETY

NABALTEC AG
2009 Annual Report

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2009

1. OPERATIONS AND GENERAL CONDITIONS

1.1 BUSINESS OPERATION

Nabaltec AG develops, manufactures and distributes highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide (‘ATH’) and aluminum oxide. The Company belongs to the world’s leading suppliers of functional fillers, ceramic raw material and ceramic bodies. The annual production capacity entails approximately 240.000 tons with an export share amounting to around 70 %.

The range of applications of Nabaltec products is extremely diversified:

- Flame retardants for the plastics industry used for example for cabling in tunnels, airports, high-rises and electronic equipment and serve above all as fire protection
- Fillers and additives that pigment and stabilize plastics or that are applied due to their catalyst character
- Ceramic raw materials applied in the plastics industry, in technical ceramics and in the abrasives industry
- Highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters

We expanded our product and application range in 2009 by two promising product divisions: specialized products for the PVC industry (additives) and for the electronics industry (boehmite).

Whenever applications require a high degree of quality, safety, environmental friendliness and product duration, Nabaltec products are always preferred.

As the world’s exclusive supplier of fine precipitated aluminum hydroxide that is used as high-quality non-halogenated, flame-retardant fillers, Nabaltec disposes of production sites in the most important demand-driven markets in Europe and USA (i.e. in Schwandorf and Kelheim, Germany, as well as via her subsidiary, Nashtec, in Corpus Christi, USA). This permits Nabaltec to produce cost-efficiently in customer proximity and to serve these significant markets directly.

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. All sales team members have specialized technical and chemical expertise, so that expert advice is guaranteed at all times. This proximity to our clients is fundamental for the concerted, client-specific development of our products.

1.2 CORPORATE STRUCTURE

Nabaltec, based in Schwandorf, was formed in 1994 and, in 1995, acquired the specialty alumina division of VAW aluminium AG. In September 2006, it was transformed into a publicly traded company and has been listed in the Entry Standard of the Frankfurt stock exchange since November 2006.

The Company owns a 51 % interest in Nashtec Management Corp. and a 51 % interest (50.49 % directly and indirectly via Nashtec Management Corp., which holds 1 % of the shares as the general partner) in Nashtec L.P. (USA) as part of a joint venture. The Company does not have any other holdings or subsidiaries.

In order to position itself in the market as precisely and distinctly as possible, Nabaltec AG's operations are divided into two divisions, each in turn comprising two business units. In addition, the Company operates three service departments as profit, respectively, cost centers.

BUSINESS DIVISIONS
Functional Fillers:
- Flame Retardants
- Additives

Technical Ceramics:
- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTRES
Administrative Services
Technical Services
Laboratory Services

1.3 STRATEGY
For the further development of the Company, Nabaltec AG focuses on the following core strategic areas:

1. **Continuous improvement of production processes as well as product quality so as to optimize customer benefits**

Through our integrated sales team and technical support staff, we are engaged in a constant exchange with her customers. The Company's product and process development activities are continuously geared so as to offer customers processing advantages through simple and faster production processes and, consequently, those benefits relating to lower manufacturing and development costs. In order to achieve this, the directed exchange with customers is essential, in particular regarding product and processing know-how. To this end, the testing facility in Kelheim and the research and development department at the Schwandorf site are constantly being expanded and collaborations with research institutions are being further intensified.

Optimizing processes includes efficient energy use as well as comprehensive environmental protection, both of which represent a major competitive factor. Therefore, Nabaltec has taken extensive measures in order to optimize energy consumption as well as minimize air and water pollution during operations.

2. **Systematic expansion of our product range**

Besides the continuous improvement of existing products, new products are developed for selected applications – often in close collaboration with key customers. In 2009, the

Company not only launched two of such newly developed products, but also started producing and marketing these on industrial scale.

So doing, Nabaltec developed an environmentally friendlier stabilizer for the PVC industry in 2008 and 2009 in the new business division ‘Additives’. This product replaces plumbiferous substances that are still predominantly used in plastics. Based on familiar processes and in close liaison with key customers, we could develop a new product with a high added value. Subsequent to the successful test phase of the new production facility, the production on industrial scale commenced in Q4:2009.

The testing facility in Kelheim allows development activities and sample productions of up to several hundred tons for the product launch on small scale. Currently, boehmite grades developed by Nabaltec are being manufactured at this site. These are used as environmentally friendly, non-halogenated flame retardants for applications requiring extremely high processing temperatures, e.g. non-halogenated, flame-retardant conductor plates. The Nabaltec product APYRAL® AOH can be processed at temperatures of up to 320°C without any difficulty. Given that the high demand for this product has already led to the full use of the production capacity in Kelheim, large scale production at the facilities in Schwandorf has been planned for 2010.

3. **In its target markets, Nabaltec AG strives for quality leadership and a market share among the top three suppliers**

Fire safety concerns within the plastics and cable & wire industry will continue to grow in the years to come. Halogenated flame retardant fillers will consistently be replaced by non-halogenated fillers. In order to benefit from this trend disproportionately high and to gain market leadership within this segment, we have specifically expanded our production capacity for ATH-based flame retardant fillers. Today, Nabaltec is one of the world’s two leading suppliers in this area.

In the ceramic raw materials segment, the market for reactive alumina is developing relatively well due to refractory industry requirements. The markets for technical ceramics and the abrasive industry also continue showing solid growth. Nabaltec responds to this growth by further developing innovative, new products. Measured on the basis of quantitative output, and according to our own research, Nabaltec is Number 4 in the market. Taking into consideration the high-quality product divisions, our market position is even better.

Nabaltec is already the market leader in freely available ceramic bodies for highly specialized applications in technical ceramics and its position will be further strengthened by the state-of-the-art production facility for granulated ceramic bodies in Schwandorf.

4. **Nabaltec benefits from worldwide growth triggers and regional economic development through international growth**

Environmentally friendly as well as highly safe solutions are advancing forward worldwide, encouraged particularly through regulatory requirements or industrial negotiated agreements. With an export share of approximately 70 %, we already profit from these worldwide trends. The aim of being the one of the world’s top 3 suppliers in the target markets goes hand in hand with the aim of being equally well represented in all world markets. Our focal point regarding market expansion measures is currently on North America and Asia.

5. **Flexible and quick adaption of capacities and cost structures thanks to high-resolution controlling processes**

Nabaltec pursues a margin oriented capacity policy. Fluctuations in demand have to be taken into account as soon as possible, since the production processes in specialty chemistry can only be expanded or reduced with an imminent delay should such production processes simultaneously remain profitable. Therefore, Nabaltec has developed a much differentiated controlling system that reacts fast; and has at its disposal the appropriate instruments so as to align costs with fluctuations in demand.

1.4 CONTROLLING

Nabaltec AG disposes of a differentiated cost-performance accounting, which is largely shaped by direct costing. Through multi-level contribution margin accounting, results are represented transparently. Deviations are constantly only allocated and charged to those responsible. This controlling system is the basis for the management of the Company and covers business divisions as well as service centers. It delivers information quickly and reliably regarding actual results and deviations from the budget as well as the effectiveness of decisions and taken measures.

The controlling system forms the basis of the companywide incentive scheme, assigning responsibilities and defining specific objectives for even the smallest units of the Company. As such, our cost-performance accounting system is an extensive means to achieve Company objectives. Variance analyses are available online, indicating need for action at an early stage, and promoting leadership through defined incentives. Variance analyses are performed for all cost centers each month.

Corporate data are presented monthly in each business division as well as to Management, where results and alternative measures for action are discussed and implemented. The structure of the actual corporate data corresponds to that employed for the budget. A forecast is prepared subsequent to the quarter close.

Since 1998, the EDP software ‘Navision’ is in use by all commercial departments. The entire administration of the cost-performance accounting system, including the earnings statement, has been performed by Nabaltec since 2003 on the basis of the controlling software ‘macs’.

Revenues, contribution margin, EBIT, ROI, useful lives and cash flows are the central key figures used as a basis for our business economic decisions.

2. COURSE OF BUSINESS IN 2009

2.1 MACROECONOMIC DEVELOPMENT

The global recession has affected nearly all of Nabaltec's major markets and segments in 2009. Worldwide economic performance decreased by 1.1 %. The German economy decreased by 4.9 %; the highest decrease within the recent past. Other European countries also faced a considerable economic downturn. Among the large European economies, the economic performance e.g. in France decreased by 2.3 %, Great Britain by 4.7 % and Spain by 3.6 %. In the Italian market, of particular importance to Nabaltec, the economy suffered a downturn of 4.8 %. The strongest recession was felt in Russia, where economic growth turned from +5.6 % to -7.4 %. The US economy weakened by 2.5 %, which is slightly better than was expected. In 2009, the Japanese economic recession continued at the prevailing rate of -5.4 %. The only exceptions from the downward trend among the large economies were China and India with economic growth of 8.5 % and 6.0 %, respectively.

The economic development in 2009 was marked by extreme uncertainty across all boards. Not only was this made explicit through the continued downward rectification of economic forecasts for the first half of 2009. As from the second half of 2009, there was a worldwide economic bottoming out.

2.2 INDUSTRY DEVELOPMENT

In 2009, the German chemical industry experienced the most difficult year in history, according to the German Chemical Association (VCI). Industry wide production had to be temporarily reduced by 30 % in the first half year. Despite bottoming out and economic stimulation in the second half of the year, the industry suffered a production decrease of 10 % p.a. Capacity utilization fell to an average of 75 % and the production level, according to VCI, reached 2004 levels. Total revenue for the chemical industry decreased by 12.5 %. International sales were more stable than domestic demand. The weak market also affected investments, which decreased by 10 % compared to prior year investments.

The buyers' market for functional fillers as well as that for technical ceramics was confronted with very similar developments. The first half of 2009 was characterized by receding markets. As of the middle of the year, the floor was reached and on a lower level, consolidation commenced. Individual indirect target industries, such as the automobile industry and infrastructure and construction industry temporarily benefited from governmental schemes. However, these effects were hardly felt by upstream industries, such as buyers of functional fillers and technical ceramics.

