Nabaltec

# Annual Report 2010

OUR KNOW-HOW FOR YOUR SAFETY

## OUR STRENGTHS COME TO BEAR ESPECIALLY WHEN TOP QUALITY, SAFETY, ECO-FRIENDLINESS AND DURABILITY ARE REQUIRED.

We are specialized in functional fillers for the plastics industry and high-quality raw materials for technical ceramics for a wide range of applications, and for highly specific requirements.

Technological know-how, experience and implementing complex processes are the basis for high-quality and highly specialized products of consistently excellent quality and with customized properties to meet the specific needs of each customer. This is why our customers appreciate us, and this is how we will meet our goal of becoming the quality leader in each of our target markets. We have been recognized multiple times for our innovativeness, and this quality has allowed us to steadily expand our market position.

Nabaltec serves highly specialized markets all over the world. Our export ratio is about 70 percent.

# Key figures Nabaltec Group

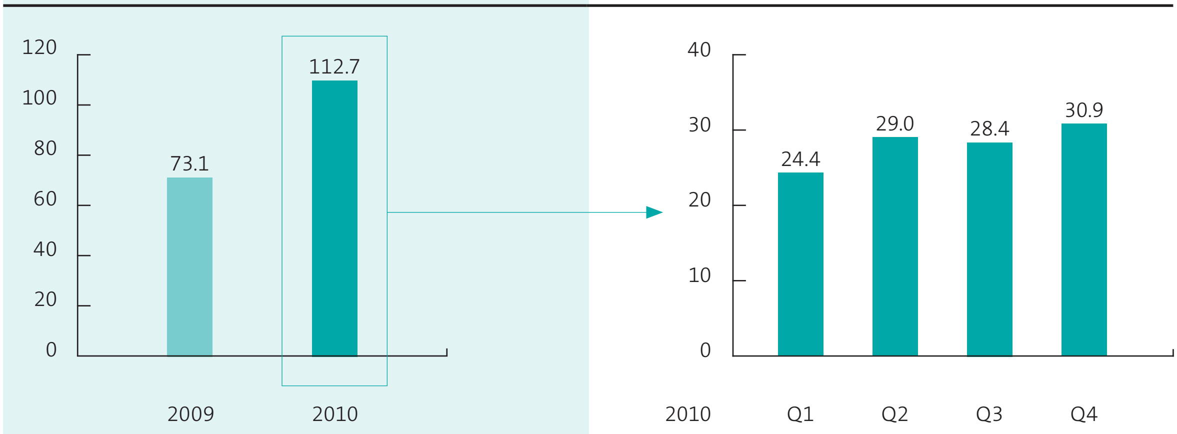
for the financial year from January 1, 2010 through December 31, 2010

| in EUR million | **2010 (IFRS)** | 2009 (IFRS) | Change |
|---|---|---|---|
| **Revenues** | | | |
| Total revenues | **112.7** | 73.1 | 54.2% |
| thereof | | | |
| Functional Fillers | **75.9** | 50.2 | 51.2% |
| Technical Ceramics | **36.8** | 22.9 | 60.7% |
| Foreign share (%) | **69.9** | 69.9 | |
| | | | |
| **Earnings** | | | |
| EBITDA | **14.3** | 3.7 | 286.5% |
| EBIT | **6.5** | −2.7 | |
| Consolidated result after taxes* | **1.8** | −5.0 | |
| Earnings per share (EUR)* | **0.22** | −0.63 | |
| | | | |
| **Financial position** | | | |
| Cash flow from operating activities | **15.4** | 4.6 | 234.8% |
| Cash flow from investing activities | **−7.5** | −20.3 | −63.1% |
| | | | |
| **Assets, equity and liabilities** | | | |
| Total assets | **166.0** | 131.8 | 25.9% |
| Equity | **42.1** | 40.0 | 5.3% |
| Non-current assets | **110.6** | 108.7 | 1.7% |
| Current assets | **55.4** | 23.1 | 139.8% |
| | | | |
| Employees** (persons) | **372** | 349 | 6.6% |

* after non-controlling interests
** as of the cutoff date 31.12. including trainees

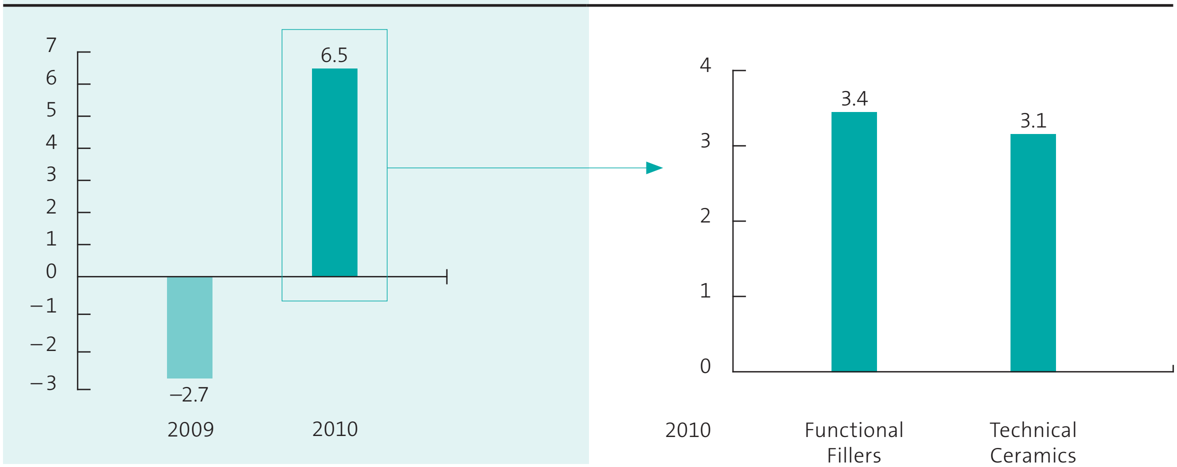
**Revenues**

(in EUR million)



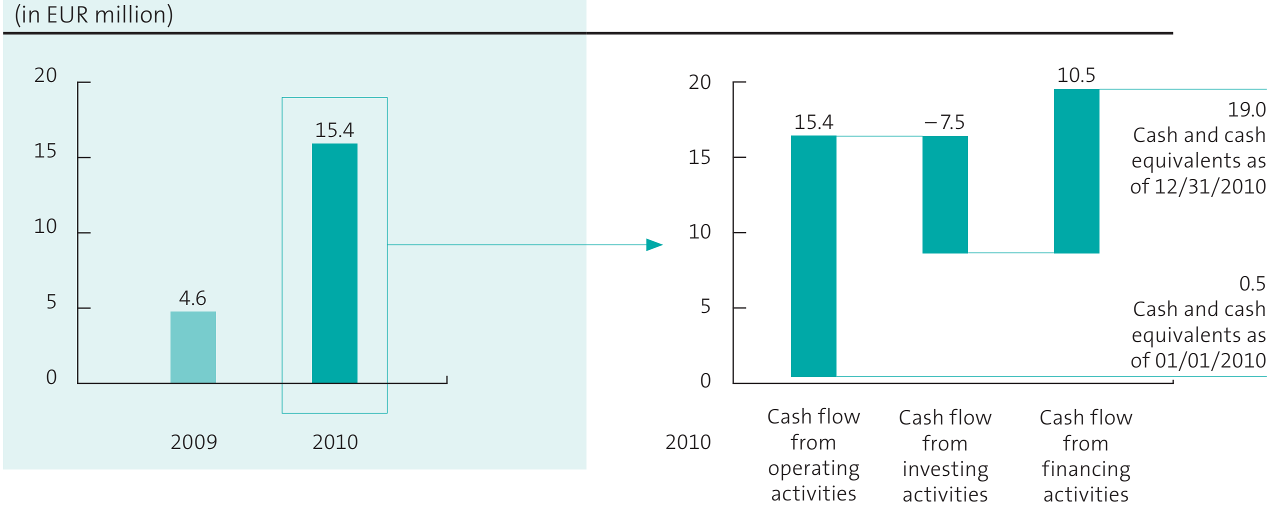

**EBIT**

(in EUR million)




**Cash flow from operating activities**

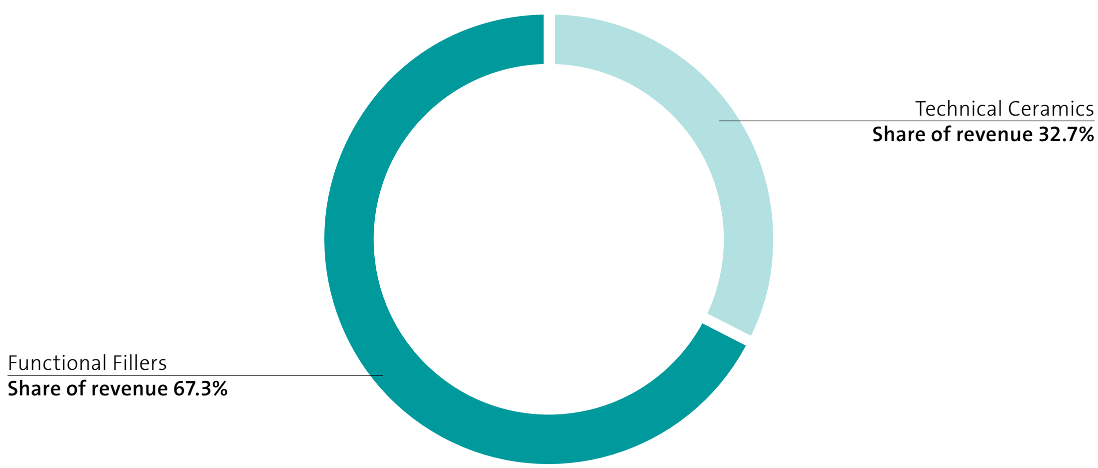
(in EUR million)



# Our business divisions

**Functional Fillers**
Nabaltec's aluminum hydroxide- and magnesium hydroxide-based flame retardants are smoke-suppressant, non-toxic and eco-friendly. Based on these qualities, they are clearly superior to other flame retardants for use in plastics. In order to satisfy increasingly strict requirements with respect to safety, ecofriendliness and processing, Nabaltec products are used above all in cable and insulation, and especially often in tunnels, airports and high-rise buildings.

Additional potential is generated by our newly developed products: additives and boehmite. With boehmite in particular, we presently occupy a unique position in the global market and are targeting a wide variety of applications, such as printed circuit board production and high-temperature batteries, where the heavy metal-based additives which are currently prevalent can be replaced by our eco-friendly alternatives. Our new boehmite production site went online in 2010.




**Technical Ceramics**
Nabaltec manufactures ceramic raw materials and ceramic bodies from specialty oxides for products which meet the highest standards and demands. Its ceramic raw materials are used in the refractory industry, polishing industry, wear-resistant ceramics and in electrical ceramics. Suppliers of high-quality mechanical parts, such as spark plugs, high-voltage insulators and ballistic ceramics use our products. Ceramic bodies are particularly highly-specialized granulates for a broad range of ceramic applications. Whatever the requirements, our know-how and experience allow us to equip these products with highly specific properties.

# CONTENTS


## TO OUR SHAREHOLDERS



## GROUP MANAGEMENT REPORT

## CONSOLIDATED FINANCIAL STATEMENTS (IFRS)



## ANNUAL FINANCIAL STATEMENTS (GERMAN COMMERCIAL CODE, SHORT VERS.)

# TO OUR SHAREHOLDERS

"2010 was a year of incredibly strong dynamic and record-breaking revenues in the fourth quarter. We plan to improve upon this record in 2011."

**GERHARD WITZANY**
Management Board

**JOHANNES HECKMANN**
Management Board

## Ladies and Gentlemen, Dear Shareholders,

The global economy recovered at a very fast pace in 2010, faster than any expert expected at the end of 2009. This has helped Nabaltec AG's performance as well, and we have registered clear growth momentum in all regions and product segments. An especially positive development has been the global breadth of the economic recovery, which has benefited us, as a company with a strong international orientation and an export ratio of 69.9%.

However, the global economy's 4.7% growth rate only partially explains Nabaltec outstanding growth. Rather, Nabaltec's 54.2% revenue growth is the result of several factors:

- Nabaltec supplies a very wide range of industries, directly and indirectly, and the investment climate has improved considerably in many of its target industries. At the same time, demand in many sectors has quickly stabilized, and is showing a sustained trend into 2011 as well, such as the steel industry and its demand for refractory materials to use as lining in its furnaces.

- Some industries experienced rebounds in 2010 because inventories worldwide were reduced sharply during the crisis. However, based on the structure of the demand, which is often short-term in nature, e.g. in the plastics industries, we have observed that the demand growth in 2010 has not gone towards rebuilding inventories but has instead flowed directly into the industrial value chain. As customers try to keep their inventories low, the importance of reliable supply increases, and Nabaltec has proved itself to be a reliable partner, not least in the crisis of 2009.

- There were a series of uncertainties for customers in 2010 in connection with the supplier and competition structure, particularly for flame retardant fillers, as the restructuring and realignment of competitors set many customers in motion, causing them to seek and prefer stable supply relationships and reliable manufacturers. Nabaltec has benefited from this trend, particularly in the US with the Nashtec joint venture.