Nevertheless, the long term trend of increasing demand for non-halogenated, flame-retardant fillers and in particular aluminum hydroxide is still intact, propelled by newly issued fire protection regulations around the world. Current, independent forecasts assume an annual increase in demand of worldwide 8.1 % till 2014. This market growth is further stimulated by the growing public consciousness for fire safety and the ongoing replacement of potentially hazardous flame retardants with environmentally friendly, halogen-free aluminum hydroxide. This growth in demand affects fine precipitated aluminum hydroxide most of all, an area where Nabaltec is very well-positioned thanks to its investments in recent years.

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand of the steel industry. In the wake of the global economic downturn, the steel industry also had to shut down capacity at the end of 2008, and only gradually started expanding capacity again end 2009. In 2009, worldwide steel production decreased by 8.4 %, despite the positive economic development in China and India. Yet, long term trends, such as the improvement to the durability of refractory products required by their manufacturers (which promotes highly refined special aluminum oxide); have withstood the latest economic developments.

2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG IN 2009

The course of business at Nabaltec AG in 2009 was marked by a strongly split development. The partially dramatic decrease in demand that started in Q4:2008 as a result of the world economic crisis continued unabatedly in Q1:2009 and also significantly impacted the course of business in Q2:2009. The business division 'Technical Ceramics' fought against the crisis and was initially only hit by the global decrease in demand beginning 2009.

The second half of 2009 was characterized first by the bottoming out of the crisis, then, towards year end, by slight economic growth. The comparison of the first to the second half of the year regarding order backlog, sales, revenue, and profit invariably underlines the upward trend.

Particularly, business stabilized in Q4:2009. Relative to the total operating performance, this was the strongest quarter in 2009 and also the first in which revenue exceeded that of the same period in the prior year. The turnaround could also be underlined by positive earnings development. The EBITDA was already positive as of Q2:2009 and could consequently be improved in the course of the year. Q3:2009 and Q4:2009, after adjusting for special factors, also showed a positive EBIT and at the same time an upward trend.

The development of our US subsidiary, Nashtec, played a significant role in the relative stable course of business compared to the industry as well as in the recovery in the second half of 2009. In the USA, 2008 revenue could be held stable in 2009. It proved absolutely correct to launch a second product grade in the USA. Since then, demand and sales turnover have improved even more. As of the first half of 2009, Nashtec has positive cash flows and reached break-even on operational level and on earnings before tax. In the second half of the year, production activity increased and Nashtec achieved values that, given the industry environment, were held for hardly possible.

Sales of special boehmite grades, even though still on a relatively low level, developed extremely well in 2009. Nabaltec entered a promising market and could position itself for further market penetration. Moreover, the start of production of the new product line ACTILOX® CAHC as additive for the plastics industry ran according to schedule. The new production facility in Schwandorf started operating in Q4:2009.

2.4 DEVELOPMENT OF REVENUE

Nabaltec AG realized EUR 73.1 million revenue in 2009, i.e. 24.1 % less compared to prior year. The decrease is mainly due to the deterioration in sales quantities of on average 31.6 % across all business divisions. The positive development of sales prices could somewhat compensate lower revenue. As a consequence of increasing costs relating to energy, logistics and raw materials, Nabaltec could effectively increase sales prices. Direct exchange rate effects played a subordinated role in the development of revenue in 2009. The export share increased from 65.0 % in 2008 to 69.9 % in the reporting period.

In 2009, revenues of the division 'Functional Fillers' decreased by 18.5 %, from EUR 61.6 million down to EUR 50.2 million. The division 'Technical Ceramic' suffered a higher decrease in revenues, 34.0 % from EUR 34.7 million down to EUR 22.9 million. Both divisions were similarly affected by the economic downturn and the corresponding decrease in demand. However, given that the division 'Technical Ceramics' could maintain, to a large extent, sales at a stable level in Q4:2008 and that it was initially affected by the economic crisis only in Q1:2009, the development of the two divisions differed in 2009. The division 'Functional Fillers' was already marked by a significant decrease in demand in Q4:2008; therefore, in turn, sales stabilized sooner in 2009.

In total, sales clearly stabilized in the course of 2009. After drastic reductions in Q1 and Q2, sales in Q3 and Q4 were higher than in the same period prior year, or at least remained stable. As such, the sales in the second half of the year exceeded that of the first six months of 2009 by 20.8 %. For the first time in Q4:2009, sales exceeded the corresponding prior year period, which however was, among others, due to the fact that the development end 2008 was already significantly negatively affected by the economic crisis and the prior year comparison was therefore respectively lower.

The gradual recovery was felt earliest for the US and Asian markets. In both regions, sales already improved in Q2:2009. The US subsidiary, Nashtec, developed very well in 2009. The share of the USA revenue mix of Nabaltec grew from 8.1 % to 10.7 %.

With total revenue of EUR 73.1 million, Nabaltec reached a revenue level similar to that of 2006 (EUR 71.6 million). In comparison to the industry, Nabaltec could sustain its position relatively well with a backslide of merely three years. According to the German Chemical Association (VCI), based on production output, the industry has been reverberated to the level of 2004.

The total order value for the financial year 2009 amounted to EUR 72.1 million compared to EUR 68.1 million in prior year.

2.5 EARNINGS

Nabaltec AG's total revenues amounted to EUR 72.0 million compared to EUR 100.2 million in prior year. The reason for the decrease was the reduction in revenue as well as the targeted reduction in the level of finished goods held in stock. The reduction in stock of EUR 3.9 million took place mainly within the first three quarters. Through the normalization of demand in Q4:2009, Nabaltec slightly increased stock levels above the low levels held in Q3 in order to react more flexibly to changes in demand. Capitalized own services in the amount of EUR 1.2 million include EUR 0.8 million of interest during construction.

Other operating income of EUR 1.2 million (prior year: EUR 2.4 million) primarily consists of exchange rate gains and other income from goods and services delivered to third parties.

Operational expense ratios (compared to total sales)		
	2009	2008
Cost of materials	58.2 %	58.5 %
Personnel expenses	21.3 %	17.4 %
Other operating expenses	20.6 %	18.1 %

The cost-of-materials-ratio decreased by 0.3 %-points. The realized sales price effects positively influenced this relation. Accordingly, the gross profit margin of 43.5 % in 2009 was only slightly below that of prior year (44.0 %). The absolute gross profit margin decreased in 2009 from EUR 44.1 million to EUR 31.3 million.

Personnel expenses were reduced by EUR 2.8 million by means of extensive cost-cutting measures; such as a decrease in salaries and wages of 6.67 %, short-time work and a reduction in lump-sum payments. However, extraordinary additions to pension provisions in Q4: 2009 reduced the total reduction in personnel expenses to EUR 2.2 million. The personnel-expenses-ratio increased from 17.4 % in priory year to 21.3 % in 2009 due to the disproportionately higher decrease in total sales. The head count slightly increased from 346 as at December 31, 2008 to 348 as at December 31, 2009. Manpower needs in the business division 'Additives' were met through internal transfers.

Other operating expenses decreased from EUR 18.1 million to EUR 14.8 million. Cost reductions were realized in particular relating to contracted services in the amount of EUR 1.9 million. The development of distribution costs is largely in line with the development of sales.

Earnings before interest, tax and depreciation (EBITDA) amounted to EUR 1.2 million in 2009, while EBITDA amounted to EUR 8.5 million in prior year. Both divisions earned a positive annual EBITDA. In this regard, the stabilization and upward trend could clearly be seen in the course of the year.

Taking into consideration the scheduled depreciation in the financial year 2009 in the amount of EUR 5.5 million, the operating result (EBIT) amounts to EUR -4.3 million compared to EUR 4.4 million in prior year. Here, too, an improvement could be noted from quarter to quarter, after adjusting for special factors. In Q4:2009, one-off special items of EUR 1.0 million were realized. These consisted of extraordinary additions to the pension provision as well as provisions for sewer rehabilitation and costs resulting from defect mill(s). Adjusted for special items, EBIT improved in the course of the year from EUR -2.8 million in the first half year to EUR -0.5 million in the second half of 2009.

The net result for the year amounted to EUR -7.1 million compared to EUR 1.8 million in prior year.

2.6 FINANCIAL POSITION

2.6.1 FINANCIAL MANAGEMENT

The Management Board is responsible for financial management, concentrating on managing Nabaltec's capital structure, cash flow management, interest rate as well as currency hedging and financing. The US subsidiary, Nashtec, is incorporated in the Group's liquidity management.

Thanks to the Company's own production in the USA through her subsidiary, Nashtec, Nabaltec was able to eliminate the exchange rate effects derived from fluctuations between US-Dollar and Euro to a considerable degree. Nabaltec pursues a thorough currency hedging policy regarding any residual exchange rate risks, should market volatility or the volume of business transactions denominated in foreign currency require such measures.

Nabaltec has secured the Company's long term financing, not least in regards to the extensive investment plan implemented in the last five year. As of the balance sheet date, the Company provided EUR 8.4 million in funds to Nashtec. Interest rates and contract terms correspond to those standards used for middle-sized enterprises, despite the harsh refinancing environment. In the case of debt financing with variable interest, Nabaltec avails itself of various interest rate hedging instruments with a middle and long term fixed interest period (interest swaps).

Nabaltec's growth is financed primarily through bank loans, and the Company takes advantage of KfW (Reconstruction Loan Corporation) and LfA program, as well as subsidies from the government of Upper Palatinate. As a result, Nabaltec has achieved a balanced debt financing structure.

2.6.2 FINANCING ANALYSIS

Selected balance sheet items as a percentage of total assets		
	December 31, 2009	December 31, 2008
Shareholders' equity	39.8 %	48.4 %
Non-current liabilities	11.3 %	11.6 %
Current liabilities	48.8 %	39.8 %

Shareholders' equity decreased as of 31 December 2009 due to the development of net earnings from EUR 47.7 million to EUR 40.6 million. As a result, the equity ratio decreased from 48.4 % in prior year to 39.8 % in 2009, which can be considered as sound compared to the industry.

Liabilities increased in the reporting period by EUR 10.6 million. Thereby, payables to banks increased by EUR 15.9 million in particular. Nabaltec drastically reduced trade payables by EUR 2.6 million, i.e. 34.2 %. In 2008, Nabaltec received an investment grant from the government of Upper Palatinate in the amount of EUR 6.0 million. The portion of this subsidy not yet used for new investments in property, plant and equipment as of the balance sheet date (December 31, 2009), amounting to EUR 2.7 million, was presented under 'other liabilities'. The decrease in this balance sheet item is due to the proportional write-down of the investment grant in the course of the financial year 2009.