- However, the key market factor behind Nabaltec's growth has been regulatory changes worldwide, which we have outlined for a longer time and which continue to have an impact. Many industries have voluntarily anticipated new regulations, implementing thorough conversions to heavy metal-free additives and eco-friendly flame retardants. Statutory rules in countries like Germany and France still have to be modified in order to implement EU specifications. The implementation of these specifications in national law will provide yet another boost to the eco-friendly, all-natural and halogen-free flame retardant fillers which are available from Nabaltec.

Nabaltec's markets are intact. The underlying trends remain positive and demand will continue to grow in the future, as demonstrated in new studies and professional market analyses.

In our view, this also establishes the attractiveness of the Nabaltec share and, since 2010, the Nabaltec bond. After all, with its clear orientation, Nabaltec AG offers investors the opportunity to benefit in a very targeted way from this global trend towards eco-friendly high-tech materials in flame retardants for plastics.

Nabaltec's products are all-natural and eco-friendly. This is true for both of the company's business divisions, i.e. for the products of the "Technical Ceramics" division as well. Nabaltec is currently the beneficiary of long-term trends in ceramic raw materials and ceramic bodies. Metal producers worldwide are insisting on higher-quality refractory products, as the only way to minimize costly downtime is through top quality equipment for furnaces and supporting refractory areas, which is possible with Nabaltec materials. The industries in countries like China, India and Russia are also following this trend. Furthermore, the introduction of new applications, as well as the need for established applications to meet new qualitative challenges, requires the use of high-tech ceramics, for which Nabaltec provides the raw materials. Examples of these are highly resistant wear protection solutions, such as ceramic tube lining.

Nabaltec AG is now one of the leading companies in the world for its markets, as we have been able to meet our standard of being one of the Top 3 providers in nearly every product segment. We can be quite proud of the position we have built in the market, especially since our goal is to be able to offer customers solutions even for highly specialized questions and problems. Thanks to the innovative power of our company, we are in a position to keep up with the market and meet demand even in advanced questions, and to offer high-quality solutions.

This combination ensures the future strength of Nabaltec in unique fashion. The best example of this is our success with boehmite. What triggered global demand for this material were international regulations and the industry's voluntary commitment to dispense with toxic halogenated flame retardants in the production of printed circuit boards and switch instead to eco-friendly, halogen-free solutions. We were able to quickly develop and market so far as sole supplier worldwide a product which meets this demand. We also have the expertise and market position to successfully achieve market penetration by means of the often lengthy and challenging approval procedures. The result: a product with outstanding potential, and for which no competitor currently exists. The true potential of this product is only now becoming apparent, with potential uses in the semiconductor industry and for new and completely different applications, such as catalysis and high-temperature batteries.

Nabaltec made targeted investments in this area in 2009 and 2010. The new boehmite production site in Schwandorf went online in October 2010, replacing the Kelheim testing facility, which until then had been the lone production site, and which is now once again available for new development projects.

With our successful EUR 30 million bond issue in October 2010, we proved how solid and secure Nabaltec can obtain the needed financing, while also creating financial breathing room for more investments in the future. We believe that the potential of our products is far from exhausted. We will be further expanding our fine-precipitated hydroxide capacity in order to meet growing global demand and halogen-free flame retardants offer outstanding growth opportunities. We also plan to focus even more on new products and applications in the “Technical Ceramics” business division. Our overriding objective is to develop and accelerate technologically advanced, high-margin products, and to reinforce our global market positioning as a reliable partner through strategic investments. With these projects for the future, together with its strong liquidity reserve, Nabaltec is excellently positioned in the current environment.

We would like to especially thank all of our employees, whose extraordinary motivation confirmed once again that maintaining our employee base during the crisis was the right decision. We would also like to thank our customers, partners and investors for their trust in Nabaltec AG.

Sincerely yours,

Johannes Heckmann
Member of the Board

Gerhard Witzany
Member of the Board

# Report of the supervisory board

## Ladies and Gentlemen, Dear Shareholders,

Nabaltec AG had a very successful year in 2010, not only making up its downturn from 2009 but also posting the highest revenues in company history. A very stable financial structure and strong liquidity, due in no small part to the successful 2010 bond issue, as well as the success of our new product applications, make us optimistic about the future. The strength of the global economy and growing demand in our customer industries allows us to look forward with confidence.

In this situation, we have consistently advised, monitored and supervised Management Board with utmost care, 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.

In the 2010 reporting year, the Supervisory Board convened for four regular sessions: on 15 April 2010, on 10 June 2010, after the Annual General Meeting, on 30 September 2010 and on 10 December 2010. No meetings were held in 2011 prior to the Supervisory Board meeting of 4 April, which votes on adoption of the financial statements. All members were present at each session in 2010. 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. Draft resolutions were approved in writing on three occasions in 2010.

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 2010 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's supervisory and control mandate. In the estimation 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 Professor 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 past Financial Year, particularly the efficiency of its procedures and the timely supply of adequate 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 e.g. of market trends, the competitive situation, the development of sales, revenues and earnings and the accomplishment of our objectives 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 development of revenues and earnings were routinely discussed at Supervisory Board sessions, as well as suitable measures to optimize revenue and earnings growth and the assets and financial position. In addition, intensive consideration was given to the following issues in 2010:

- the 2009 annual financial statements and consolidated financial statements;
- the issuance of bearer bonds, together with the application of funds and financial planning;
- corporate governance, particularly the future composition of the Management Board and Supervisory Board;
- market opportunities in connection with the new product segments;
- the course of business at Nashtec;
- planning for 2011 and mid-term planning through 2013;
- investment and financing planning for 2011-2013.

Another focus of our deliberations in 2010, as well as our supervisory and monitoring activity, especially in the session 2011 slated for adoption of the 2010 financial statements, was the effectiveness of 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 12 March 2010, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2010, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. Both boards discussed the changes to the German Corporate Governance Code as amended on 26 May 2010, especially in the session on 10 December 2010, in preparation for issuing the 2011 Declaration of Compliance. The Supervisory Board also formulated priorities and specific goals for its future composition. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

**Management Board Compensation**
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.

**2010 Annual Financial Statements and Consolidated Financial Statements**
Deloitte & Touche GmbH Wirtschaftsprüfungs-gesellschaft, 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 2010. 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 2010 audit was the issuance of bearer bonds, including the accounting for issuing costs, the change in accounting practices in accordance with the Accounting Law Modernization Act (BilMoG) and the "procuremente" and "inventory management" areas.

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 4 April 2011. 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 2010 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 go out to all of our employees who proved once again in 2010 just how innovative and successful Nabaltec can be.

Schwandorf, 4 April 2011

Heimendahl

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

# Corporate governance report

Nabaltec AG made a voluntary commitment to comply with the recommendations of the German Corporate Governance Code (the "Code") in 2007, and has further developed its corporate governance practices in Financial Year 2010. Starting in 2011, the company will follow the recommendations of the Code as amended on 26 May 2010, with few exceptions. Those exceptions will be disclosed in a joint Declaration of Compliance of 11 March 2011 from the Supervisory and Management Boards and grounds will be provided for those exceptions.

A comparison of the prior Declaration of Compliance of 12 March 2010 with the corporate governance practices actually implemented in Financial Year 2010 revealed no deviations.

The Articles of Association of Nabaltec AG and the Rules of Procedure for the Management Board and Supervisory Board were unchanged in 2010. On 12 February 2011, the age limit rule in the Rules of Procedure for the Supervisory Board was modified. Under the new rule, nominations presented by the Supervisory Board to the general meeting for election to the Supervisory Board may only be for candidates who would be less than 70 years of age upon commencing their term. The right of the shareholders to nominate candidates is not affected by this change.

**Shareholders and the General Meeting**
Attendance at the general meeting of 10 June 2010 in Amberg was over 70%. The general meeting approved all of the agenda items which were put up for voting. The individual voting results may be viewed on the company's website.

For several years, Nabaltec AG has offered its shareholders the option of using a company-appointed proxy to exercise their voting rights on their behalf. As a result of this option, even shareholders who do not personally take part in the general meeting can cast their vote. On the other hand, the Articles of Association of Nabaltec AG do not provide for postal voting.

**Interaction of the Management and Supervisory Boards**
The interaction of the Management and Supervisory Boards is described in detail in the Supervisory Board's report.

**The Management Board**
No conflicts of interest arose in the past Financial Year. The members of the Management Board, Johannes Heckmann and Gerhard Witzany, do not serve on the supervisory boards of other publicly traded companies.

In making appointments to executive positions, the Management Board looks for the best possible suitability and abilities as well as diversity, and strives for adequate inclusion of women as well.

**The Supervisory Board**
The Nabaltec AG Supervisory Board consists of three members and therefore does not form committees. Detailed information about the Supervisory Board's work and consultations in Financial Year 2010 can be found in the Supervisory Board's report. In its own view, the Supervisory Board has a sufficient number of independent members. No conflicts of interest arose in the reporting year.

**Goals for the Composition of the Supervisory Board**
The Supervisory Board has considered the criteria applicable for Nabaltec AG with respect to composition of the Supervisory Board and, on 13 February 2011, adopted the following goals for its future composition:

The goal in the selection of members for the Supervisory Board is to allow the Supervisory Board to perform its supervisory and consultative functions as effectively as possible, in the interest of the company. Accordingly, the selection of Supervisory Board members will depend on their qualifications, professional suitability and abilities. Therefore, each member of the Supervisory Board of Nabaltec AG should possess expertise which furthers this goal and which would therefore be beneficial for the company, particularly know-how and experience in the functional filler and technical ceramics industry and technology segments, as well as in corporate management, strategy, sales, law, financing and taxes. Additionally, the know-how and skills of all the Supervisory Board members should complement each other so as to ensure the broadest possible expertise for optimal performance of the Supervisory Board's functions.

With due regard for following criteria mentioned in the Code, a comprehensive assessment is required in each individual case as to which requirements and characteristics are best-suited for performance of these functions from the company's perspective and should therefore be given primary consideration.

- **International activity:**
  Nabaltec AG maintains production sites in Germany at its headquarters in Schwandorf, as well as in Kelheim. Outside of Germany, Nabaltec is engaged in a joint venture through which it has 51% ownership of an American subsidiary, Nashtec LLC, which has a production site in the US. Nabaltec's international sales activities are performed through external marketing partners and commercial agents. Accordingly, in order to allow Supervisory Board members to perform their functions, particularly the review and assessment of processes and decisions, in-depth knowledge is required based on the German legal and economic system.

- **Conflicts of interest:**
  The selection of Supervisory Board members is to be based mainly on their qualifications, professional suitability and experience. The Supervisory Board will ensure that conflicts of interest are excluded. Nabaltec AG also follows all recommendations based on No. 5.5 of the German Corporate Governance Code. However, the Supervisory Board reserves the right to approve consulting or employment contracts between individual members of the Board and the company in any individual case if the Management Board and Supervisory Board agree that the conclusion of such a contract is in the company's interest and if the contract is eligible for approval pursuant to § 114 of the German Stock Corporation Act.

- **Age limit:**
  The Rules of Procedure for the Supervisory Board set an age limit for Supervisory Board members: nominations presented by the Supervisory Board to the general meeting for selection to the Supervisory Board may only be for candidates who will be less than 70 years of age upon commencing their terms.

- **Diversity:**
  In addition to the main criteria, qualifications and professional suitability, other characteristics should be given secondary consideration, such as gender, nationality and religion. In particular, it is essential for the personal characteristics, qualifications, professional suitability and abilities of the company's Supervisory Board members to be beneficial for the company, and to allow the Supervisory Board to perform its supervisory and consultative functions. The gender of Supervisory Board members is not of decisive importance for the performance of these functions in a company which manufactures specialty chemicals. The selection of candidates for the Supervisory Board will be based primarily on their qualifications and suitability.

This report on the goal for composition of the Supervisory Board is being made for the first time as part of the 2010 Corporate Governance Report. Reports in future years will limit themselves to explaining any changes to these goals, as well as describing the degree to which these goals have been implemented.

**Accounting and Auditing**

The general meeting of 10 June 2010 chose Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as the auditor of the annual and consolidated financial statements for Financial Year 2010. The audit mandate was issued by the Supervisory Board. Before recommending the auditor's selection to the general meeting, the Supervisory Board obtained a declaration from the auditor with respect to the personal and commercial circumstances of the firm, and this declaration gave no cause for objections. As in prior years, the Supervisory Board agreed with the auditor that the Supervisory Board Chairman would be immediately notified if there any grounds for exclusion or prejudice are discovered during the audit or if any facts come to light which might imply the inaccuracy of the declaration issued by the Management and Supervisory Boards pursuant to § 161 of the German Stock Corporation Act.

**Shares of the Capital Stock Held by Corporate Officers**
(31 December 2010)

| **Management Board** | |
|---|---|
| Johannes Heckmann | 1,295,250 shares |
| Gerhard Witzany | 1,254,310 shares |

| **Supervisory Board** | |
|---|---|
| Dr. Leopold von Heimendahl | 42,000 shares |
| Dr. Dieter J. Braun | 51,000 shares |
| Prof. Dr.-Ing. Jürgen G. Heinrich | 1,700 shares |

**Declaration of Compliance Pursuant to § 161 of the German Stock Corporation Act**

The Management Board and Supervisory Board adopted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act on 11 March 2011. This Declaration states and cites grounds for any deviations from the recommendations of the German Corporate Governance Code, as amended on 26 May 2010. The text of the Declaration can be found below.