2.6.3 OTHER OFF-BALANCE SHEET FINANCING INSTRUMENTS

Nabaltec sold various technical equipment and machinery as part of a sale-and-lease-back transaction. The leases will run for another one to five years. Furthermore, Nabaltec continuously uses factoring in connection with trade receivables, in particular to minimize potential default risks. Nabaltec does not use any other financial engineering instruments.

2.6.4 INVESTMENT ANALYSIS

In the reporting period, Nabaltec AG invested a total amount of EUR 21.7 million. After a proportional adjustment reflecting the part of the investment grant used in 2009, the total additions to fixed assets amounts to EUR 20.0 million. Investments focused on the division 'Additives' for the establishment of the production site in Schwandorf and new machines and equipment, particularly for the division 'Flame Fillers'. In comparison, EUR 21.5 million was invested in prior year.

2.6.5 CASH FLOW

Despite the difficult course of business and declined earnings, Nabaltec AG could generate a positive cash flow. Cash flow from operating activities amounts to EUR 1.4 million (prior year: EUR 3.8 million). Extraordinary factors included optimizing working capital by decreasing stock levels in the amount of EUR 8.6 million. On the other hand, cash flow decreased by EUR 9.1 million due to the reduction of trade payables as well as the redemption of draw-downs of disposable funds on current accounts.

Cash flow from investment activities amounted to EUR -21.8 million in the reporting period compared to that of prior year amounting to EUR -17.5 million, including the proportionate write-down of the investment grants received from the government of Upper Palatinate. Based on the additions, investments were on a similar level for 2009 and 2008.

Cash flow from financing activities increased from EUR 13.9 million in 2008 to EUR 19.0 million in the reporting period. Especially new credit lines in the amount of EUR 22.7 million resulted in this increase. Simultaneously, EUR 1.0 million of loans was redeemed and interest expenses of approximately EUR 2.9 million were paid.

Nabaltec AG's total cash and cash equivalents as at December 31, 2009 amounted to EUR 0.3 million compared to EUR 1.7 million in prior year.

2.7 ASSET POSITION

Nabaltec AG's total assets increased from EUR 98.6 million in prior year to EUR 102.0 million as of December 31, 2009.

Major asset items as a percentage of total assets		
	December 31, 2009	December 31, 2008
Noncurrent assets	78.9 %	67.3 %
of which: tangible assets	69.5 %	58.8 %
Current assets	20.7 %	32.2 %
of which: inventories	17.3 %	26.6 %

On the asset side, noncurrent assets also increased significantly in 2009 by EUR 12.9 million (22.2 %) to EUR 70.9 million. This increase is primarily attributable to investments in technical equipment and machinery, in infrastructure improvements and optimizing production processes in the amount of EUR 18.3 million.

Current assets were marked by the directed reduction in the level of inventories held in stock. The inventories, particularly raw materials, were deliberately increased end 2008 to attenuate price increases. Systematically, inventory levels were successively reduced in the course of 2009.

3 NON-FINANCIAL PERFORMANCE INDICATORS

3.1 EMPLOYEES

End 2009, Nabaltec AG employed in total 348 employees (December 31, 2008: 346). This figure includes 38 trainees (December 31, 2008: 32). Nabaltec sets a high value on sound professional training. Therefore, also in 2009, the rate of trainees of 10.9 % traditionally presents a significantly large portion of the workforce. So doing, Nabaltec slightly increased this rate in 2009 and, as in prior years, far exceeded the industry average. Nabaltec trainees typically count to the best of the class. The Company is currently offering training positions for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

In order to promote safety-consciousness among all of its employees and to simplify implementation of statutory and trade association requirements, the Company decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001:2008 and ISO 14001:2004, to introduce a work and health management system in compliance with BS OHSAS 18001:2007 (British Standard Occupational Health and Safety Assessment Series). In 2009, an extensive monitoring audit for the quality management system based on ISO 9001:2008 was conducted. Also, the environment management system (ISO 14001:2004) as well as the work and health management system (BS OHSAS 18001:2007) was newly accredited. In the reporting period, Nabaltec AG’s production facilities in Kelheim were certified in regards to quality, environment and health protection; the accreditation based on ISO 9001:2008 was already successfully performed for the subsidiary, Nashtec, USA.

In addition, Nabaltec AG's laboratory services are accredited under the DIN EN ISO/IEC 17025:2005 standard.

In the past, Nabaltec AG regularly belonged to the 100 best employers in the German middle market, according to the national multi-sector company comparison, ‘TOP JOB’. Such distinctions indicate how seriously the Company takes its responsibility toward her employees. Safeguarding of jobs had a high priority during the economic crisis 2009. All employees significantly contributed toward job preservation through voluntary reduction of salaries and wages and short-time work. Nabaltec AG’s central concern is to offer her employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees’ corporate identity, commitment and involvement.

3.2 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. An essential element within the R&D strategy is the close collaboration with customers and our joint development efforts. In all our business divisions, the goal is clearly defined: offering customers superior quality and processing advantages so as to support them in securing their competitive advantage. As a leading supplier of highly specialized products, we consider research and development to be one of our core competencies.

The close collaboration with customers is incorporated throughout all our divisions and processes. Hands-on marketing is required to define our clients’ specific needs and to ensure that these are directly taken into account in our development activities. The same holds for client feedback regarding new product developments, but also regarding existing products; this feedback also directly finds consideration in our development activities. So doing, Nabaltec can quickly identify and actively promote new trends.

Parallel, Nabaltec has set the goal within the development activities of continuously optimizing our own production processes and, thereby, forming a basis for the improvement of our market position; an example of which is the optimization of energy use as a fundamental driver for manifold R&D projects.

Our historically grown in-house expertise is effectively supplemented in some areas by joint projects and collaborations with universities, public and private institutions, as well as research and technology companies. Our research partners currently include the Institute of Plastics Processing at RWTH Aachen University, the German Plastics Institute in Darmstadt, the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the Technical University of Dresden and the Paper Technology Foundation in Munich. Nabaltec emphasizes innovation by participating in projects of the German Federation of Industrial Research Associations and the Federal Ministry of Education and Research in both of our divisions.

Our strong commitment to research and development is expressed in various national and international awards and distinctions. For example, the Company, for the fourth time, belonged to Germany's 'Top 100' innovative small and medium sized companies in the 17th edition of the renowned competition. Nabaltec impressed the judges with its systematic, well-thought-out and successful innovation management system, and was awarded the sought-after 'Top 100' seal by Lothar Späth, former Prime Minister of Baden-Württemberg.
Besides, Nabaltac was awarded the 'Global High Performance Fillers Growth Strategy Leadership Award' by the renowned and globally operating market survey institute Frost & Sullivan. The analysts of Frost & Sullivan emphasized that, in particular, the integration of a philosophy of innovation with customer focused research and global presence provides a strong foundation on which Nabaltec can further build and expand.
'Innovative and timely expansion of Nabaltec's product line according to customer needs sets the Company apart from its competitors […]', according to Frost & Sullivan.

Currently, the focus of our research and development activities lies above all in further developing and enhancing existing products and processes. The requirements are defined by the continuously changing customer and market demands. It is of utmost importance to meet these requirements and thereby simultaneously expand and realign the boundaries of our own product range within our target markets.

The R&D focus on additives and boehmite in the last two years will be continued even after the successful product launch in 2009. Now, the central point will be the further development of grades, the identification and acquisition of new fields of operation.

In 2009, the following developments played a central role in the 'Functional Fillers' division:

The market for non-halogenated flame retardants still has considerable growth potential, particularly for innovative and environmentally friendly products. Halogenated products are being replaced by non-halogenated, and large companies in the consumer-electronics sector emphasize the environmental friendliness of their products through pertinent marketing slogans. So doing, these companies publicly avow themselves to such products and promote this trend. An additional development trend is the promotion of flame retardants in public transport vehicles such as busses, which up till today are not equipped with such fire protection.

In the field of classical mineral flame retardants, such as APYRAL®, existing products are modified in co-ordination with our customers as well as in accordance with new application requirements, e.g. in the cable & wire industry. An example of such projects is the optimization of the grain size distribution. In this regard, special attention is always given to achieving optimal characteristics of finished products with improved fire protection.

In order to access new areas of application, additional special fillers are being developed on submicron level, such as ACTILOX® AS. Research and development goals entail achieving anti-settling characters and fire protection synergies in unsaturated polyester resins.

Nabaltec AG developed new APYRAL® products for the innovative RTM process engineering (Resin Transfer Molding). The process performance of these new products can be ideally adjusted, permitting the Company to attend to this future market accordingly.

In the field of the electrical and electronics industry (E&E industry), Nabaltec has intensively forged the development of applications. For instance, customer approvals were recently obtained in the area of conductor boards through the precision tuning of new APYRAL®-AOH products. Further approvals are currently in preparation or are already in process.

Nabaltec AG performs application development for technical thermoplastic and fire protection plastics, in which mineral flame retardants have to date not been applied, e.g. special fine grades of APYRAL® AOH und ACTILOX® (boehmite). Regarding new trends in environmental engineering, we are currently in the process of developing new substances for energy storage in alternative drive concepts.

The 'Technical Ceramics' division's largest market segment (the refractory industry) is characterized by an unbowed trend regarding the development and application of monolithic feeds. The characteristics of the required refractory concrete are significantly impacted by the performance of the applied fine components, particularly of aluminum oxide. Thus, prior development activities regarding this area of application were continued and the product portfolio for reactive alumina was successfully expanded by new products with even better performance capabilities.

Furthermore, development projects regarding modified mullet grades and other optimized special alumina were conducted in collaboration with customers and institutes.

In intensive co-operation with end users, spray dried aluminum oxide (GRANALOX®) was further developed. In addition to the customer-specific development and adjustments, new products in the substance categories of pure and transformed aluminum oxide were introduced to the market.