# Declaration of compliance with the German Corporate Governance Code for the 2011 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 2010, with the exceptions noted in the Declarations of Compliance for those years. Starting in Financial Year 2011, the Company will comply with the recommendations of the Code as amended on 26 May 2010 and published in the electronic Bundesanzeiger [Federal Gazette], 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.

- The Supervisory Board has not set any specific targets with respect to the adequate representation of women in the Supervisory Board and will therefore not include any such specific targets in the nominations it makes to the General Meeting. The Corporate Governance report will not contain any statements with respect to any such specific targets, or to the status of their implementation (5.4.1 (2) and (3) of the Code). The Supervisory Board does not consider the definition of specific targets, i.e. absolute numbers, quotas and deadlines for implementation, to be appropriate in connection with the inclusion of women in the Supervisory Board. It is of the opinion that the Supervisory Board can only be formed in the best interest of the company and its shareholders if candidates to the Board are selected based not on their gender, but on their expertise and abilities.

- 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 to be published within four months of the close of each financial year and interim reports within two months 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, 11 March 2011

The Management Board:

Johannes Heckmann

Gerhard Witzany

The Supervisory Board:

Dr. Leopold von Heimendahl

Dr. Dieter J. Braun

Professor Dr.-Ing. Jürgen G. Heinrich

# Nabaltec share and bond

**Share Performance**
The performance of Nabaltec shares was extremely strong for 2010 as a whole. The first half of 2010 was marked by a low share price level, but as the year went on, the capital markets increasingly gained confidence that the clear improvements in revenue and earnings which had been displayed up to that point represented the start of a period of sustained growth for Nabaltec AG. The share price was up 84.9% in 2010, closing the year at a price of EUR 7.10. Its low for the year was EUR 3.70. From this low, the share's performance through the end of the year was 91.9%.

The stock indices of relevance for Nabaltec, the SDAX and the specialty chemicals index, also displayed very strong performance in 2010, although their gains were far more modest than those of Nabaltec. The specialty chemicals index was up 21.6% in 2010 and the SDAX was up 45.8%, so that Nabaltec outperformed the indices by a considerable margin in 2010.

**Performance of Nabaltec Share**
(in EUR, XETRA trading)


At the end of 2010, Nabaltec AG's market capitalization was EUR 56.8 million, up from EUR 30.7 million on 31 December 2009.

**Key data for Nabaltec Share**
(All data refers to XETRA)

| | 2010 | 2009 |
|---|---|---|
| Number of shares | **8,000,000** | 8,000,000 |
| Market capitalization (31 December) in EUR millions | **56.80** | 30.72 |
| Average price (in EUR) | **5.15** | 2.48 |
| High (in EUR) | **7.78** | 4.80 |
| Low (in EUR) | **3.70** | 1.10 |
| Closing price (31 December, in EUR) | **7.10** | 3.84 |
| Average daily turnover (in shares) | **8,648** | 11,245 |
| Earnings per share* (in EUR) | **0.22** | –0.63 |

* after non-controlling interests

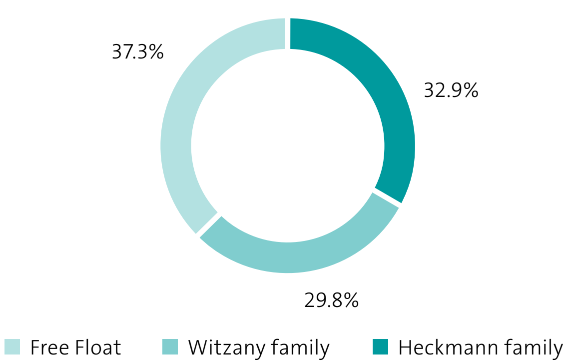
**Liquidity**
Nabaltec share's average XETRA daily trading volume was 8,648 shares in 2010, below last year's value. Trading volume was subject to sharp fluctuations in 2010. In the first three months of the year, average trading volume was 7,564 shares per day, while in the fourth quarter, 10,266 shares were traded per day. Measured by trading volume, in Euros, liquidity was up sharply over the year before, as the share gained a price plus of 84.9%. A total of over 2.2 million shares of Nabaltec stock were traded in XETRA during the reporting year, or about three fourths of the free float shares. Since it was first listed, the liquidity of Nabaltec stock has been reinforced by a voluntary commitment from a designated sponsor. This function has been performed by VEM Aktienbank AG since 2009.

**Earnings per Share**

Earnings per share (EPS) were EUR 0.22 in 2010 (after non-controlling interests), compared to EUR –0.63 the year before. Nabaltec AG calculates earnings per share based on the average number of shares in circulation, in accordance with IAS 33. There was no dilution in 2010.

**Shareholder Structure**

The majority of Nabaltec's 8,000,000 shares are still held by the Heckmann and Witzany families. As of the reporting date, the Heckmann family held 32.9% of the company's capital stock and the Witzany family held 29.8%. The remaining shares are in free float.




**Analyst Recommendations**

VEM Aktienbank published a total of four studies on Nabaltec share in the year 2010, each of which included a "buy" recommendation. In the VEM Aktienbank study of 25 November 2010, the price target was raised from EUR 7.60 to EUR 8.60.

**Nabaltec Bond**

In October 2010, Nabaltec AG issued a corporate bond with a volume of EUR 30 million. The bond issue, which has an annual yield of 6.50%, was fully placed within four days. The price of the bond in Bondm, the segment of the Stuttgart Stock Exchange for high-quality mid-cap corporate bonds, was stable above 100 in 2010.

**Rating**

In the course of the bond issue, Nabaltec AG submitted to an independent rating. The Creditreform rating agency gave Nabaltec an investment grade BBB– rating in September 2010, reflecting a creditworthiness which is above-average relative to the sector and to the economy as a whole.

**Capital Market Communications**

Nabaltec AG noticeably increased its investor relations activities in Financial Year 2010, not least in connection with the bond issue. It took part in several investor and analyst conferences, including Deutsche Börse's Entry and General Standard Conference, held in Frankfurt in May 2010.

Nabaltec's financial communications activities were supplemented by numerous discussions with members of the press, particularly in connection with the publication of quarterly results and the bond issue.

Investors can find all the information they need about Nabaltec share and Nabaltec bond in the Investor Relations section of the company's website, www.nabaltec.de, as well as other information about the company.

**Basic Data for Nabaltec Share**

| | |
|---|---|
| ISIN (International Security Identification Number) | DE000A0KPPR7 |
| Share symbol | NTG |
| Stock exchanges | Frankfurt (Entry Standard), over the counter in Berlin, Düsseldorf, Munich, Stuttgart |
| Sector | All Industrial |
| Industry group | Products & Services |
| Index membership | Entry Standard, Entry All Share, DAXsector All Industrial, DAXsubsector All Industrial Products & Services |

**Basic Data for Nabaltec Bond**

| | |
|---|---|
| ISIN (International Security Identification Number) | DE000A1EWL99 |
| Volume | EUR 30,000,000 |
| Annual yield | 6.50% |
| Coupon payments | annually, on 15 October |
| Term | 5 years, from 15 October 2010 through 14 October 2015 |
| Amortization rate | 100% |
| Units | EUR 1,000 |
| Exchange listing | Bondm segment, Stuttgart Stock Exchange |

# GROUP MANAGEMENT REPORT

for the financial year 2010

# 1. Operations and general conditions

**1.1 Business operation**

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously 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 about 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
- Fillers and additives that pigment and stabilize plastics or that are applied due to their catalyst features
- Ceramic raw materials applied in the refractory 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 by two promising product divisions: specialized products for the PVC industry (additives) and for the electronics industry (boehmite). Since 2009, respectively, 2010, the Company disposes of new production facilities in Schwandorf.

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, and 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 application-specific advisory. 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.

Nabaltec AG owns a 51% interest in Nashtec LLC (USA) as part of a joint venture. Nabaltec AG 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 centers
- 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 application-specific advisory, we are engaged in a constant exchange with our 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 the Company collaborates with research institutions.

Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both of which represent major competitive factors. Nabaltec has taken extensive measures in order to minimize energy consumption as well as 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. Since 2009, two significant newly developed products, additive and boehmites, are produced and marketed on industrial scale. In addition, focused research and development activities allow an expansion of the application range of existing products.

Nabaltec has developed an environmentally friendly stabilizer for the PVC industry with ACTILOX® CAHC. Next to replacing plumbiferous substances, it is our aim to gradually enter the market via new developments in the plastics industry so that already in the development phase of new products, ACTILOX® CAHC will find application as an environmentally friendly stabilizer.

The boehmite grades developed by Nabaltec are also manufactured at the Schwandorf site since October 2010. Boehmites 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.

Up until the start of production in Schwandorf, Nabaltec produced APYRAL® AOH in the testing facility in Kelheim. Given the new facilities in Schwandorf, the testing facility in Kelheim is now available for development activities and sample production of up to several hundred tons and for new product launches on small scale.

**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 dynamically in the years to come, which is supported by recent market research results. 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 leading suppliers in this area.

In the ceramic raw materials segment, the market for reactive alumina is developing over proportionally well due to increasing refractory industry requirements. Markets for technical ceramics and the abrasive industry also continue showing solid growth. Nabaltec responds to this growth by further expanding its facilities for innovative products.

We are already market-leader in freely available ceramic bodies for highly specialized applications in technical ceramics – due to amongst others – 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 three 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 varied 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.

**6. Strong financing basis to secure future investments**

In order to take full advantage of market opportunities relating to functional fillers and technical ceramics, further significant investments are required. This relatively high investment activity is at the same time an important market entry barrier for potential new suppliers. So as to ensure the disposal over the required investment capital, Nabaltec focuses on a broad financing basis consisting of equity, bank loans and subsidies. Nabaltec could once again notably expand and improve her financial room in October 2010 by issuing corporate bonds in the amount of EUR 30.0 million.

### 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 presented 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, period of amortization and cash flows are the central key figures used as a basis for our business economic decisions.

## 2. Course of business in 2010

### 2.1 Macroeconomic development

Global economic development recovered dynamically and across the board in 2010. The development was significantly faster and up till now more sustainable than expected by economics experts. Only a handful of economies have not yet found their way out of the economic crisis, such as Spain, Greece and Ireland.

The driver of the worldwide economic growth in 2010 of approximately 4.7% (source: Deutsche Bank) were in particular the BRIC countries with an annual growth of between 4.0% in Russia and up to 10.0% in China. With the exception of Russia, these countries could also expand on an already stable or growing basis in 2009.

In contrast, the catch up on losses arising in 2009 in the industrial countries is in full progress. In 2010, the industrial countries grew by 2.5% and so doing could partially compensate the negative growth of 3.6% in 2009. It was particularly gratifying for enterprises such as Nabaltec with a very broad international basis that this recovery embraced almost all industrial countries. In Europe, the development in Germany was especially exemplary. The positive growth of 3.6% (source: Federal Bureau of Statistics) was not anticipated at the beginning of the year. Even in the course of 2010, various economics research institutes had to make several upward rectifications of their forecasts. In the meanwhile, this upturn is no longer only carried by export, but rather is also supported by domestic production investments and rising consumption.

**2.2 Industry development**

In 2010, total sales in the German chemical industry grew by 17.5% to EUR 170.6 billion, according to the German Chemical Association (VCI). The chemical industry achieved the strongest growth in production since 1976, i.e. 11% in 2010. In comparison to prior year, exports grew by 20% to EUR 99.6 billion. With this, international sales already exceed the pre-crisis level of 2007. Domestic sales increased by 14% and reached a volume of EUR 71.0 billion. Hence, domestic sales are still approximately 10% below the pre-crisis level.

Chemical prices increased in the past year. Based on surveys by VCI, chemicals and pharmaceuticals were on average round 3% more expensive than in prior year. Price increases were particularly felt in the raw-materials-related branches.

The German chemical industry is in the mean time working at capacity again. Earnings in the branch are good. Many companies that had implemented investment restraints, leading to postponements of several projects in 2009, abandoned such measures in 2010. VCI anticipates an increase of investments in equipment and buildings in 2010 of 5% to EUR 6.4 billion compared to prior year.

The buyers' market for functional fillers as well as that for technical ceramics could benefit to a similar extent from the economic development – partially even significantly disproportionally high. The first half of the year was characterized by an exceptional dynamic. As of the middle of the year, the recovery abated somewhat and swung on to a sustainable growth path. Several indirect target branches, such as the automobile production and infrastructure and construction industry, could without much trouble compensate the discontinuation of governmental schemes, which were especially still available in 2009. Even in the further upstream industries, such as buyers of functional fillers and technical ceramics, significantly positive stimuli were felt.

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 safety regulations around the world. New independent forecasts assume an annual increase in worldwide demand of 6.5% till 2014 (on the basis of ATH, source: The Freedonia Group, Inc.). 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 development in demand specifically affects fine precipitated aluminum hydroxide – an area in which Nabaltec is very well-positioned due 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 upturn, the steel industry increased capacity in 2010. Also here, 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 endured. By 2012, market experts expect an annual growth of 5% for refractory products and round 3% for technical ceramics.

**2.3 Overview of the course of business of the Nabaltec group**

Nabaltec achieved an exceedingly dynamic course of business in 2010. After a notable recovery that already became evident in the second half of 2009, Nabaltec achieved new all-time highs in turnover and sales throughout 2010. This dynamic encompassed all business and product areas as well as all regional and sector-specific target markets.