3.3 CUSTOMER RELATIONS

Prerequisite for our market success are products of the highest quality, developed, optimized and delivered in large number of units over a long period of time based on specific customer needs. The Company's products are continuously geared so as to help her customers make safer, environmentally friendlier, more robust and competitive products and simultaneously optimize customer production processes. Therefore, joint development projects as well as business relations result in long term supply contracts and sustainable co-operations. Our objective of attaining a market position among the first three leading suppliers in each of the global market segments, is above all, only achievable through close collaboration with our clients and, at the same time, guarantees our customers the utmost reliability and best availability.

3.4 ENVIRONMENTAL PROTECTION

We require our own products to significantly contribute toward environmental protection and toward the improvement of the eco balances of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. For instance, they replace plumbiferous additives in plastics. In this respect, it is of central importance that research and development, production as well as up and downstream logistics are conducted as environmentally friendly as possible. The conservation of natural resources is of central concern for Nabaltec and a prerequisite for the social acceptance of the Company. Nabaltec AG actively accepts responsibility for the environment, and this commitment extends well beyond its own sites.

Nabaltec places special emphasis on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Through joint efforts with external partners, we have developed techniques requiring much less process energy, leading to a substantial reduction in CO_2 emissions. In general, we endeavor to develop production processes with a closed-circuit for all production facilities. One of the milestones in this regard is the new CAHC facility in Schwandorf that operates entirely without any production wastewater and has a closed water circuit. Also, regarding the exposure to chemicals, e.g. sodium hydroxide solution, which is required for the production of fine hydroxide, it is consequently sought to prevent the dispersion thereof into the environment. Rather, it is ensured that such chemicals are used entirely in a closed production cycle and can be reused. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec's energy needs are covered by renewable energy.

4. RISK REPORT

4.1 RISIK MANAGEMENT

For Nabaltec AG, the relevance of risk management is derived from the entrepreneurial activities as well as the global activities within the corresponding international competitive and regulatory environments and the complexities of the global economy. This inseparably goes hand in hand with risks and opportunities. Our success considerably depends on recognizing such risks and opportunities as well as dealing with these consciously and on bringing risks under control. Effective risk management is a core element for securing the Company long term, its economic success in international markets and for its successful, sustainable future development.

In 2009, we took additional measures to further develop the risk management within the Company. The continuous further development of risk prevention instruments across all fields enables the early identification and elimination of business risks. Integral elements consist of risk management as a continuous process, risk controlling, extensive communication and documentation as well as an internal monitoring system. All visible internal and external risks are, as far as possible, captured, documented, evaluated and embedded in a risk matrix. This risk matrix represents the basis for the valuation of potential risks and for the identification of key risks.

The starting point of the actual risk management processes at Nabaltec is the identification and evaluation of various types of risks and risk profiles that are monitored and controlled by Controlling. Reports on business risks as well as continuous status reports are prepared for and discussed by Management. An important component is also the comprehensive operational budget including targets, regularly supplemented with forecasts.

Nabaltec has implemented a strategic planning system in order to take advantage of intermediate and long term opportunities and identify risks. All relevant units are involved in the strategy development process. Risks arising from competition, anti-trust, tax and environmental law are mitigated by Nabaltec in advance by engaging experts. Quality assurance measures limit product and environmental risks. Such measures include e.g. certification of our activities under international standards, constant improvements to facilities and processes, the development of new and the improvement of existing products as well as involvement in international professional committees.

Risk management also includes routinely testing the efficiency of applied hedging instruments and the reliability of controlling systems. There is insurance coverage for casualty and liability risks, thus limiting the financial consequences for the Company's liquidity, financial position and earnings as well as preventing situations that could jeopardize the continued existence of the Company.

4.2 RISKS REGARDING FUTURE DEVELOPMENT

Sales Market Risk

For both business divisions, the economic environment in 2009 was marked by strong reservation and uncertainty in the financial as well as the commodity markets. In spite of a more flexible and adjusted cost structure and capacities, high fluctuations in demand, such as incurred beginning 2009, include drastic quantity and margin risks. Additional sales risks include the potential loss of significant key accounts, loss of market share due to technological innovation or the encroachment of competitors. Thanks to our strong market position as innovation and quality leader, such risks can be confined and the corresponding market mechanisms can, at the same time, be used as an opportunity within global competition.

From today’s perspective, there are no risks for existing products relating to the newly enacted European REACH regulation, effective July 1, 2007. In order to meet the high requirements set by REACH and to assess possible restrictions on new products, the Company has created an in-house REACH office. By joining an industry consortium, the risk of higher registration costs can be counteracted.

Procurement Market Risk

In light of recent economic development, we monitor our suppliers’ economic situation very closely and have alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of intermediate and long term contracts. The supply of the most important media, electricity, gas and vapor for the production process is also ensured by long term agreements. Given the current level of capacity, there do not appear to be any bottlenecks expected in the intermediate term. In the case of strong growth, Nabaltec disposes of alternative scenarios and preliminary considerations to cover rising energy needs at attractive conditions. An additional risk is the more than proportional increase in logistics costs. On the one hand, Nabaltec can counter this risk by passing on more logistic costs to the customers, and on the other hand, by finding a balanced logistics mix. For example, we disposes of our own side track, which makes transport per rail very attractive.

Financial Market Risks

If necessary, exchange rate risks are restricted by hedging instruments covering US Dollar risks. In the case of intermediate term financing, interest risks are hedged by swaps or credit agreements with fixed interest rates are entered into. Nabaltec AG as well as her USA subsidiary have at their disposal a detailed financial and liquidity budget. Variance analyses are performed periodically. If additional liquidity is deemed necessary, the appropriate financing measures are taken. Potential risks resulting from the financial crisis that led to a more restrictive credit grant from banks, are countered by Nabaltac through long term bank loans, also from federally owned banks that are appropriately collateralized. Interest rate fluctuations are partially covered by hedge instruments. The credit agreements are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as the equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period 2009, covenants were not adhered to. The Management Board is currently in negotiations with the respective banks.

Through the introduction of factoring in 2002, the secured portion of receivables could be increased and the Company's liquidity could be clearly improved.

Personnel Risks

The fluctuation of employees in key positions gives rise to personnel risks. We respond to these risks through various measures: intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, an employee substitution ruling that regulates the temporary replacement of key employees, and early advance plans for successors. Furthermore, the Company offers good professional prospects and training possibilities. For Nabaltec, personnel opportunities result from the recruitment of proven experts. Our market position, the earned reputation in the industry, the high degree of reliability and the well-known focus in our research and development activities contribute toward making Nabaltec an attractive employer within its own market segments.

Production, Process and IT Risks

Nabaltec disposes of an integrated quality management system with ISO 9001:2008 accreditation that is put to practice companywide. Therefore, Nabaltec considers the production-specific risks as manageable. Regarding IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundant design of high-quality hardware. Through regular verification of the access structure, data protection is guaranteed. Data security is based on appropriate, well-established techniques.

Environmental Risks

Environmental risks can arise from the transgression of admissible thresholds for noise and dust exposure or through the emission of hazardous substances. Nabaltec mitigates these risks by means of extensive environmental management based on ISO 14001:2004, which is accredited and is periodically further developed and audited. Nabaltec's production processes are based on closed circuits, e.g. for water and lye.

Technological Risks

Potential technological risks could result from customers substituting Nabaltec products due to a change in technology, from the disuse of newer technology or from not recognizing technological development. As the innovation leader, we try to minimize these risks by engaging in continuous and intensive research and development efforts, by maintaining customer proximity and by integrating marketing and R&D structures. Nabaltec considers technological development as a source of opportunity to generate a competitive edge with product quality by accessing new market through fast-pace product adjustments and by generating process and quality advantages together with our clients; thereby, setting the stage for economic success.

Regulatory Risks

Changes within the legal framework, could lead to risks for Nabaltec. Currently, regulatory changes provide additional market opportunities – and this trend will not reverse in the medium and long term. This trend is underlined by the sustained global enforcement of environmentally friendly products, such as ours, whose cycle of matter does not include environmentally harmful materials.

4.3 OVERALL RISK

Due to our continuous surveillance of relevant markets, as described above, as well as our constant efforts to improve our products and adapt to the needs of existing and potential customers, the Company's future development is currently not exposed to any risks. In general, the Company's risks are well-managed and their potential impact is therefore limited. The Company's future existence is secure.

5. DECLARATION OF CORPORATE GOVERNANCE

The activities of Nabaltec's executive and supervisory committees are governed by the principles of responsible management. Since the Company is listed in the Entry Standard of the Frankfurt stock exchange, the Management Board voluntarily reports on the corporate management and governance in the form of a Declaration of Corporate Governance in accordance with Section 289a Paragraph 1 of the German Commercial Code (HGB) and Paragraph 3.10 of the German Corporate Governance Codex. The declaration is published on the Company's website www.nabaltec.de under Investor Relations/Corporate Governance.

6. SUBSEQUENT EVENTS

Thus far, Nabaltec AG held 51 % of the shares in Nashtec Management Corp. and 51 % of the shares in Nashtec L.P. (USA) (directly 50.49 % and indirectly 1 % via Nashtec Management Corp., as general partner) in the form of a joint venture. Effective January 1, 2010, the corporate structure was amended. Nashtec Management Corp. was liquidated; Nashtec L.P. was transformed into an LLC so that Nabaltec AG now directly owns 51 % of the shares in Nashtec LLC. The remaining 49 % are directly held by Sherwin Alumina.

No further events took place subsequent to December 31, 2009.

7. OUTLOOK

In spite of the challenging economic setting, we anticipate an upturn in demand for our products thanks to fundamental trends, such as environmental protection, increasing safety standards and the economic imperative to continuously improve customer processes.

Nabaltec is a leader in quality and innovation and belongs to the market leaders in her own target markets. Nabaltec AG could yet again effectively prove her reliability as stable partner in the market in 2009. The approval process for the Company's own products could be successfully finalized by a number of market participants, who up to now did not belong or only partly belonged to Nabaltec's client portfolio.
This could form the basis for an expansion of the customer structure in 2010 and subsequent years. The Company is well-positioned in order to positively develop in close collaboration with customers in more stable markets.

7.1. ECONOMIC ACTIVITY & INDUSTRY

As forecast by the IMF (International Monetary Fund), the national economies most relevant to Nabaltec are expected to recover somewhat. Dampened growth in the economic performance of the EURO region is expected; namely 1.0 % in 2010 and 1.6 % in 2011. Germany is expected to perform slightly better. In the USA, the economy will recover even quicker. China and India will set forth their economic growth.

Economic Growth Forecast		
	2010	2011
World	3.9 %	4.3 %
USA	2.7 %	2.4 %
EURO Region	1.0 %	1.6 %
Germany	1.5 %	1.9 %
France	1.4 %	1.7 %
Italy	1.0 %	1.3 %
Spain	-0.6 %	0.9 %
Great Britain	1.3 %	2.7 %
Japan	1.7 %	2.2 %
China	10.0 %	9.7 %
India	7.7 %	7.8 %

Source: IMF, World Economic Outlook, January 2010

The forecasts regarding the German chemical industry expect a clear stabilization. The German Chemical Association, VCI, assumes annual revenue growth of approximately 6 %. The price level shall remain stable or even increase slightly. The association's confidence is drawn from member-company surveys, a noticeable suspension of short-time work and already extended production in plastics processing and automobile manufacturing.

7.2 MANAGEMENT OUTLOOK

For 2010, Nabaltec anticipates demand to steady. The high volatility and short term nature of business that was felt in Q4:2009, when customers minimized their levels of inventories held on stock at year end, shall drastically abate.

Regionally, Nabaltec expects the continuation of the stable revenue development seen in 2009 in the USA. And particularly the Asian market is expected to raise additional impulses. For instance, the Indian demand impulses for non-halogenated fire protection are likely to even exceed those of China. The Company foresees slight growth for Germany and Europe due to stabilizing demand.

With its patented CD technology, Nabaltec AG is extremely well-positioned for future development in the market for non-halogenated fire protection. This was underlined by the successful launch of two CD qualities in the USA in 2009. The positive properties of fine precipitated ATH have begun to capture the industry's attention in recent years and are gradually resulting in the substitution of other materials. And, they have led to changeovers in product development and production in the downstream industry.

The Company's product range, which is based on CD technology, is being further expanded in order to offer processing advantages to customers in additional processing areas and target markets as well. The cable & wire and insulation markets, the principal consumers of the fine hydroxides produced by the ‘Functional Fillers’ division, are highly dependent on the construction sector. Therefore, in the medium term, these markets will not be growth drivers. In contrast, growth impulses are expected in the short term from the application segments in the low voltage range, in telecommunication and in IT. The signs of recovery in the market for non-halogenated fire protection are clear to see. The economic stimulus package initiated in 2009 by governments not only in Europe but also in the USA and Asia continue having an effect. This expectation is additionally supported by the development in legislation and the ever stricter fire protection regulations that are expediting the changeover from halogenated to non-halogenated flame retardants in the industry. For example, new market surveys in 2009 prognosticate a market growth of annually 8.1 % up until 2014 for non-halogenated fire protection.

One of our focuses for 2010 and 2011 is the successful development and expansion of the business areas ‘Additives’ and special boehmite qualities that newly commenced in 2009. Nabaltec sees opportunities for growth in the additives market, where the replacement of stabilizers containing heavy metals with environmentally friendly alternatives is promoted by international regulations. The product line developed and patented by Nabaltec AG that can replace toxic lead compounds in plastic mixtures, and can be used as a heat stabilizer, has successfully undergone several approval processes by future key customers. In 2010, the basis for potential revenue will be further broadened.

A similar focus will be adopted for the boehmite used by the electronics industry. After initial success in 2009, here, too, the emphasis lies in gradually accessing the markets and successively acquiring suppliers in the electronics market, respectively, finalizing the approval procedures for Nabaltec products. The global market potential in this segment is tremendous, given the changeover in the electronics industry toward non-halogenated flame retardants in conductor boards. Therefore, Nabaltec’s objective for 2010 and 2011 is to take in a strategic imminent market position, acquire key customers particularly in Korea and Japan, and so doing fully anchor its environmentally friendly and high performance product solutions in the market.

The market for technical ceramics and refractory products are significantly dependent on the worldwide production of steel. Subsequent to a partly dramatic downturn in 2009, the market is expected to clearly stabilize in 2010. The British market research firm, MEPS, even forecasts a growth in quantities of 11.1 %. A number of international steel manufacturers already announced in the second half of 2009 the step-by-step reactivation of shut down production capacities. We expect a somewhat delayed response from our refractory customers in the form of higher order volume. In particular, the future demand for high-quality aluminum oxide products will continue to increase, since the service life of refractory products can only be extended through these.

Regarding ceramic bodies, Nabaltec likewise assumes an intact market and a positive future development. Protection of passengers and vehicular protection are the main application areas for these products, and is gaining in worldwide importance.

7.3 EXPECTED EARNINGS AND FINANCIAL POSITION

Given market determining factors that are principally intact in the individual target markets, Nabaltec expects revenue growth in the low, two-digit percentage range for 2010.

Compared to prior year, Nabaltec AG will evidently decrease its investments and increase free cash flow in 2010. The last major milestone within the extensive investment program implemented in the last five years was the new CAHC production facility in Schwandorf. In 2010, project measures entail approximately EUR 3.0 million in new investments.

Regarding personnel expenses, the Company will seek to increase flexibility by taking advantage of the short-time work in 2010. Simultaneously, we plan to maintain a stable level of workforce.

Furthermore, total production costs shall be optimized in 2010 in as far as Nabaltec can increase flexibility and variably adjust capacities. In 2008 and 2009, preparatory work was performed to improve all processes in the supply chain to react quickly and variably to fluctuations in demand relative to the industry.

In 2010, depreciation expenses will increase according to plan, reflecting the extensive investments in fixed assets. Interest expenses will prospectively sum to an amount of approximately EUR 5.0 million in 2010. The systematic redemption of loans in 2010 will slightly increase in comparison to 2009.

We currently expect our markets to resume their course of growth in 2010. Our objective is revenue growth in the low, two-digit percentage range and improved earnings compared to 2009, with break-even on the level of the operational result.

Note with respect to uncertainties in the outlook:
The statements and information with respect to future developments stated above are based on current expectations as well as certain assumptions. They therefore involve a number of risks and uncertainties. A large number of factors, a significant part of which is not under the Company's control, affect future sales and earnings. As a result, actual results may deviate from the statements and forecasts made in this report.

Schwandorf, March 5, 2010

Nabal*tec* AG
The Management Board

Johannes Heckmann Gerhard Witzany

Balance Sheet as of December 31, 2009

Nabaltec AG, Schwandorf

Assets

	KEUR	Prior Year KEUR
A. Fixed Assets		
I. Intangible Assets		
1. Concessions, industrial property rights and similar rights and assests as well as licenses for such rights and assets	141	212
2. Advance payments	65	138
	206	350
II. Property, Plant and Equipment		
1. Land, leasehold rights and buildings, including buildings on non-owned land	15.660	11.539
2. Technical equipment and machinery	52.757	33.417
3. Other fixtures, fittings and equipment	1.797	1.798
4. Advance payements as well as plant and machinery under construction	698	11.248
	70.912	58.002
III. Financial Assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	8.382	7.067
3. Other loans	864	752
	9.409	7.982
	80.527	66.334
B. Current Assets		
I. Inventories		
1. Raw materials and supplies	8.896	15.355
2. Finished goods and purchased products	8.707	10.875
	17.603	26.230
II. Accounts Receivable and other Assets		
1. Trade receivables	416	1.282
2. Other assets	2.816	2.565
	3.232	3.847
III. Cash and cash equivalents		
Bank balances	278	1.674
	21.113	31.751
C. Prepaid Expenses	389	529
	102.029	98.614

Equity and Liabilities

	KEUR	Prior Year KEUR
A. Shareholders' Equity		
I. Subscribed capital	8.000	8.000
thereof conditional capital KEUR 3,000 (PY: KEUR 3,000)		
II. Capital reserve	30.824	30.824
III. Profit participation capital	1.730	5.000
IV. Net result	0	3.876
	40.554	47.700
B. Fixed Assets Investment Grants	177	300
C. Provisions		
1. Provisions for pensions and similar obligations	8.440	7.118
2. Accrued taxes	487	608
3. Other provisions and accrued liabilities	2.595	3.667
	11.522	11.393
D. Accounts Payable		
1. Payables to banks	41.433	25.471
2. Trade payables	5.019	7.620
3. Payables to affiliated companies	287	23
4. Other payables	3.037	6.107
thereof relating to taxes KEUR 145 (PY: KEUR 166)		
thereof relating to social securitiest: KEUR 17 (PY: KEUR 16)		
	49.776	39.221
	102.029	98.614

Income Statement
for the financial year January 1, 2009 to December 31, 2009

Nabaltec AG, Schwandorf

	KEUR	KEUR	Prior Year KEUR	Prior Year KEUR
1. Revenue		73,060		96,277
2. Change in finished goods		-2,183		3,676
3. Other capitalized own services		1,161		253
Total performance		72,038		100,206
4. Other operating income		1,199		2,439
		73,237		102,645
5. Cost of materials:				
a) Cost of raw materials and supplies and purchased goods	41,319		57,850	
b) Cost of purchased services	611	41,930	731	58,581
Gross profit		31,307		44,064
6. Personnel expenses:				
a) Wages and salaries	11,427		14,087	
b) Social security and other pension costs thereof for pension costs: KEUR 1,617 (PY: KEUR 809)	3,826		3,324	
7. Amortization/Depreciation of intangible assets and property, plant and equipment	5,480		4,129	
8. Other operating expenses	14,824	35,557	18,137	39,677
		-4,250		4,387
9. Income from long term financial investments thereof from affiliated companies: KEUR 198 (PY: KEUR 323)	198		323	
10. Interest and similar income	270		29	
11. Amortization of financial assets and marketable securities	254		0	
12. Interest and similar expenses thereof for profit participation rights capital: KEUR 405 (PY: KEUR 405)	2,853		2,282	
Financial result		-2,639		-1,930
13. Result from ordinary operating activities		-6,889		2,457
14. Income taxes	202		664	
15. Other taxes	55	257	40	704
16. Net loss for the year (PY: net income for the year)		-7,146		1,753
17. Profit carried forward		3,876		2,123
18. Withdrawal profit participation capital		3,270		0
19. Net profit		0		3,876

Nabaltec AG, Schwandorf

Notes for the Financial Year 2009

General Information about the Financial Statements

The annual financial statements were prepared in accordance with the accounting provisions of the German Commercial Code, with due regard for the provisions of the German Stock Corporation Act and Articles of Association. The total cost method was applied for the income statement.