Internal forecasts were already adjusted upward twice in 2010 and also these forecasts were exceeded regarding sales. Forecast sales of EUR 100.0 to 108.0 million were topped by actual sales of EUR 112.7 million. Regarding earnings, Nabaltec could meet its own forecast, exceeding forecast EBIT of EUR 6.0 million and also close the year positively after taxes and share for non-controlling interests.

The repeated surpassing of the sales forecast 2010 was due to a preeminent fourth quarter. Attaining sales of EUR 30.9 million, it was a record high in the history of Nabaltec. At the same time, order intakes of EUR 58.6 million could be posted. In total, order intakes during the year amounted to EUR 159.4 million. With sales amounting to EUR 112.7 million, this is a clear indication of sustainable growth. Nabaltec closes 2010 with an order backlog of EUR 53.3 million – this also is a value never seen before in the Company's history.

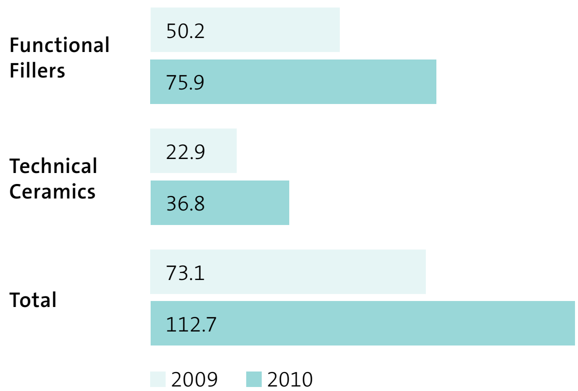
**2.4 Development of sales**

The Nabaltec Group realized EUR 112.7 million sales in 2010, i.e. an increase of 54.2% compared to EUR 73.1 million in prior year. The significant increase is mainly due to the sharp increase in demand and the corresponding higher turnover volume. Across all business areas, output in tons increased by 53.1%. Sales prices largely remained stable. Direct exchange rate effects played a subordinated role in the sales development in 2010. The export share in 2010 remained on the prior year level of 69.9%.

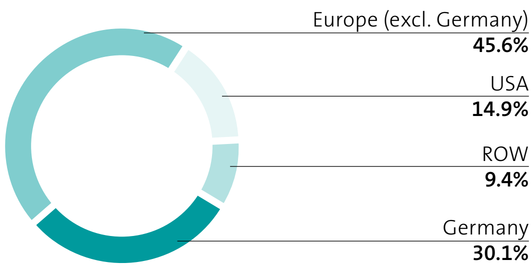
Revenues of the division 'Functional Fillers' increased by 51.2%, from EUR 50.2 million in 2009 to EUR 75.9 million in 2010. The division 'Technical Ceramics' achieved an even higher increase in revenues; 60.7 % from EUR 22.9 million to EUR 36.8 million. Both divisions were marked by these high sales dynamics throughout the year. The high growth rates in the first half of the year were still partially fostered by the comparatively weak prior year development. The second half of the year showed the sustainability of the positive business development, particularly given the sales all-time high achieved in the fourth quarter.

The highest sales dynamics in 2010 both in the 'Functional Fillers' and in the 'Technical Ceramics' divisions were shown in the USA. Here, the respective sales could be more than doubled. The US subsidiary, Nashtec, pursued the positive development already notable in 2009. Within two years, the sales share in the USA could be increased from 8.1% to 10.7% and now to 14.9%.

**Sales by business segment**
(in EUR million)




**Sales by region**




**2.5 Results of operations**

The Nabaltec Group's total performance increased from EUR 71.4 million in 2009 to EUR 112.6 million in the reporting period. The increase of 57.7% is primarily due to the growth in sales. The relatively insignificant changes in inventories and work performed resulted in an increase in total performance that was slightly higher compared to sales. A positive result is that Nabaltec could maintain the inventory level on that of 2009, a financial year in which the optimizing of inventory levels had the highest priority.

Other operating income of EUR 2.2 million (prior year: EUR 1.0 million) primarily consists of insurance income, exchange rate gains and other income from goods and services delivered to third parties.

**Operational expense ratios compared to total performance**

| | 2010 | 2009 |
|---|---|---|
| Cost of materials | **54.0%** | 53.4% |
| Personnel expenses | **16.9%** | 21.8% |
| Other operating expenses | **18.4%** | 21.0% |

Compared to prior year, the cost-of-materials-ratio (compared to total performance) could broadly be kept stable. While expenses relating to raw materials increased, specific cost cuts relating to energy consumption could be realized. Accordingly, the gross profit margin (compared to total performance) of 48.0% in 2010 remained on prior year level. Nabaltec increased the absolute gross profit margin from EUR 34.3 million in 2009 to EUR 54.0 million in the reporting period.

In 2010, personnel expenses influenced according to plan given the expiration of several temporary cost-cutting measures initiated in 2009 and due to the orderly increase in staff. The temporary reduction in salaries and wages of 6.67%, reduced working hours and cuts in lump-sum payments either expired or were ended in 2010. These measures maintained the workforce level during the economic crisis, which in turn ensured the achievement of the significant sales growth in the financial year 2010. Disproportionate allocations to the retirement benefit obligation in the fourth quarter in 2010 encompassed an encumbering adjustment in the amount of EUR 1.2 million arising from a changed discount rate. In addition, a portion of the interest expenses was reclassified from personnel expenses to interest expenses in the fourth quarter of 2010. The personnel-expenses-ratio (compared to total performance) decreased from 21.8% in 2009 to 16.9% in 2010 due to the sharp increase in total performance. The head count increased from 349 as at December 31, 2009 to 372 as at December 31, 2010. Increased manpower requirements are mainly due to the increase in the number of apprentices and the start of boehmite production in Schwandorf.

Other operating expenses increased from EUR 15.0 million to EUR 20.7 million. The expense-ratio (compared to total performance) improved, however, from 21.0% to 18.4%. The development of distribution costs and sales agent commissions is largely in line with the development of turnover and sales. Expenses relating to outside services and repair services increased in the fourth quarter, compared to preceding quarters. Earnings before interest, tax and depreciation and amortization (EBITDA) increased in 2010 to EUR 14.3 million, while EBITDA amounted to EUR 3.7 million in prior year. Thereby, EBITDA could almost be quadrupled. Both divisions contributed toward the increase in EBITDA. The positive trend that was already noticeable in the second half of 2009, continued sustainably. In both business divisions, the respective prior year comparison could be exceeded in all quarters.

Taking into consideration the scheduled depreciation in the financial year 2010 in the amount of EUR 7.8 million, the operating result (EBIT) amounts to EUR 6.5 million compared to EUR –2.7 million in prior year. The significant improvement of EUR 9.2 million is primarily due to the expansion of sales in connection with continuous cost controlling. The development of EBITDA and EBIT exhibit the intact earnings power of Nabaltec AG on operational level.

Earnings before tax amounted to EUR 1.4 million (PY: EUR –7.0 million). This includes the financial result 2010 of EUR –5.1 million (PY: EUR –4.3 million), consisting of EUR 5.3 million interest expenses and EUR 0.2 million interest income. The increase in interest expenses results, on the one hand, from the proportion of interest of EUR 0.4 million arising from the corporate bonds issued in October 2010 in the amount of EUR 30.0 million at an interest rate of 6.50% p.a., and on the other, from a reclassification of the interest expenses relating to the retirement benefit obligation in the amount of EUR 0.7 million.

Group earnings after non-controlling interests amounted to EUR 1.8 million (PY: EUR –5.0 million).

**Functional Fillers**
(in EUR million)

| | **2010** | 2009 |
|---|---|---|
| Revenue | **75.9** | 50.2 |
| EBITDA | **9.0** | 2.8 |
| EBIT | **3.4** | –1.6 |
| Investments | **4.6** | 17.2 |

In 2010, revenue increased by 51.2% in the business segment 'Functional Fillers'. The rapid recovery proved that the underlying market drivers for Nabaltec products are intact. Globally, non-halogenated, flame-retardant fillers are on the rise due to their environmental friendliness and are increasingly crowding out halogenated alternatives that have dominated the market thus far.

**Revenue Business Division 'Functional Fillers' 2010 per quarter**
(in EUR million)


Also, based on EBITDA, the business division proved that the earnings in 2009 were exclusively a result of the temporary and global decrease in demand. With a plus of 221.4%, the segment achieved earnings of EUR 9.0 million.

'Functional Fillers' was again the focus of 2010 investments within the Nabaltec Group. The main reason was the construction of the new production facilities for boehmites.

**Technical Ceramics**
(in EUR million)

| | **2010** | 2009 |
|---|---|---|
| Revenue | **36.8** | 22.9 |
| EBITDA | **5.3** | 0.9 |
| EBIT | **3.2** | –1.1 |
| Investments | **2.2** | 1.3 |

In 2010, revenue increased by 60.7% to EUR 36.8 million in the business segment 'Technical Ceramics'. The recovery effects were stronger in this business division. In total, growth was stable.

**Revenue Business Division 'Technical Ceramics' 2010 per quarter**
(in EUR million)


Earnings development in the business segment 'Technical Ceramics', based on EBITDA, improved even more significantly than in the business division 'Functional Fillers'. The plus amounted to 488.9%.

In 2010, investments in the business segment 'Technical Ceramics' related mainly to the optimization of technical equipment and machinery.

### 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 years. As of the balance sheet date, the Company provided EUR 9.1 million in funds to Nashtec. Interest rates and contract terms correspond to those standards used for middle-sized enterprises. 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 (e.g. interest swaps).

Up till now, Nabaltec's growth was primarily financed through bank loans, whereby the Company takes advantage of KfW (Reconstruction Loan Corporation) or LfA program, as well as subsidies from the government of Upper Palatinate. In October 2010, Nabaltec additionally issued corporate bonds in the amount of EUR 30.0 million and placed this issue completely in the capital market. The duration amounts to five years. As a result, Nabaltec disposes of a balanced debt financing structure.

### 2.6.2 Financing

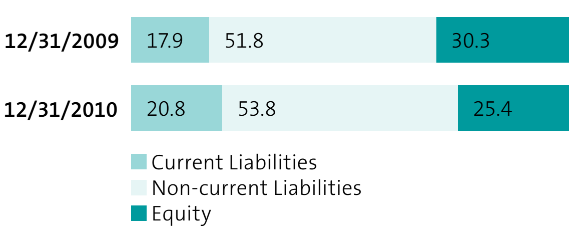
Shareholders' equity increased from EUR 40.0 million to EUR 42.1 million as of 31 December 2010 due to the development of net earnings. As a result of the intake of new financial resources through the issuance of the initial corporate bonds of Nabaltec AG in the amount of EUR 30.0 million, the calculated equity ratio decreased from 30.3% as at December 31, 2009 to 25.4% as at December 31, 2010, which can continued to be considered as sound compared to the industry.

Non-current liabilities increased in the reporting period from EUR 68.3 million to EUR 89.4 million. Here, the corporate bonds had a net effect of EUR 28.7 million. In particular, long term payables to banks decreased, on the one hand, due to reclassification according to the repayment terms, and on the other, due to scheduled repayments in the amount of EUR 3.1 million. The retirement benefit obligation increased due to the annual additions as well as, compared to prior year, reduced discounting effects disproportionately by EUR 2.0 million. Non-current other liabilities decreased from EUR 2.7 million to zero; reason being the reclassification to the current other liabilities of an investment subsidy granted by the government of Upper Palatinate in the amount of EUR 2.0 million.

Current liabilities increased in the reporting period from EUR 23.5 million to EUR 34.5 million. This increase results from higher payables to banks as well as higher other liabilities, which primarily is due to

the reclassifications based repayment terms. Trade payables also increased in line with the growth in business, particularly given that, at year end, further raw materials were purchased and the stock levels were correspondingly higher.

**Structure of Equity & Liabilities**
(in %)




### 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 remaining lease term amounts to one to five years. Furthermore, Nabaltec continuously uses factoring in connection with trade receivables, also to minimize potential default risks. Nabaltec does not use any other financial engineering instruments.

### 2.6.4 Investments

In the reporting period, the Nabaltec Group invested a total amount of EUR 6.8 million including the portion of the investment grant (PY: EUR 18.5 million). Investments focused on the business division ‘Functional Fillers’, assuming round two thirds of total investments, particularly for the establishment of the boehmite production and the final investments in the CAHC facility. Additionally, measures were taken to improve the infrastructure as well as energy efficiency. In the business division ‘Technical Ceramics’, the production process could be further improved and moreover the capacity could be expanded thanks to investments made in 2010.


### 2.6.5 Cash Flow

The Nabaltec Group could substantially increase net cash generated by operating activities. The increase from EUR 4.6 million to EUR 15.4 million is all the more remarkable given that cash flows in 2009 were still significantly marked by the changes in inventory and work performed. The positive cash flow is primarily due to the considerably improved development in operational earnings as well as the year end increase in trade payables.

Net cash used by investing activities amounted to EUR 7.5 million in the reporting period compared to EUR 20.3 million used by investing activities in prior year. The current new investments serve in particular the expansion of capacities and the strengthening of new, high-margin product areas. Investments in 2010 were roughly in line with scheduled depreciation and amortization.