Nabaltec AG, Schwandorf, is a large corporation in terms of Section 267 Paragraph 3 of the German Commercial Code (HGB).

Basic Principles, Methods and significant Accounting Policies

The financial statements of the Company are prepared according to the following accounting and valuation principles that have been partly changes compared to prior year:

Intangible fixed assets are carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over their estimated useful lives and pro rata in the year of acquisition.

Property, plant and equipment are carried at cost less accumulated depreciation.

Depreciation is recognized on a straight-line basis over their estimated useful lives based on the maximum rates permitted by the German Income Tax Act (EStG). Items with a value of up to EUR 150.00 are completely written-off in the year of acquisition in accordance with Section 6 Paragraph 2 of the German Income Tax Act. A compound item is recognized for all assets with a value between EUR 150.00 and EUR 1,000.00 and depreciated based on 1/5 p.a. Depreciation is recognized pro rata in the year of acquisition. For the first time, acquisition costs contain interest on borrowed capital.

Financial assets are carried at cost. The carrying amount of the financial asset is reduced by the impairment loss to the lower net realizable value (fair value). If, in subsequent periods, the amount of the impairment loss decreases due to an event occurring after the impairment was recognized, the previously recognized impairment is reversed to the extent that the carrying amount of the financial asset is equal to the higher net realizable value (fair value).

Raw material, supplies and tradable goods are stated at the lower of cost and net realizable value. Costs are determined on the basis of the average cost method. Items with a value below cost as per the balance sheet date are written-off to the lower net realizable value.

Finished goods are stated at the lower of cost and net realizable value. Production costs include direct material and production costs as well as a proportionate share of material and production over-head costs. Interest on borrowed capital and general administrative costs are not accounted for in the production costs. Finished goods are allocated to valuation units in compliance with the compound valuation as set out in Section 240 Paragraph 4 of the German Commercial Code. Production costs of similar products are not allocated to each item individually, but rather to the respective valuation unit based on a weighted average.

Receivables and other assets are stated at nominal values. Allowances for doubtful debts are recognized for receivables based on estimated individual, irrecoverable amounts. Additionally, an allowance reflecting the general default risk of trade receivables is recognized.

Cash and cash equivalents are carried at nominal values.

Prepaid expenses relate to payments made prior to the balance sheet date that represent expenses for a certain period of time subsequent to the balance sheet date. Prepayments are written-down periodically.

Issued capital is carried at nominal value.

Fixed assets investment grants are stated at the nominal value of the grant and written-down in accordance with the useful lives of the subsidized assets.

Pension provisions are recognized at fair value based on the normal age entry method in accordance with Section 6a German Income Tax Act on the basis of the mortality table 2005 G of Prof. Heubeck.

Other provisions are recognized for remaining obligations such as identifiable risks and contingencies based on amounts dictated by prudent business judgment.

Payables are measured at repayable values. Valuation principles have remained unchanged to prior year.

Currency Translation Principles

Receivables and cash and cash equivalents denominated in foreign currency are measured at the lower of the asking price on the transaction date or the rate effective on the balance sheet date. Payables denominated in foreign currency are measured at the higher of the buying price on the transaction date or the rate effective on the balance sheet date.

Notes to the Balance Sheet

Fixed Assets

The statement of changes in noncurrent assets is presented below.

For the first time, interest on borrowed capital in the amount of EUR 813 thousand was included in the acquisition costs.

Receivables and other assets

Other assets consist mainly of receivables from factoring (EUR 1,030 thousand), VAT-return claims (EUR 1,163 thousand), and petroleum tax-return claims (EUR 138 thousand) as well as a claim for reimbursement relating to short-time work (EUR 157 thousand). Receivables and other assets are receivable within one year.

Prepaid Expenses

Prepaid expenses consist of loan discounts (EUR 338 thousand) and prepaid expenses relating to the subsequent financial year (EUR 52 thousand).

Statement of changes in noncurrent Assets 2009

	Historical Cost					Cumulative Depreciation/Amortization				Book Value	
	January 1, 2009 EUR	Additions EUR	Transfers EUR	Disposals EUR	December 31, 2009 EUR	January 1, 2009 EUR	Additions EUR	Disposals EUR	December 31, 2009 EUR	December 31, 2009 EUR	Prior Year EUR
I. Intangible assets											
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,037,308.10	8,723.52	0.00	0.00	2,046,031.62	1,825,381.07	79,477.16	0.00	1,904,858.23	141,173.39	211,927.03
2. Advance payments	137,629.82	0.00	0.00	73,204.50	64,425.32	0.00	0.00	0.00	0.00	64,425.32	137,629.82
	2,174,937.92	8,723.52	0.00	73,204.50	2,110,456.94	1,825,381.07	79,477.16	0.00	1,904,858.23	205,598.71	349,556.85
II. Property, plant and equipment											
1. Land, leasehold rights and buildings on non-freehold land	14,264,974.06	2,488,874.63	2,128,278.16	0.00	18,882,126.85	2,725,601.37	496,786.94	0.00	3,222,388.31	15,659,738.54	11,539,372.69
2. Technical equipment, plant and machinery	55,612,766.71	15,032,248.11	8,829,511.89	49,386.57	79,425,140.14	22,195,694.53	4,512,226.07	39,895.00	26,668,025.60	52,757,114.54	33,417,072.18
3. Other fixtures, fittings and equipment	5,269,037.79	321,681.04	73,408.40	8,100.00	5,656,027.23	3,470,954.07	391,763.37	3,914.00	3,858,803.44	1,797,223.79	1,798,083.72
4. Advance payments as well as plants and machinery under construction	11,248,118.37	481,152.77	-11,031,198.45	0.00	698,072.69	0.00	0.00	0.00	0.00	698,072.69	11,248,118.37
	86,394,896.93	18,323,956.55	0.00	57,486.57	104,661,366.91	28,392,249.97	5,400,776.38	43,809.00	33,749,217.35	70,912,149.56	58,002,646.96
III. Financial assets											
1. Shares in affiliated companies	162,930.73	0.00	0.00	0.00	162,930.73	0.00	0.00	0.00	0.00	162,930.73	162,930.73
2. Loans to affiliated companies	7,634,944.07	1,568,906.54	0.00	0.00	9,203,850.61	567,897.28	253,943.55	0.00	821,840.83	8,382,009.78	7,067,046.79
3. Other loans	752,309.00	111,832.49	0.00	0.00	864,141.49	0.00	0.00	0.00	0.00	864,141.49	752,309.00
	8,550,183.80	1,680,739.03	0.00	0.00	10,230,922.83	567,897.28	253,943.55	0.00	821,840.83	9,409,082.00	7,982,286.52
	97,120,018.65	20,013,419.10	0.00	130,691.07	117,002,746.68	30,785,528.32	5,734,197.09	43,809.00	36,475,916.41	80,526,830.27	66,334,490.33

Equity

a) Issued capital	EUR	8,000,000.00

Subscribed capital is divided into 8,000,000 no-par-value shares.

b) Authorized capital

As of December 31, 2009, the following capital was authorized (expires October 22, 2011)	EUR	3,000,000.00

By resolution of the General Meeting on October 23, 2006, the Management Board, with the consent of the Supervisory Board, is authorized to increase the capital stock by up to EUR 3,000,000.00 through October 22, 2011 by issuing up to 3,000,000 new no-par-value bearer shares in exchange for cash and/or in-kind contributions, once or multiple times, and to decide as to the exclusion of subscription rights (authorized capital 2006/I).

c) Conditional capital	EUR	3,000,000.00

By resolution of the General Meeting on October 23, 2006, the capital stock was conditionally increased through the issuance of up to 3,000,000.00 no-par-value bearer shares (conditional capital 2006/I). The conditional capital serves exclusively to provide shares to holders of convertible and warrant bonds issued based on the authorization of the Company's General Meeting on October 23, 2006.

d) Capital reserve	EUR	30,824,219.38

e) Profit participation capital	EUR	1,729,823.56

Equity includes profit participation capital with a nominal amount of EUR 5,000 thousand. The term ends in 2013, without any due rights of termination for the contract parties. The profit participation capital meets the requirements set out by the Institute of Public Auditors in Germany, Incorporated Association (IDW HFA 1/1994) for the classification as equity.

According to the contract governing profit participation capital, the redemption amount shall be reduced by the audited net annual loss to the extent that this loss is covered by committed equity. Committed equity consists of the issued capital and the capital reserve. Given that the current year net annual loss of EUR 7,146,277.88 exceeds prior year's profit carried forward by EUR 3,270,176.44, the profit participation capital was reduced by the corresponding amount.

f) Profit carried forward	EUR	0.00
January 1, 2009	EUR	3,876,101.44
Net annual loss 2009	EUR	7,146,277.88
Withdrawal profit participation rights capital	EUR	3,270,176.44
December 31, 2009	EUR	0.00
		================

By resolution of the General Meeting on June 10, 2009, the 2008 net annual profit (EUR 1,753,234.22) and prior year retained earnings (EUR 2,122,867.22) shall be appropriated as retained earnings for the financial year 2008 in the amount of EUR 3,876,101.44.

Fixed Assets Investment Grants

Fixed assets investment grants are written-down in accordance with the useful lives of the subsidized assets.

Other Provisions

Other provisions primarily consist of personnel obligations (EUR 1,523 thousand), clean-up and disposal expenses (EUR 361 thousand) and invoices not yet received (EUR 399 thousand).

Payables

Payables and their remaining terms to maturity as well as the type of collateralization relating to each payable, if applicable, are specified in the table below (prior year figures in parentheses):

	Total amount	Term to maturity			Collateral-ized amounts	Type of collateralization
		< 1 year	1 – 5 years	> 5 years		
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	
Payables to banks	41,433 (25,470)	3,045 (8,442)	25,849 (8,533)	12,539 (8,495)	41,433 (25,470)	Land charges, security assignment
Trade payables	5,019 (7,620)	5,019 (7,620)	0 (0)	0 (0)	0 (0)	
Intercompany pay-ables	287 (23)	287 (23)	0 (0)	0 (0)	0 (0)	
Other payables	3,037 (6,107)	368 (1,740)	2,669 (4,367)	0 (0)	0 (0)	
	49,776 (39,220)	8,719 (17,825)	28,518 (12,900)	12,539 (8,495)	41,433 (25.470)	

Nabaltec AG's credit agreements are partially subject to covenants that to some extent are tied to leverage coverage ratios and the equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period 2009, covenants were not adhered to. The Management Board is currently in negotiations with the respective banks.

Other Payables

In accordance with HFA 1/1984, grants received but not yet invested, in the amount of EUR 2,669 thousand, are classified as other payables. This amount shall be presented as other payables until it is used in line with the terms of the grant.

Notes to the Income Statement

Revenue

Revenue by geographical location is detailed below:

	2009		2008	
	EUR 000	%	EUR 000	%
Germany	21,987	30.1	33,717	35.0
Rest of Europe	37,267	51.0	48,854	50.8
USA	7,805	10.7	7,757	8.1
RoW	6,001	8.2	5,949	6.1
	73,060	100.0	96,277	100.0

Revenue by business divisions:

	2009		2008	
	EUR 000	%	EUR 000	%
Functional Fillers	50,193	68.7	61,608	64.0
Technical Ceramics	22,867	31.3	34,669	36.0
	73,060	100.0	96,277	100.0

Expenses relating to other Periods

Income tax contains an amount of EUR 202 thousand relating to the payment of tax arrears resulting from the tax audit for the period 2005 – 2007.

Impairment of Financial Assets and marketable Securities

Due to changes in the currency parity, loans to affiliated companies were impaired by an amount of EUR 254 thousand in accordance with Section 253 Paragraph 2 Sentence 3 of the German Commercial Code pertaining to Section 279 Paragraph 1 Sentence 2 of the German Commercial Code.

The carrying value of loans to affiliated companies amounts to EUR 8,382 thousand.

Other Disclosures

Disclosures on Off-Balance Sheet Transactions

In order to improve the Company's liquidity position, Nabaltec entered into lease agreements with an annual expense of EUR 3,111 thousand and sold receivables to a factor in the amount of EUR 13,036 thousand. In 2009, expenses arising from the transfer of payment risks to the factor for the processing and pre-funding of the sales of the receivables amount to EUR 357 thousand.

Contingencies and other financial obligations

According to Section 251 and Section 268 Paragraph 7 of the German Commercial Code, the following contingencies shall be disclosed:

			December 31, 2009 EUR 000	December 31, 2008 EUR 000
1.	Obligations arising from the negotiation and transfer of bills of exchange		0	0
	thereof in favor of affiliated companies:	EUR 0 thousand (PY: EUR 0 thousand)		
2.	Obligations arising from guarantees, bills of exchange and check guarantees		0	0
	thereof in favor of affiliated companies:	EUR 0 thousand (PY: EUR 0 thousand)		
3.	Obligations arising from warranty contracts		10,926	12,827
	thereof in favor of affiliated companies:	EUR 5,402 thousand (PY: EUR 6,417 thousand)		
4.	Contingencies arising from securities for third-party obligations		0	0
	thereof in favor of affiliated companies:	EUR 0 thousand (PY: EUR 0 thousand)		
	Total		10,926	12,827

Obligations arising from warranty contracts contain an amount in 2009 that was not accounted for in 2008 relating to a guaranteed credit. The prior year amount has been adjusted accordingly by EUR 6,410 thousand.

Other financial obligations of importance for the assessment of the Company's financial position are detailed below:

		December 31, 2009 EUR 000	December 31, 2008 EUR 000
a)	Obligations arising from rental, lease, service and consulting agreements	9,709	11,906
	thereof		
	- maturing within 1 year	3,102	3,399
	- maturing within 1 – 5 years	6,421	8,507
	- maturing in more than 5 years	186	0
	- to affiliated companies	0	0
b)	Obligations arising from investment contracts (order obligations) thereof	1,821	8,476
	- maturing within 1 year	1,821	8,476
	Total	11,530	20,382

Declaration on the German Corporate Governance Code

For 2009, the Company has voluntarily issued the Declaration on the German Corporate Governance Code in compliance with Section 161 of the German Stock Corporation Act. The declaration is published on the Company's website www.nabaltec.de under Investor Relations/Corporate Governance.

Auditors' Fee

The fee for the audit of the 2009 financial statements amounts of EUR 80 thousand (including the fee for the audit of the Company's consolidated financial statements). For other assurance services, the auditor received a fee of EUR 3 thousand. The fee for tax advisory services amounts to EUR 18 thousand.

Related Parties Transactions (Section 285 Paragraph 21 of the German Commercial Code)

No significant transactions were entered into at less than arm's length conditions with related parties.

Share Ownership pursuant to Section 285 Paragraph 11 of the German Commercial Code

	Share in Equity		Prior Year Equity *) Nashtec		Prior Year Earnings *) Nashtec	
Direct Participation	in %	in USD	in USD	in EUR	in USD	in EUR
Nashtec Management Corporation, Texas (USA)	51.0	2,102.65	1)	1)	1)	1)
Nashtec L.P., Texas (USA)	50.5	208,163.26	-11,668,099.00	-8,086,000.69	-894,338.00	-641,838.67
Indirect Participation						
Stake in Nashtec Management Corporation:						
Nashtec L.P., Texas (USA)	0.5	2,102.65	-11,668,099.00	-8,086,000.69	-894,338.00	-641,838.67

*) Prior year shareholders' equity denominated in foreign currency was translated at the Group's internal exchange rate valid as of the balance sheet date. Prior year earnings in foreign currency were translated using the Group's internal annual average exchange rate.

1) Disclosures relating to prior year shareholders' equity and earnings have been omitted in accordance with Section 286 Paragraph 3 Sentence 1 Sub sentence 1 of the German Commercial Code due to subordinated importance.

In 2009, the subsidiary, Nashtec L.P., was provided with additional funds in the amount of USD 1,876 thousand.

Derivatives

As part of the Company's risk management system, derivative financial instruments are used in order to mitigate risks, particularly risks arising from interest and exchange rate fluctuations.

Market values are determined by independent financial services companies.

The nominal and market values of the financial instruments as of December 31, 2009 were as follows:

Interest Rate Hedging

The Company held an interest rate swap with a nominal value of EUR 5,037.500.00 with a market value of EUR 452,873.21 as of December 31, 2008 and a duration term until March 31, 2016.

This interest rate swap served to mitigate the interest rate risk. Positive market value was not taken into account in 2008. The interest rate swap was cancelled on June 30, 2009 and directly charged to the income statement as a gain in the amount of EUR 263,000.

Currency Hedging

	December 31, 2009		December 31, 2008	
	Nominal Value	Market Value	Nominal Value	Market Value
	EUR	EUR	EUR	EUR
Futures USD	0	0	137,532.66	-5,727.52

Currency hedging contracts are measured based on reference prices, taking into account mark-ups and mark-downs. Prior year’s provision for imminent losses from pending transactions was reversed on March 31, 2009 and directly charged to the income statement.

Employees

The average number of employees in 2009:

	2009
	Number
Blue-collar workers	176
White-collar workers	117
Part-time employees	18
	311

In addition, an average of 35 trainees was employed in the course of the financial year.

Management Board and Supervisory Board

In accordance with the Articles of Association, the Company's Management Board consists of at least one person. The number of members of the Management Board is defined by the supervisory board. The supervisory board may appoint one member of the Management Board as chairperson. Currently, no member of the Management Board has been nominated.

Members of the **Management Board**:

Mr. Johannes Heckmann
Industrial Engineer

Mr. Gerhard Witzany
Business Graduate

In line with the provisions Section 286 Paragraph 4 of the German Commercial Code, the disclosure of the total remuneration of the Management Board in accordance with Section 285 Paragraph 1 Sentence 9a of the German Commercial Code was waived.

Supervisory Board

In accordance with the Articles of Association, the supervisory board consists of three members. At the time these notes were prepared, the supervisory board consisted of the following members:

Mr. Dr. Leopold von Heimendahl (supervisory board chairman)

Engineer in retirement

Mr. Dr. Dieter J. Braun (deputy chairman)
Chemist in retirement

Mr. Prof. Dr. Jürgen G. Heinrich
Professor for ceramic engineering

The supervisory board members received total remuneration of EUR 42 thousand for the financial year 2009.

Schwandorf, March 5, 2010

Nabaltec AG

The Management Board

Johannes Heckmann   Gerhard Witzany

Independent Auditor's Report

We have audited the annual financial statements – comprising the balance sheet, income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of Nabaltec AG, Schwandorf, for the business year from January 1, 2009 through December 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of association are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB ("German Commercial Code") and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, Incorporated Association – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, earnings and financial position in the annual financial statements in accordance with applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the annual financial statements and management report are examined primarily on a test basis in the course of the audit. The audit includes assessing significant estimates made by the Company's Management Board as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our audit findings, the annual financial statements of Nabaltec AG, Schwandorf, comply with the legal requirements and supplementary provisions of the articles of association and give a true and fair view of the Company's net assets, earnings and financial position in accordance with these requirements. The management report is consistent with the annual financial statements and, as a whole, provides a suitable view of the Company's position, as well as the opportunities and risks of future development.

Nuremberg, March 8, 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann) (ppa. Sauer)
Auditor Auditor

Report of the Supervisory Board

Ladies and Gentlemen,
Dear Shareholders,

The beginning of 2009 was a time of great challenges for the company and for the Supervisory Board. The uncertainty which prevailed in the financial markets and in the most important markets for Nabaltec products all over the world, especially in the first and second quarters, made it considerably more difficult to supervise short-term planning and to advise management in a forward-looking manner. However, the markets began to stabilize visibly at mid-year, a little earlier in the case of functional fillers and a little later for technical ceramics, and this has allowed us to look ahead more in addition to monitoring current developments.

In this situation, we have consistently advised, monitored and supervised Management Board with utmost care in Financial Year 2009, in accordance with our responsibilities as established by law, the Articles of Association and corporate governance rules. The Supervisory Board was informed by the Management Board directly and involved at an early stage in every decision of fundamental importance for the company.

Whenever required by law, the Articles of Association or the Rules of Procedure we voted on the Management Board's reports and draft resolutions after careful deliberation and review. All transactions requiring approval were approved. We devoted particular attention in 2009 to the risks facing the Group, risk management and lawful and efficient corporate management.