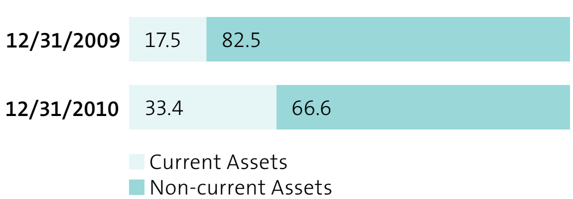
Net cash generated by financing activities amounted to EUR 10.5 million in the reporting period (PY: EUR 14.4 million). Above all, the issuance of the corporate bonds in the amount of EUR 30.0 million affected these cash flows as well as the counter effect arising from the short term investment of EUR 10.0 million in fixed deposits. Redemption payments and interest were in line with budget in 2010.

The Nabaltec Group's total cash and cash equivalents as at December 31, 2010 amounted to EUR 19.0 million compared to EUR 0.5 million in prior year. This amount does not take into account the EUR 10.0 million invested in fixed deposits, since these deposits have a term ending October 2011 and therefore do not have to be presented as cash equivalents in accordance with IAS 7.7.

The generated free cash flow amounted to EUR 7.9 million in 2010.

**2.7 Net assets**
The Nabaltec Group's total assets increased as at December 31, 2010 from EUR 131.8 million to EUR 166.0 million.

**Structure of Assets**
(in %)




Additions to property, plant and equipment in the amount of EUR 6.8 million were accompanied by depreciation in the amount of EUR 7.7 million. Advance payments and plant and machinery under construction substantially increased since the new boehmite facility will only be fully capitalized in 2011. The sum of the non-current assets in the amount of EUR 110.6 million encompasses a deferred tax asset arising from the joint venture, Nashtec, amounting to EUR 1.3 million.

The balance sheet was characterized by a clear shift toward current assets as this was influenced considerably by the cash inflow arising from the corporate bonds.

## 3. Non-financial performance indicators

**3.1 Employees**
End 2010, the Nabaltec Group employed in total 372 employees (December 31, 2009: 349). Thereof, 371 employees (December 31, 2009: 348) were employed in Germany. This figure includes 48 apprentices (December 31, 2009: 38). Nabaltec sets a high priority on sound professional training. Therefore, also in 2010, the rate of apprentices of 12.9% traditionally presents a remarkably large portion of the workforce. So doing, Nabaltec slightly increased this rate in 2010 and, as in prior years, far exceeded the industry average. Nabaltec apprentices regularly count to the best of the class. The Company currently has vacancies relating to training positions for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

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. The brilliant development in 2010 proves how correct the decision was to abstain from layoffs and to secure jobs through reduction in payment and short-time work. Nabaltec'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 research and development strategy is the close collaboration with customers and our joint development efforts. In all our business divisions, the focus is clearly on 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 application-oriented 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 research and development activities of continuously optimizing her own production processes and, thereby, forming a basis for the improvement of her market position; an example of which is the optimization of energy consumption as a fundamental driver for manifold research and development 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 Process Engineering 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 research institute for inorganic materials – glass/ceramic in Höhr-Grenzhausen. Nabaltec emphasizes innovation by participating in various 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 already as much as four times belonged to Germany's top 100 innovative medium sized companies and was distinguished for her innovative energy.

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 research and development focus on additives and boehmites in the last years will be intensively continued even after the product launch. The central focal point will be the further development of grades, the identification and acquisition of new fields of operation. Not least, Nabaltec has the objective of becoming world leader in quality in both new business areas.

In 2010, 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 the area of transportation of passengers such as public transport, which up till today are not all 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 properties and fire protection synergies in unsaturated polyester resins.

Nabaltec AG developed new APYRAL® products for the innovative RTM (Resin Transfer Molding) process engineering. 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 synthetics, 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.

In the reporting period, the following developments played a central role in the ‘Technical Ceramics’ division:

With several new reactive NABALOX® aluminum oxides, Nabaltec is able to offer customers in the refractory industry the possibility to manufacture monolithic feeds that have improved processing and application properties. Recent developments focus on both the ongoing improvement as well as on the optimization of the manufacturing process of these products. Furthermore, the work performed by the NABALOX® product group is directed at identifying, evaluating and optimizing innovative finishing processes for aluminum oxides for the application in the manufacturing of ceramic and polishing agents.

Mullite-like sintering products are largely applied as raw material in the refractory industry. The repeated global shortage has lead to them being recognized and categorized as strategically important within the scope of the European Raw Material Initiative (RMI). In this regard, Nabaltec collaborates with customers to obtain solutions for the substitution of deficient natural resources through special sintering mullite grades. In addition to the targeted independence from the raw material, the long term aim of such cooperation is to lay the foundation for the launching of material cycles regarding refractory materials. Other developments in the SYMULOX® product group relate to special ceramic applications.

Amongst others, development was conducted in the areas of organic plasticization and spray granulation for the fundamental enhancement in the performance of various GRANALOX® products in existing applications. As a consequence, products with improved processing and application properties could be introduced. Next to customer-specific internal developments, Nabaltec is also involved in theoretic research and publicly sponsored projects.

**3.3 Customer relations**

During the economic crisis, Nabaltec could again clearly parlay its own market standing. Imperative arguments in collaboration with customers are the proven delivery reliability and the quality consistency. We have demonstrated that we are a very reliable partner for long term and trusting collaboration. These attributes pose an important competitive advantage in the current market environment.

Prerequisite for our market success are products of the ongoing 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 our 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 Management system**

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, respectively, ISO 14001:2004, to introduce a health and safety management system in compliance with BS OHSAS 18001:2007 (British Standard Occupational Health and Safety Assessment Series). In 2010, an extensive monitoring audit for the health and safety management system based on BS OHSAS 18001:2007 was conducted. Also, the quality management system (ISO 9001:2008) as well as the environment management system (ISO 14001:2004) was newly accredited. In 2010, the certification of the energy management system based on EN 16001 was conducted by TÜV SÜD Management Service GmbH. Thereby, Nabaltec belongs to one of the first companies in Germany that maintain a certified energy management system.

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

By the end of November 2010, the REACH (Registration, Evaluation, Authorization & Restriction of CHemicals) registration as well as the categorization according to GHS (Globally Harmonized System of Classification and Labelling of Chemicals) was performed for all Nabaltec products.

**3.5 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 heavy metal-based 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; a commitment that well extends beyond her own sites.

Nabaltec places special emphasis on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2010, this area was invested in. Through joint efforts with external partners, we have developed techniques requiring much less process energy, leading to a substantial reduction in $CO_2$ emissions. By participating in the task force “Energietechnik der Bayern Innovativ GmbH”, this path is being systematically pursued. Here, Nabaltec participates in a network of medium-sized enterprises. The goal is to transfer and receive innovations relating to continuous improvement processes to and from other enterprises. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec's energy needs are covered by renewable energy.

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 CAHC facility commissioned in 2009 in Schwandorf that operates entirely without any production wastewater and has a closed water circuit. Also, regarding the handling of 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 can be completely used for the re-employment in an entirely in a closed production cycle.

### 3.6 Capital market

Since the initial public offering in 2006, Nabaltec disposes of intact access to the capital market. This was proven yet again in 2010 with the issuance of corporate bonds in the amount of EUR 30.0 million. Access to the capital market, maintained by transparent and reliable communication at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively by the sales market.

## 4. Report on risks and opportunities

### 4.1 Risk management

For the Nabaltec Group, 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, for its economic success in international markets and for its successful, sustainable future development.

We unremittingly take measures to further develop the risk management within Nabaltec. 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 an ongoing process, risk controlling, extensive communication and documentation as well as an internal monitoring system. All discernible 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 assessment 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 assessment 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 medium and long term opportunities and to 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 in accordance with 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 safeguarding tools 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 and opportunities regarding future development**

**Sales Market**

The international economic crisis 2008/2009 showed that a corresponding shock in demand can have far-reaching consequences, also in Nabaltec AG's target markets. In spite of a more flexible and adjustments within the cost structure and capacities, high fluctuations in demand can implicate noticeable 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 advancing of competitors. Due 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 European REACH regulation, effective since July 1, 2007. In order to meet the high requirements set by REACH and to assess possible restrictions on new products, the Company has assigned an in-house REACH officer. By joining an industry consortium, the risk of higher registration costs can be counteracted.

### Procurement Market

We monitor our suppliers' economic situation very closely and deliberately build up alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of medium and long term contracts. The supply of the most important media, electricity, gas and vapor for the production process is also secured by long term agreements. 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 disproportional increase in logistics costs. On the one hand, Nabaltec can counter this risk by passing on more logistics costs to customers, and on the other hand, by finding a balanced logistics mix. For example, we dispose of our own railway siding, which makes transport per rail very attractive.

### Financial Market

If necessary, exchange rate risks are specifically restricted by hedging instruments covering risks arising from US dollar exposure. In the case of medium 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 initiated. Interest rate fluctuations are partially covered by hedge instruments. Credit agreements are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as 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, covenants valid as at December 31,

2010 were adhered to. Given the successful placement of the corporate bonds, Nabaltec AG's financing situation has immensely improved, respectively; independence from lending banks has increased.

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

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 governs the temporary replacement of key employees, and early advance plans for successors. Furthermore, the Company offers good job 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

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 procedures. Compliance with the privacy policy based on the most recent legal framework is guaranteed at all times within the Company and is additionally monitored by an external privacy policy officer since 2010.

### Environmental Protection

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 Development

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 research and development structures. Nabaltec considers technological development as a source of opportunity to generate a competitive edge with product quality by accessing new markets through fast-pace product adjustments and by generating process and quality advantages together with our clients; thereby, setting the stage for economic success.

Legal Framework

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

**4.3 Overall assessment**

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 secured.

## 5. Declaration of corporate governance

The activities of Nabaltec AG'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). The declaration is published on the Company's website www.nabaltec.de under Investor Relations/Corporate Governance.

## 6. Subsequent events

There are no further events to report that occurred subsequent to December 31, 2010 that might have a significant effect on the net assets, financial position or earnings of the Nabaltec Group.

## 7. Outlook

Thanks to fundamental trends such as environmental protection, increasing safety standards and economic necessity to continuously improve customer processes, we expect the demand for our products to carry on developing positively. The rapid rebound in 2010 shows that Nabaltec could not only benefit from catch-up effects, but rather could further improve its own market position.

Nabaltec is a leader in quality and innovation and belongs to the market leaders in her own target markets. Nabaltec AG could effectively prove her reliability as stable partner in the market. The approval process for the Company's own products could be successfully finalized for a number of market participants, who up to now did not belong or only partly belonged to Nabaltec's client portfolio.

### 7.1 Economic activity & industry

As forecast by the Deutsche Bank, the national economies most relevant to Nabaltec are expected to be marked by sustainable growth in the years 2011 and 2012. Economic performance in the euro area is expected to even gain momentum and grow by 1.2% in 2011 and by 1.4% in the subsequent year. Germany shall remain the European growth driver. The USA economy is expected grow stronger than that of the euro area. China and India will steadily pursue their growth.

**Economic Growth Forecast**

| in % | 2011 | 2012 |
|---|---|---|
| World | 3.9 | 4.2 |
| USA | 3.0 | 3.4 |
| euro area | 1.2 | 1.4 |
| Germany | 2.0 | 1.4 |
| France | 1.2 | 1.6 |
| Italy | 0.9 | 1.2 |
| Spain | 0.2 | 1.1 |
| Great Britain | 2.2 | 2.0 |
| Japan | 0.1 | 1.7 |
| China | 8.7 | 8.4 |
| India | 8.2 | 8.5 |

Source: Deutsche Bank, December 15, 2010

The forecasts for 2011 regarding the German chemical industry give reason to expect a slight easing, but also the continuation of growth.

**7.2 Outlook on the course of business**
For 2011, Nabaltec expects further growth in demand. The current order backlog of EUR 53.3 million is a clear indication of the strong sustainable demand.

Beginning 2011, Nabaltec realized price increases for all products. Regionally, Nabaltec expects the continuation of the good revenue development 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 stable growth for Germany and Europe.

With its patented CD technology, Nabaltec AG is extremely well-positioned for future development in the market for non-halogenated fire protection. 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. The cable & wire and insulation markets, the principal consumers of the fine hydroxides produced by the 'Functional Fillers' division, are dependent on the construction sector. Positive growth impulses are expected for 2011 and 2012 relating to the application segments in the low voltage range, in telecommunication and in IT. There are discernible signs of continued growth in the markets for non-halogenated fire protection. These expectations are 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 2010 prognosticate a market growth of annually 6.5% up until 2014 for non-halogenated fire protection (on the basis of ATH).

One of our focuses for 2011 is the successful development and expansion of the business relating to additives and special boehmite qualities. Nabaltec sees growth opportunities in the additives market, where in the processing of PVC 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 heat stabilizer, has successfully undergone several approval processes by future key customers. Nabaltec's additives are particularly applied in newly developed products. The objective target for market penetration has to be set accordingly.

A similar focus will be adopted for boehmite used by the electronics industry. After initial success in 2009, and the start of production in 2010 in Schwandorf, 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 now is to take in a strategic imminent market position, acquire key customers, and so doing fully anchor its environmentally friendly and high performance product solutions in the market. Additional application fields shall also be entered into, e.g. catalysis or high-temperature batteries.

The market for technical ceramics and refractory products are significantly influenced by the worldwide production of steel. Subsequent to a major catch up in 2010, the market is now expected to grow steadily. 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 sales growth in the low, two-digit percentage range for 2011. The Company forecasts a disproportional improvement in the 2011 result from ordinary operations (EBIT) compared to prior year. For the financial year 2012, Nabaltec expects a further increase in sales and result from ordinary operations (EBIT) compared to 2011.

The Nabaltec Group will increase investments in 2011 compared to 2010. The focus will lie in investments for the expansion of fine hydroxides. Nabaltec concentrates particularly on high margin product areas. In the business segment 'Technical Ceramics', the own excellent market position regarding high quality products shall be further enlarged through investments. Further key investments relate to measures securing at-will delivery readiness, additional infrastructure improvements and the optimizing of energy efficiency.

In 2011, depreciation expenses within the Nabaltec Group will increase according to plan, reflecting the extensive investments in fixed assets. The systematic redemption of loans will be continued in 2011.


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 several risks and uncertainties. A large number of factors, a significant part of which is not under the Group'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 2, 2011

Nabaltec AG
The Management Board

Johannes Heckmann Gerhard Witzany

# CONSOLIDATED FINANCIAL STATEMENTS

for the financial year January 1, 2010 through December 31, 2010

## CONSOLIDATED FINANCIAL STATEMENTS (IFRS)



## NOTES

# Consolidated statement of comprehensive income

for the financial year from January 1, 2010 through December 31, 2010

| in EUR '000 | Notes | **01/01 – 12/31/2010** | 01/01 – 12/31/2009 |
| --- | --- | --- | --- |
| Revenue | 5.1 | **112,701** | **73,060** |
| Increase in unfinished and finished products | | **–364** | –2,867 |
| Other own services capitalized | 5.2 | **308** | 1,161 |
| **Total performance** | | **112,645** | **71,354** |
| | | | |
| Other operating income | 5.3 | **2,165** | 1,027 |
| Cost of materials | 5.4 | **–60,815** | –38,061 |
| **Gross profit** | | **53,995** | **34,320** |
| | | | |
| Personnel expenses | 5.5 | **–19,017** | –15,595 |
| Depreciation and amortization | 5.7 | **–7,776** | –6,441 |
| Other operating expenses | 5.8 | **–20,654** | –14,992 |
| **Operating result (EBIT)** | | **6,548** | **–2,708** |
| | | | |
| Interest and similar income | 5.10 | **215** | 119 |
| Interest and similar expenses | 5.11 | **–5,326** | –4,442 |
| **Result from ordinary operations (EBT)** | | **1,437** | **–7,031** |
| | | | |
| Income taxes | 5.12 | **654** | 1,666 |
| **Consolidated result after taxes** | | **2,091** | **–5,365** |
| thereof attributable to | | | |
| Shareholders of the parent company | | **1,779** | –5,047 |
| Non-controlling interests | | **312** | –318 |
| **Consolidated result after taxes** | | **2,091** | **–5,365** |
| **Earnings per share (in EUR)*** | 7.5 | **0.22** | **–0.63** |

* See also Note 6.8 Equity

| in EUR '000 | Notes | 01/01 – 12/31/2010 | 01/01 – 12/31/2009 |
|---|---|---|---|
| **Consolidated result after taxes** | | 2,091 | –5,365 |
| Foreign Currency Translation (after taxes) | | 72 | –63 |
| Net Result from Hedge Accounting (after taxes) | | –69 | 420 |
| | | | |
| **Other result** | | 3 | 357 |
| thereof attributable to | | | |
| Shareholders of the parent company | | 322 | 36 |
| Non-controlling interests | | –319 | 321 |
| | | | |
| **Consolidated result after taxes** | | 2,094 | –5,008 |
| thereof attributable to | | | |
| Shareholders of the parent company | | 2,101 | –5,011 |
| Non-controlling interests | | –7 | 3 |

# Consolidated statement of financial position

at December 31, 2010

ASSETS

| in EUR ’000 | Notes | 12/31/2010 | 12/31/2009 |
|---|---|---|---|
| **Non-current assets** | | **110,559** | **108,702** |
| Intangible assets | | | |
| Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments) | 6.1 | **216** | 233 |
| Property, plant and equipment | | **109,033** | 108,469 |
| Land, leasehold rights and buildings on non-owned land | 6.2 | **30,132** | 30,676 |
| Technical equipment, plant and machinery | 6.2 | **73,107** | 74,856 |
| Other fixtures, fittings and equipment | 6.2 | **2,315** | 2,239 |
| Advance payments and plant and machinery under construction | 6.2 | **3,479** | 698 |
| Deferred tax assets | 5.12 | **1,310** | 0 |
| **Current assets** | | **55,439** | **23,109** |
| Inventories | | **21,415** | 19,213 |
| Raw materials and supplies | 6.3 | **12,546** | 10,180 |
| Unfinished goods | 6.3 | **393** | 187 |
| Finished products and merchandise | 6.3 | **8,476** | 8,846 |
| Trade receivables and other assets | | **15,067** | 3,399 |
| Trade receivables | 6.4 | **1,612** | 499 |
| Income tax claims | 6.5 | **169** | 248 |
| Other assets | 6.6 | **13,286** | 2,652 |
| Cash and cash equivalents | 6.7 | **18,957** | 497 |
| **Total Assets** | | **165,998** | **131,811** |

## EQUITY & LIABILITIES

| in EUR '000 | Notes | 12/31/2010 | 12/31/2009 |
|---|---|---|---|
| **Equity** | | **42,137** | **40,043** |
| Subscribed capital | 6.8 | **8,000** | 8,000 |
| Capital reserve | 6.8 | **29,764** | 29,764 |
| Earnings reserves | 6.8 | **9,711** | 9,707 |
| Profit/loss carried forward | 6.8 | **−2,572** | 2,520 |
| Consolidated result after taxes | | **1,779** | −5,047 |
| Accumulated other comprehensive result | 6.8 | **−576** | −898 |
| Non-controlling interests | 6.8 | **−3,969** | −4,003 |
| **Non-current liabilities** | | **89,377** | **68,266** |
| Retirement benefit obligation | 6.9 | **13,053** | 11,078 |
| Other provisions | 6.9 | **354** | 0 |
| Financial liabilities arising from corporate bonds | 6.10 | **28,694** | 0 |
| Payables to banks | 6.10 | **39,609** | 47,197 |
| Profit participation capital | 6.10 | **4,951** | 4,927 |
| Liabilities from finance lease | 6.10 | **0** | 319 |
| Deferred tax liabilities | 5.12 | **2,716** | 2,076 |
| Other liabilities | 6.10 | **0** | 2,669 |
| **Current liabilities** | | **34,484** | **23,502** |
| Income tax payable | 6.10 | **16** | 480 |
| Other provisions | 6.9 | **424** | 868 |
| Payables to banks | 6.10 | **8,332** | 4,737 |
| Trade payables | 6.10 | **11,244** | 6,066 |
| Liabilities from finance lease | 6.10 | **319** | 958 |
| Other liabilities | 6.10 | **14,149** | 10,393 |
| **Total equity & liabilities** | | **165,998** | **131,811** |

# Consolidated statement of cash flows

for the financial year from January 1, 2010 through December 31, 2010

| in EUR ’000 | | Notes | 01/01 – 12/31/2010 | 01/01 – 12/31/2009 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| **Period profit before taxes** | | | **1,437** | **– 7,031** |
| + | Depreciation and amortization | 5.7 | **7,776** | 6,441 |
| –/+ | Gain/loss from asset disposals | | **– 1** | 10 |
| – | Interest income | 5.10 | **– 215** | – 119 |
| + | Interest expenses | 5.11 | **5,326** | 4,442 |
| **Operating profit before working capital changes** | | | **14,323** | **3,743** |
| +/– | Increase/decrease in provisions | | **1,333** | 1,373 |
| –/+ | Increase/decrease in trade receivables and other assets not attributable to investing or financing activity | | **– 1,747** | 1,369 |
| +/– | Decrease/increase in inventories | | **– 2,202** | 9,195 |
| +/– | Increase / decrease in trade payables and other liabilities, not attributable to investment or financing activity | | **4,096** | – 10,536 |
| **Cash flow from operating activities before taxes** | | | **15,803** | **5,144** |
| –/+ | Income taxes paid | | **– 401** | – 579 |
| **Net cash generated by operating activities** | | | **15,402** | **4,565** |

| in EUR '000 | | Notes | 01/01 – 12/31/2010 | 01/01 – 12/31/2009 |
|---|---|---|---|---|
| **Cash flow from investing activities** | | | | |
| + | Cash received from disposals of property, plant and equipment | | **27** | 3 |
| – | Cash paid for purchases in property, plant and equipment | 6.2 | **–7,478** | –20,404 |
| + | Cash received from returning intangible assets | | **0** | 73 |
| – | Cash paid for investments in intangible assets | 6.1 | **–42** | –8 |
| **Net cash used in investing activities** | | | **–7,493** | **–20,336** |
| **Cash flow from financing activities** | | | | |
| + | Cash received from the issuance of corporate bonds | | **30,000** | 0 |
| – | Cash rendered for transaction costs relating to issuance of corporate bonds | | **–1,341** | 0 |
| – | Cash rendered for investments in fixed deposits > 3 months | | **–10,000** | 0 |
| + | Cash received from financial loans | 6.10 | **0** | 22,699 |
| – | Cash rendered for payment of financial loans | 6.10 | **–3,128** | –2,842 |
| – | Cash rendered for liabilities from finance lease | 6.10 | **–958** | –1,085 |
| – | Interest paid | | **–4,152** | –4,519 |
| + | Interest received | | **99** | 119 |
| **Net cash generated by financing activities** | | | **10,520** | **14,372** |
| **Net change in cash and cash equivalents** | | | **18,429** | **–1,399** |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | | **31** | –46 |
| Cash and cash equivalents at the beginning of the year | | 6.7 | **497** | 1,942 |
| **Cash and cash equivalents at the end of the year** | | 6.7 | **18,957** | **497** |

# Consolidated statement of changes in equity

for the financial year January 1, 2010 through December 31, 2010

| in EUR '000 | Equity attributable to shareholders of Nabaltec AG<br>Subscribed Capital | Capital reserve | Earnings reserves |
|---|---|---|---|
| **Balance per 01/01/2009** | **8,000** | **29,764** | **9,707** |
| Foreign currency translation | – | – | – |
| Net gains from hedge accounting | – | – | – |
| Other gains/losses | – | – | – |
| Profit/loss for the period after tax | – | – | – |
| **Consolidated profit for the period** | – | – | – |
| **Balance per 12/31/2009** | **8,000** | **29,764** | **9,707** |
| | | | |
| **Balance per 01/01/2010** | **8,000** | **29,764** | **9,707** |
| **Consolidation adjustment Nashtec LLC*** | **–** | **–** | **4** |
| Foreign currency translation | – | – | – |
| Net gains from hedge accounting | – | – | – |
| Other gains/losses | – | – | – |
| Profit/loss for the period after tax | – | – | – |
| **Consolidated profit for the period** | – | – | – |
| **Balance per 12/31/2010** | **8,000** | **29,764** | **9,711** |

* we refer to the notes on the basis of consolidation

| Profit carried forward | Accumulated other comprehensive result | Total | Non-controlling interests | Consolidated equity |
|---|---|---|---|---|
| **2,520** | **−934** | **49,057** | **−4,006** | **45,051** |
| – | −176 | **−176** | 113 | **−63** |
| – | 212 | **212** | 208 | **420** |
| – | 36 | **36** | 321 | 357 |
| −5,047 | – | **−5,047** | −318 | −5,365 |
| **−5,047** | 36 | **−5,011** | 3 | **−5,008** |
| **−2,527** | **−898** | **44,046** | **−4,003** | **40,043** |
| | | | | |
| **−2,527** | **−898** | **44,046** | **−4,003** | **40,043** |
| **−45** | **–** | **−41** | **41** | **0** |
| – | 361 | **361** | −289 | **72** |
| – | −39 | **−39** | −30 | −69 |
| – | 322 | **322** | −319 | 3 |
| 1,779 | – | **1,779** | 312 | **2,091** |
| **1,779** | **322** | **2,101** | **−7** | **2,094** |
| **−793** | **−576** | **46,106** | **−3,969** | **42,137** |

# Consolidated statement of changes in non-current assets

## for the financial year from January 1, 2010 through December 31, 2010

| | Historical Cost | | | | | |
|---|---|---|---|---|---|---|
| in EUR '000 | **Balance per 01/01/2010** | Additions | Disposals | Transfers | Foreign Exchange Rate Differences | **Balance per 12/31/2010** |
| **Intangible assets** | **2,072** | **42** | **–** | **–** | **–** | **2,114** |
| Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets | **2,007** | 36 | – | – | – | **2,043** |
| Advance payments | **65** | 6 | – | – | – | **71** |
| **Property, plant and equipment** | **140,276** | **6,797** | **106** | – | **1,793** | **148,760** |
| Land, leasehold rights and buildings on non-freehold land | **33,697** | 138 | – | 23 | 517 | **34,375** |
| Technical equipment, plant and machinery | **99,637** | 2,795 | – | 423 | 1,230 | **104,085** |
| Other fixtures, fittings and equipment | **6,244** | 633 | 106 | 4 | 46 | **6,821** |
| Advance payments as well as plants and machinery under construction | **698** | 3,231 | – | –450 | – | **3,479** |
| **Total non-current assets** | **142,348** | **6,839** | **106** | **0** | **1,793** | **150,874** |