In the 2009 reporting year, the Supervisory Board convened for four regular sessions: on 24 April 2009, on 10 June 2009, after the General Meeting, on 28 September 2009 and on 11 December 2009. No meetings were held in 2010 prior to the Supervisory Board meeting of 15 April, which votes on adoption of the financial statements. All members were present at each session. The members of the Supervisory Board also conducted deliberations in writings and over the phone. Where necessary, the Supervisory Board has adopted resolutions outside of the regular meetings.

Since the Supervisory Board of Nabaltec AG consists of just three members, the formation of committees was once again dispensed with.

No conflicts of interest for individual members of the Supervisory Board arose during the 2009 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's audit mandate. In the assessment of the Supervisory Board, a sufficient number of members may be viewed as independent, since two members of the Supervisory Board have no personal or business relationship with the company or with the Management Board. An agreement exists between Nabaltec AG and Dr. Jürgen G. Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering.

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the 2009 Financial Year, particularly the efficiency of its procedures and the timely and adequate supply of information.

Focus of Deliberations

Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, we were kept informed of the market situation, the competitive situation, sales, revenue and earnings development and the attainment of targets through monthly and quarterly reports. In addition, I, as Chairman of the Supervisory Board, kept myself constantly informed of the current course of business, major transactions and crucial Management Board decisions. To that end, I engaged myself in a close and routine exchange of information and ideas with both members of the Management Board.

The Group's revenues and earnings development as well as measures for the improvement of them and also of the assets and financial position were routinely discussed at Supervisory Board sessions: Intensive consideration was also given to the following issues in 2009:

- the 2008 annual financial statements and consolidated financial statements, particularly the appropriation of earnings and the report on risks;
- measures to cut costs in light of weakening sales markets;
- corporate governance, particularly the processes for preliminary discussion of quarterly reports by the Management and Supervisory Boards;
- status reports on the construction and commissioning of the new CAHC plant at the Schwandorf site;
- potential and measures in the boehmites segment;
- transformation of the US subsidiary Nashtec into an LLC;
- planning for 2010 and mid-term planning through 2012;
- investment and financing planning for 2010 to 2012;
- regulatory and statutory changes, such as the Act on the Appropriateness of Management Board Remuneration, the Accounting Law Modernization Act, etc.

Another focus of our deliberations in 2009, as well as our supervisory and monitoring activity, especially in the session 2010 slated for adoption of the 2009 financial statements, was the entire accounting process in Nabaltec AG and Nabaltec Group, monitoring the internal controlling system and the effectiveness of the internal auditing and risk management system.

On 13 March 2009, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2009, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. Both bodies discussed the changes to the German Corporate Governance Code as amended on 18 June 2009 and published on 5 August 2009 in the Electronic Federal Gazette, especially in the session on 11 December 2009, in preparation for issuing the 2010 Declaration of Compliance. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

Management Board Compensation
Management board compensation is defined by the whole Supervisory Board of Nabaltec AG. The Supervisory Board has reviewed the fairness of the compensation paid to each member of the Management Board, and it has confirmed that this compensation is fair. Management board compensation at Nabaltec AG is structured based on long-term performance. Other criteria required by law, such as a compensation structure which does not induce corporate officers to take undue risks and which includes ways of limiting compensation for extraordinary developments, have either been implemented already or will be satisfied in all new agreements.

2009 Annual Financial Statements and Consolidated Financial Statements
Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to § 315a of the German Commercial Code, and the consolidated management report. The Supervisory Board issued the audit mandate by resolution of the General Meeting 10 June 2009. Before publishing the nomination, the Supervisory Board obtained an independence declaration from the auditor. There were no visible reasons to doubt the auditor's independence. The auditor was also asked to notify us immediately of any circumstances which could establish bias on its part and to keep us informed about any performances it rendered in addition to the audit. The focus of the 2009 audit was the accurate disclosure of additions to fixed assets, particularly with respect to the investment in the CAHC plant in Schwandorf.

The auditor issued an unqualified auditor's opinion for Nabaltec AG's annual financial statements and management report and for the consolidated financial statements and consolidated management report.

All of the documents pertaining to the financial statements, as well as the auditor's report, were made available to each member of the Supervisory Board in a timely manner for independent review. The documents and the auditor's report was the subject of intense consideration and discussion at the session of 15 April 2010. The auditor was present during the session, reported on the essential conclusions of his audit and was available for further questions. One focus of the auditor's explanations was his assessment of the accounting-related internal controlling and risk management system. The auditor was not able to find any major weaknesses in this system. The Management Board and the auditors have answered all of our questions fully and to our complete satisfaction.

After conducting an independent review of the annual financial statements and consolidated financial statements, management report and consolidated management report, the Supervisory Board has made no objections, and accepts the conclusions of the audit conducted by Deloitte & Touche GmbH. We have accordingly approved the annual financial statements and consolidated financial statements for 31 December 2009 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks goes out to all of our employees who, in a very challenging year, have allowed Nabaltec AG to hold its position in the world market under the toughest of conditions, always with the goal of achieving utmost customer satisfaction while acting with business sense.

Schwandorf, 15 April 2010

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

Declaration of Compliance with the German Corporate Governance Code for the 2010 Financial Year

The Management Board and Supervisory Board of Nabaltec AG, with registered office in Schwandorf, hereby declare as follows pursuant to § 161 of the German Stock Corporation Act:

Since filing its first Declaration of Compliance on 26 March 2007, Nabaltec AG has complied with the recommendations of the German Corporate Governance Code ("the Code") in Financial Years 2007 to 2009, with the exceptions noted in the Declarations of Compliance for those years. Starting in Financial Year 2010, the Company will comply with the recommendations of the Code as amended on 18 June 2009 and published in the electronic Bundesanzeiger [Federal Gazette] on 5 August 2009, with the following exceptions:

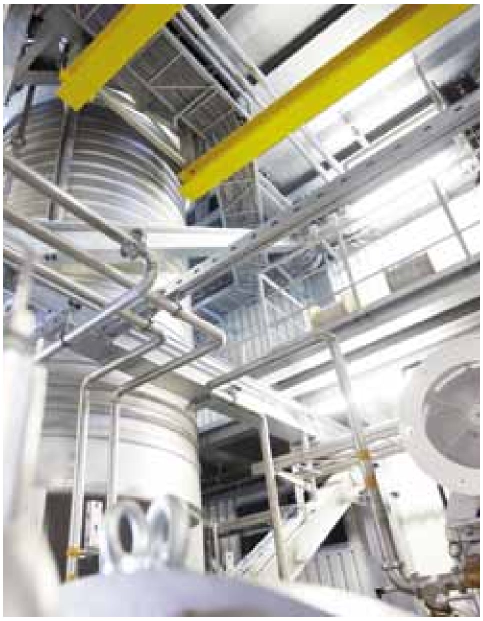
- The Company will not transmit the invitation to the general meeting and the invitation documents electronically to financial services providers, shareholders and shareholder associations (2.3.2 of the Code). Nabaltec AG sends invitations to the general meetings to its shareholders via the depositaries, and the invitation is published in the electronic Bundesanzeiger [Federal Gazette]. In addition, the invitation, the Annual Report and any other general meeting documents are available for download from the Company's website. As a result, the Company believes that the shareholders have proven and secure access to information, and the Company sees no need for an additional electronic transmission.
- A directors and officers (D&O) policy is in place for members of the Supervisory Board, but no deductible has been stipulated for insured persons (3.8 of the Code). The Management and Supervisory Boards do not believe that such a deductible would have the effect of improving the motivation and sense of responsibility of the Supervisory Board members in performing their assigned functions.
- The Supervisory Board will not appoint a Management Board chairman or spokesman for the time being (4.2.1 of the Code). The two Management Board members operate on an equal footing. The Supervisory Board intends to continue this successful arrangement, and feels that there is no cause to elevate one of the two Management Board members over the other by appointing one member to the Management Board chairman or spokesman.
- Management Board remuneration will not be itemized and disclosed by name, and the Corporate Governance Report will not include a compensation report (4.2.4 and 4.2.5 of the Code). Nabaltec AG complies with all duties for the disclosure of management board compensation pursuant to IFRS and the German Commercial Code, and deems those disclosures to be sufficient.
- There is no defined age limit for Management Board members (5.1.2 of the Code), in order to give the Company access to the expertise of older and more experienced management board members and in order to avoid precluding the optimal composition of the Management Board based on nothing more than formal considerations.
- The Supervisory Board does not form any committees, and in particular, does not have a committee on auditing or nomination (5.3.1, 5.3.2 and 5.3.3 of the Code). The Supervisory Board numbers three persons, which is adequate for the size of the Company. Since any Supervisory Board committee would also require at least three

members, the Supervisory Board currently deems the formation of committees to be neither necessary nor expedient, and since it works effectively as a complete body.

- Supervisory Board members receive fixed compensation and a meeting allowance, but no performance-based compensation. The position of deputy chairman of the Supervisory Board does not affect compensation. Supervisory Board compensation is not itemized and disclosed by name (5.4.6 of the Code). The Management and Supervisory Boards deem the current level of compensation for members of the Supervisory Board, which is defined by the general meeting, to be reasonable, and disclosure of total Supervisory Board compensation in the Consolidated Notes to be sufficient.
- The Company will not publish its consolidated financial statements within 90 days of the close of each financial year and interim reports within 45 days of the close of each reporting period (7.1.2 of the Code). The Company's consolidated financial statements will continue to be published within four months of the close of each financial year and interim reports within 60 days of the close of each reporting period. In other words, the Company will voluntarily comply with the statutory deadlines for the regulated market and the stock exchange rules for the Prime Standard segment which are deemed reasonable by the Management Board and Supervisory Board.

Schwandorf, 12 March 2010

The Management Board:	The Supervisory Board:
Johannes Heckmann	Dr. Leopold von Heimendahl
Gerhard Witzany	Dr. Dieter J. Braun
	Professor Dr. Jürgen G. Heinrich



***Nabal**tec* AG
Alustraße 50 – 52
92421 Schwandorf
Germany
Phone: +49 9431 53-0
Fax: +49 9431 53-260
www.nabaltec.de