## for the financial year from January 1, 2009 through December 31, 2009

| | Historical Cost | | | | | |
|---|---|---|---|---|---|---|
| in EUR '000 | **Balance per 01/01/2009** | Additions | Disposals | Transfers | Foreign Exchange Rate Differences | **Balance per 12/31/2009** |
| **Intangible assets** | **2,137** | **8** | **73** | **–** | **–** | **2,072** |
| Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets | **1,999** | 8 | – | – | – | **2,007** |
| Advance payments | **138** | – | 73 | – | – | **65** |
| **Property, plant and equipment** | **122,546** | **18,497** | **78** | – | **–689** | **140,276** |
| Land, leasehold rights and buildings on non-freehold land | **29,280** | 2,489 | – | 2,128 | –200 | **33,697** |
| Technical equipment, plant and machinery | **76,114** | 15,205 | 43 | 8,832 | –471 | **99,637** |
| Other fixtures, fittings and equipment | **5,904** | 322 | 35 | 71 | –18 | **6,244** |
| Advance payments as well as plants and machinery under construction | **11,248** | 481 | – | –11,031 | – | **698** |
| **Total non-current assets** | **124,683** | **18,505** | **151** | **–** | **–689** | **142,348** |

| Cumulative Depreciation/Amortization | | | | | Book Value | |
|---|---|---|---|---|---|---|
| **Balance per 01/01/2010** | Additions | Disposals | Foreign Exchange Rate Differences | **Balance per 12/31/2010** | **Balance per 12/31/2010** | Balance per 12/31/2009 |
| **1,839** | **59** | **–** | **–** | **1,898** | **216** | **233** |
| **1,839** | 59 | – | – | **1,898** | **145** | 168 |
| **–** | – | – | – | **–** | **71** | 65 |
| **31,807** | **7,717** | **80** | **283** | **39,727** | **109,033** | **108,469** |
| **3,021** | 1,128 | –34 | 60 | **4,243** | **30,132** | 30,676 |
| **24,781** | 6,045 | 45 | 197 | **30,978** | **73,107** | 74,856 |
| **4,005** | 544 | 69 | 26 | **4,506** | **2,315** | 2,239 |
| **–** | – | – | – | **–** | **3,479** | 698 |
| **33,646** | **7,776** | **80** | **283** | **41,625** | **109,249** | **108,702** |

| Cumulative Depreciation/Amortization | | | | | Book Value | |
|---|---|---|---|---|---|---|
| **Balance per 01/01/2009** | Additions | Disposals | Foreign Exchange Rate Differences | **Balance per 12/31/2009** | **Balance per 12/31/2009** | Balance per 12/31/2008 |
| **1,773** | **66** | **–** | **–** | **1,839** | **233** | **364** |
| **1,773** | 66 | – | – | **1,839** | **168** | 226 |
| **–** | – | – | – | **–** | **65** | 138 |
| **25,618** | **6,375** | **65** | **–121** | **31,807** | **108,469** | **96,928** |
| **2,030** | 1,017 | – | –26 | **3,021** | **30,676** | 27,250 |
| **20,057** | 4,842 | 35 | –83 | **24,781** | **74,856** | 56,057 |
| **3,531** | 516 | 30 | –12 | **4,005** | **2,239** | 2,373 |
| **–** | – | – | – | **–** | **698** | 11,248 |
| **27,391** | **6,441** | **65** | **–121** | **33,646** | **108,702** | **97,292** |

# Notes to the consolidated financial statements

for the financial year from January 1, 2010 to December 31, 2010

## 1. General information

Nabaltec, based in Schwandorf, Germany[1], was founded under the name Nabaltec GmbH, with its registered head office in Schwandorf (registered in the Commercial Register of the Amberg Local Court under HRB 3920) by virtue of Articles of Incorporation dated December 14, 1994. It acquired the specialty alumina division of VAW aluminium AG in 1995. The Company was converted to a stock corporation in 2006.

According to Section 2 of the Articles of Association, Nabaltec AG's business activities include the development, manufacturing and distribution of highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide ('ATH') and aluminum oxide.

Since November 24, 2006, the shares of Nabaltec AG are listed on the Open Market (Entry Standard) segment of the Frankfurt Stock Exchange.

The consolidated financial statements at hand were approved for publication by the Management Board and the Supervisory Board on March 2, 2011.

## 2. Basic principles, methods and significant accounting policies

The accounting policies and valuation principles described below have been applied uniformly in all the reporting periods presented herein.

### 2.1 Statement of compliance and basis of preparation

The consolidated financial statements as at December 31, 2010 (including the prior year figures at December 31, 2009) were prepared in accordance with International Financial Reporting Standards (IFRS) as well as with the regulations under commercial law as set forth in Section 315a Paragraph 1 of the German Commercial Code (Handelsgesetzbuch – HGB). The IFRS issued by the International Accounting Standards Board comprise the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All EU-compliant standards applicable to the financial year 2010 were applied.

The consolidated financial statements present a true and fair view of the net asset position, financial position and earnings of Nabaltec AG. As described below, in some cases, standards were applied prior to their effective date.

The financial year of Nabaltec AG comprises the period from January 1 through December 31 of every year.

The consolidated financial statements are prepared in euro (EUR). Unless otherwise indicated, all figures have been rounded up or down to thousand euro (EUR thousand) in accordance with commercial rounding practices. Please note that differences can result from the use of rounded amounts and percentages.

Presentation in the balance sheet differentiates between current and non-current assets and liabilities, some of which are broken down further by their respective maturities in the notes to the financial statements.

The consolidated statement of comprehensive income has been prepared by presenting expenses by nature.

### 2.2 Adopted International Financial Reporting Standards (IFRSs)

All accounting standards and interpretations required to be applied for financial years starting January 1, 2010 were applied in the financial year 2010. These also include the following standards and interpretations that had to be adopted for the first time, in particular:

- IFRS 1 First-time Adoption of IFRS: The amendments deal exclusively with the formal structure of IFRS 1. The general regulations were separated from the specific regulations of the standard. The new structure shall improve the clarity and application of IFRS 1. On the other hand, further amendments to IFRS 1 address the retrospective application of IFRSs to particular

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situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Furthermore, the amendments to IFRS 1 result in the two new exemptions for first-time adopters relating to oil and gas assets and to reassessing the classification of lease contracts. The revised IFRS is applicable to annual periods beginning on or after January 1, 2010. The amended standard did not affect the amounts reported in the consolidated financial statements.

- IFRS 2 Share-based Payment: The revised version of IFRS 2 clarifies how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 and IFRIC 11. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendments were applicable to annual periods beginning on or after January 1, 2010. The amended standard did not affect the amounts reported in the consolidated financial statements.

- IFRS 3 Business Combinations: The amendments address the application of the acquisition method. The most significant changes relate to the measurement of the non-controlling interests, the accounting of successive acquisitions and the treatment of contingent considerations and acquisition-related costs. IFRS 3 allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition either at fair value or at the non-controlling interests' share of recognized identifiable net assets of the acquiree. For successive acquisitions, existing interests in the acquired entity have to be revalued at the date of gaining control. The amendments were applicable to annual periods beginning on or after July 1, 2009. The Company already adopted these in the consolidated financial statements as at December 31, 2008, since the early adoption was allowed and the endorsement through the EU at the time of preparing the consolidated financial statements was expected. Since the Group will prospectively continue applying the purchased goodwill method in the case of future business combinations, the revised standard did not affect the amounts reported in the consolidated financial statements.

- IAS 27 Consolidated and Separate Financial Statements: The amendments relate mainly to the accounting of transactions resulting in a company maintaining control as well as transactions that result in the loss of control. Transactions not resulting in the loss of control are accounted for directly in equity. Any retained interests in the former subsidiary is recognized at its fair value at the date control is lost. Negative balances are permitted in the presentation of non-controlling interests, i.e. in future; losses are allocated proportionately based on the interests held without limit. The amendments were applicable to annual periods beginning on or after July 1, 2009. The Company already adopted these amendments in the consolidated financial statements as at December 31, 2008, since the early adoption was allowed and the endorsement through the EU at the time of preparing the consolidated financial statements was expected. The first-time application affected the treatment of negative amounts of non-controlling interests in particular. The former rule regarding losses has been abolished (see Note 2.4). Following the concept of the group being considered as a unit financed by various investors, the special status of minorities has been abolished. This implies that – to the extent losses attributable to non-controlling interests would result in a negative balance – such losses are no longer accounted for by the parent company, but rather assigned to the non-controlling interests to the same extent as profits would be (refer to Note 6.8).

- IAS 39 Financial Instruments: Recognition and Measurement: On July 31, 2008, the IASB issued an IAS 39 supplement. It deals with the regulation under which an entity can hedge all, a part or only certain risks relating to an underlying transaction. In order to simplify the application of the unchanged basic principles, the application principles of the designation of inflation risk as underlying transaction and the designation of a one-sided risk as underlying transaction were supplemented. Regarding the designation of inflation risk as underlying transaction, the supplement clarifies that this risk cannot be classified as a hedged risk. A hedge is possible to the extent that inflation components are contractually fixed elements of a financial asset's cash flows. A one-sided risk is given, if the entity can only change the cash flow or the fair value of an underlying transaction in excess of or below a fixed price or another designated variable. The supplement clarifies that only the internal option value and not the entire option value (consisting of internal value and fair value) can be designated. If the entire option value would be designated as a hedging instrument for a one-sided risk of a prospective transaction, this would represent an ineffective hedge, since only the hedge instrument has a fair value component. The supplement is applicable for annual periods beginning on or after July 1, 2009. The adoption of the supplement did not affect the amounts reported in the consolidated financial statements.

- IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives: On March 12, 2009, the IASB published amendments to IAS 39 Financial Instruments: Recognition and Measurement and to the Interpretation IFRIC 9 Reassessment of Embedded Derivatives to clarify the recognition of embedded derivatives in the case of a reclassification of hybrid financial instruments from the 'Fair Value through Profit and Loss' category. Amendments are applicable to annual periods beginning on or after June 30, 2009. The adoption did not affect the amounts reported in the consolidated financial statements.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation: The Interpretation clarifies two issues arising from IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 39 Financial Instruments: Recognition and Measurement in connection with the recognition of hedging foreign currency risks within a company and its foreign operations. It does not affect the amounts reported in the consolidated financial statements. IFRIC 16 is applicable to annual periods beginning on or after July 1, 2009. The interpretation did not affect the amounts reported in the consolidated financial statements.

- IFRIC 17 Distributions of Non-cash Assets to Owners: This Interpretation addresses how an entity should measure distributions of assets other than cash when it pays dividends to its owners. The Interpretation is effective for annual periods beginning on or after October 1, 2009. The adoption of this Interpretation did not affect the presentation of the net asset position, financial position and earnings as reported in the consolidated financial statements.

- IFRIC 18 Transfers of Assets from Customers: In particular, IFRIC 18 applies to utility entities (e.g. energy providers). IFRIC 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 is applicable to transfers received on or after

July 1, 2009. The adoption did not affect the amounts reported in the consolidated financial statements.

- AIP – summarized standard on amendments to various IFRS 2007-2009 ('Improvements to IFRS'): In April 2009, the IASB issued the so called 'Annual Improvements 2007-2009', encompassing the amendment of ten IFRS and two IFRIC interpretations. In addition to the amendments proposed in Exposure Draft 'Proposed Amendments to IFRS' from August 2008, the issued Annual Improvements dated April 16, 2009, also include proposed amendments that were already issued in Exposure Draft 'Proposed Amendments to IFRS' from October 2007 as well as partially included in Exposure Draft 'ED 2009/01' from January 2009. By summarizing these amendments in a singular document, adjustment efforts shall be reduced. The larger part of these amendments becomes applicable to annual periods beginning on or after January 1, 2010. There were no significant effects on the consolidated financial statements.

The Group has not applied the following new and revised IFRS and Interpretations that have been issued but are not yet effective:

- IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters: The amendments to IFRS 1 enables first-time adopters exemption from providing comparative figures for prior periods regarding the fair value measurement and liquidity risk. IFRS 7 grants this relief in the case that the comparative period ends prior to December 31, 2009. The first-time adoption will not affect the amounts reported in the consolidated financial statements.

- IFRS 7 Financial Instruments: Disclosures: The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments are applicable for annual periods beginning on or after July 1, 2011. The first-time adoption will prospectively not significantly change information relating to transfer of trade receivables currently disclosed within the scope of IFRS 7 by the Group to the extent that the Group will continue to forego transferring financial assets.

- IFRS 9 Financial Instruments: Classification and Measurement: On November 12, 2009, the IASB published IFRS 9 introducing new requirements for classifying and measuring financial assets. This Standard represents Phase 1 of the new Standard to replace IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The effects that the first-time adoption will have on the amounts reported in the consolidated financial statements are currently in the process of being verified.

- IAS 24 Related Party Disclosures: On November 4, 2009, the IASB issued amendments to IAS 24. These changes shall facilitate a more simple application in practice. IAS 24's existing basic principle of disclosing information on related party transactions remained unchanged. Amendments are effective for annual periods beginning on or after January 1, 2011. The first-time adoption will prospectively not affect the amounts reported in the consolidated financial statements.

- IAS 32 Financial Instruments: Presentation: On September 8, 2009, the IASB published amendments to IAS 32 dealing with the classification of rights issues. The Standard clarifies cases in which rights issues are denominated in a currency deviating from the company's functional currency. Current practice requires such issues to be accounted for as derivative financial liabilities. According to the new rule, such rights may under certain prerequisites be classified as equity regardless of the currency in which the exercise price is denominated. The new amendments encompass only such rights issues for which a fixed number of instruments and a fixed amount of foreign currency were agreed upon as well as if such rights are issued pro rata to all existing shareholders in the same class for a fixed amount of currency. Changes are effective for annual periods beginning on or after February 1, 2010. The first-time adoption will prospectively not affect the amounts reported in the consolidated financial statements.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IAS 19 Employee Benefits: On November 26, 2009, the IASB amended IFRIC 14 to clarify the accounting of pensions. Without the amendments, in some circumstances entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendment permits an entity to treat the benefit of such an early payment as an asset. The amendments to IFRIC 14 are effective for annual periods beginning January 1, 2011. The amendments will prospectively not affect the amounts reported in the consolidated financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: This Interpretation was issued November 26, 2009. IFRIC 19 addresses the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. The Interpretation is applicable for annual periods beginning on or after July 1, 2010. The adoption will prospectively not affect the amounts reported in the consolidated financial statements.

- AIP – summarized standard on amendments to various IFRS 2008-2010 ('Improvements to IFRS'): In May 2010, the IASB issued the so called 'Annual Improvements 2008-2010', encompassing the amendment of six IFRS and one IFRIC interpretation. The larger part of these amendments becomes applicable to annual periods beginning on or after January 1, 2011. The first-time adoption will prospectively not affect the amounts reported in the consolidated financial statements.

The following Standards have not been applied due to lacking relevance to Nabaltec AG:

- IFRS 4 Insurance Contracts

- IFRS 6 Exploration for and Evaluation of Mineral Assets

- IAS 26 Accounting and Reporting by Retirement Benefit Plans

- IAS 28 Investments in Associates

- IAS 29 Financial Reporting in Hyperinflationary Economies

- IAS 31 Interests in Joint Ventures

- IAS 40 Investment Property

- IAS 41 Agriculture

**2.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Nabaltec AG, as the parent company, and that of its subsidiary controlled by the Company.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; usually evidenced by holding more than 50% of the voting rights in the entity. In determining whether the Group has control, the existence and effects of voting rights that can currently be exercised or converted are also taken into consideration. Entities are included in the consolidated financial statements (full consolidation) from the date at which the Company effectively obtains control over them. They are deconsolidated from the effective date on which such control ends.

The composition of the Group is detailed in the table below:

| Number of companies | 2010 | 2009 |
|---|---|---|
| Nabaltec AG and fully consolidated entity | | |
| Domestic | 1 | 1 |
| Foreign | 1 | 1 |

The following entity is included in the consolidated financial statements of Nabaltec AG:

| Entity | Interest held | |
|---|---|---|
| | EUR ’000 | % |
| Nashtec LLC, Corpus Christi (USA) (formerly Nashtec L.P., Corpus Christi (USA)) | 163 | 51.00 |

Nashtec L.P. was founded as a joint venture with Sherwin Alumina in 2005.

Up till January 1, 2010, Nabaltec AG owned a 51.00% interest in Nashtec Management Corp. and a 51.00% interest (50.49% directly and indirectly via Nashtec Management Corp., which held 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. Nashtec Management Corporation was to date not included in the consolidated financial statements for lack of materiality.

The group structure was changed per January 1, 2010. Nashtec Management Corp. was liquidated and Nashtec L.P. was changed into an LLC, such that Nabaltec AG owns a direct interest of 51.00% as from January 1, 2010, and Sherwin Alumina LLC owns a direct interest of 49.00% in Nashtec LLC. Within the scope of the restructuring, the shares held by Sherwin Alumina LLC were subsequently transferred to her parent company, Allied Alumina LLC.

All separate financial statements of entities included in the consolidated financial statements that were prepared under national laws and regulations were converted to IFRS and adapted to reflect accounting policies and valuation principles of the Group.

The balance sheet date of all the entities included in the consolidated financial statements is respectively December 31.

| Shareholdings according to Section 313 Paragraph 2 of the German Commercial Code (HGB) | | | | | | |
|---|---|---|---|---|---|---|
| | Share of equity | | Prior year equity *) | | Prior year earnings *) | |
| | in % | in USD | in USD | in EUR | in USD | in EUR |
| **Direct Participation** | | | | | | |
| Nashtec LLC, Texas (USA) | 51.00 | 210,266 | −10,846,529 | −8,102,890.33 | 845,676 | 637,188.07 |

*) 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.

## 2.4 Consolidation methods

The capital consolidation of the entity is performed in accordance with IAS 27 Separate and Consolidated Financial Statements in conjunction with IFRS 3 R Business Combinations. For this purpose, the carrying amount of the investment is set off against the remeasured equity of the entity at the acquisition date (revaluation method). The cost of the acquisition is equal to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus the costs allocated directly to the acquisition. Upon initial consolidation, the identifiable assets, liabilities and contingent liabilities associated with a business combination are measured at their fair value at the acquisition date, regardless of the extent of non-controlling interests. The excess of the acquisition cost over the Group's share of the net assets measured at fair value is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired entity, the difference is recognized directly in the consolidated comprehensive income, after a subsequent review. Additionally, exemptions allowed by IFRS 1.13 have been partly adopted.

The effects of all material intragroup transactions, including expenses and income and receivables and payables between the Group entities, are eliminated. Likewise, intermediate profits from intragroup sales of assets that have not yet been resold to third parties are eliminated. Deferred taxes required by IAS 12 are recognized in respect of temporary differences arising from consolidation measures.

The profits and losses of entities acquired or sold during the course of the year are included in the consolidated comprehensive income from the date when the power to control those entities becomes effective, respectively, until the power to control ends.

Shares of consolidated equity and of consolidated profit or loss for the year attributable to non-controlling interests are presented separately from the shares attributable to the parent company. To the extent that the value of non-controlling interests is negative, they are presented as a negative position in consolidated equity and earnings for the period in accordance with IAS 27 Consolidated and Separate Financial Statements as amended in 2008. Thus, an attribution to the equity and earnings for the period of the parent company, as required by the former IAS 27 Consolidated and Separate Financial Statements is no longer presented.

## 2.5 Foreign currency translation

The consolidated financial statements are denominated in euro, as the functional and reporting currency of the Group.

In the separate financial statements of the consolidated entities denominated in local currencies, monetary items in foreign currency (cash and cash equivalents, receivables, liabilities) are translated using the exchange rate as of the balance sheet date. Currency translation differences are recognized through profit or loss. Non-monetary items in foreign currency are translated at the historical exchange rates.

The financial statements of the consolidated entity denominated in foreign currency are translated on the basis of the functional currency concept defined in IAS 21 The Effects of Changes in Foreign Exchange Rates by applying the modified closing rate method. As the entity generally conducts its business independently in all financial, economic and organizational respects, the functional currency is identical to the national currency of the respective entity.

Accordingly, assets and liabilities are translated at the closing rate, equity is translated at the historical exchange rate and expenses and income are translated at the average exchange rate for the year. The difference arising on currency translation is recognized directly in equity and presented in a separate item of equity titled 'accumulated other comprehensive result'.

Currency differences arising in relation to the prior year currency translation of the Group are recognized directly in equity under the item of 'accumulated other comprehensive result'.

The opening balances of historical acquisition and production costs and of cumulative depreciation and amortization charges on non-current assets are translated at the exchange rate of the prior year balance sheet date; the depreciation and amortization charges and all other movements in the financial year are translated at the average exchange rate for the reporting period. The translation of the non-current assets of the foreign subsidiary gives rise to currency translation differences, which are presented in separate columns of the consolidated statement of changes in non-current assets.

## 3. Use of assumptions and estimates

The preparation of the consolidated financial statements according to IFRS requires Management to make certain assumptions that have an impact on the stated values of the assets and liabilities and on the disclosure of contingent assets and contingent liabilities as at the balance sheet date, as well as the stated amounts of income and expenses.

The assumptions and estimates consisted mainly of the following:

- **Economic useful lives** of property, plant and equipment and intangible assets: The applied economic lives of non-current assets are based on Management estimates. The Group reviews the estimated economic useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period. During the current financial year, however, no changes were made to the estimates pertaining to economic useful lives.

- **Land and buildings:** The fair value option for measurement at the date of the IFRS opening balance sheet allowed by IFRS 1.16 in conjunction with IFRS 1.18 was exercised. Land and buildings were revalued at January 1, 2007 on the basis of independent expert appraisals.

- **Retirement** and other **post-employment benefits:** Pension plans are measured on the basis of actuarial calculations. The actuarial valuation is based on assumptions regarding discount rates, the expected return on plan assets, future wage and salary increases, mortality rates and future pension benefit increases. As a result of the long term horizon of these plans, such estimates are subject to considerable uncertainties. As at December 31, 2010, the provision for pensions and similar benefits amounts to EUR 13,053 thousand (PY: EUR 11,078 thousand). Further details are provided in Note 6.9 Current and non-current provisions.

- Provisions for **ecological and decommissioning obligations:** Such provisions are recognized if it is considered probable that ecological and decommissioning obligations will result in future outflows of economic benefits, if the costs can be reliably estimated and the measures in question are not expected to result in future inflows of economic benefits. The estimate of future costs is subject to many uncertainties, including legal uncertainties based on the applicable laws and regulations, and with uncertainties regarding the actual conditions in the different countries and operating locations. In particular, estimates of costs are based on earlier experiences in similar cases, the conclusions of expert opinions commissioned by the Group, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future results of the Group. As at December 31, 2010, the carrying amount of recognized provisions is EUR 120 thousand (PY: EUR 247 thousand).

- Measurement of **other provisions:** Other provisions are measured on the basis of the best possible Management estimate of the amount required to settle the current obligation at the balance sheet date. As at December 31, 2010, the carrying amount of the recognized other provisions was EUR 143 thousand (PY: EUR 76 thousand). Further details are provided in Note 6.9 Current and non-current provisions.

- Recognition of **deferred tax assets:** In determining whether deferred taxes can be realized, the Management Board examines whether it is probable that all deferred tax assets can be recovered. The final recoverability of deferred tax assets depends on whether there will be sufficient taxable income available in those periods in which the temporary differences are deductible. If this is not the case, deferred tax assets cannot be used and consequently cannot be recognized in the balance sheet. The carrying amount as of December 31, 2010 (before netting with deferred tax liabilities) is EUR 5,901 thousand (PY: EUR 4,699 thousand).

- **Impairment** of non-financial assets: Impairment tests of other intangible assets as well as property, plant and equipment are generally based on the estimated discounted future net cash flows expected from the continued use of an asset and from its disposal at the end of its useful life. Factors such as lower revenues and the resulting lower net cash flows and changes in the discount factors applied can lead to the recognition of an impairment loss or, to the extent permitted, also to the reversal of an earlier impairment loss.

- Investments in **jointly controlled entities:** The Company holds a direct investment in a joint venture with a share of 51.00% (PY: 50.49%). Taking into consideration all the legal and economic factors, Nabaltec AG has the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. The controlled entity is therefore fully consolidated as a subsidiary in the consolidated financial statements.

- Obligations arising from a **sale-and-lease-back transaction:** In financial year 2008, the Group sold and leased-back certain assets in connection with a sale-and-lease-back transaction. Based on an analysis of the contractual terms and conditions, it was determined that the Group is no longer the economic owner of the leased assets. Thus, the respective lease agreement is treated as an operating lease.

- **Asset impairment tests:** Such tests are based on a discounted cash flow model (DCF-model). The underlying forecasts provided by the entity required for this model are based on the going concern principle as well as on the ability to generate internally expected revenue and earnings objectives and the corresponding positive free cash flows within the medium and long term. The forecasts contain revenue and earnings margins based on current assumptions and targets concerning the business development in the course of the coming years.

Actual results may differ from these estimates. Revisions to accounting estimates are recognized through the income statement in the period in which the estimate is revised.

## 4. Significant accounting policies

### 4.1 Revenue recognition

In accordance with the criteria of IAS 18, revenues on the sale of goods are recognized if the significant risks and rewards of ownership have been completely transferred to the buyer, a price has been agreed on or is determinable and payment is considered probable.

Revenues are presented net of discounts and other deductions.

### 4.2 Expense recognition

The expenses are allocable to income in the period to which they relate. Hence, operating expenses are recognized when they are incurred.

### 4.3 Research & development costs

Nabaltec AG invests a portion of its financial resources in research and development activities. In addition to internal development activities aimed at the customization of purchased software, these activities also comprise research and development activities to enhance existing products and processes and to develop new products and processes.

Research costs are recognized as expenses in the period in which they are incurred. An intangible asset created in the process of development for a single project is recognized as an asset only if the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for internal use or for sale, and the intention to complete the intangible asset and to use or sell it. Furthermore, the Group must demonstrate that the asset in question will generate future economic benefits, that resources are available to complete the asset and that the expenditures allocable to the intangible asset during the development phase can be measured reliably.

Subsequent to initial capitalization of development costs, the cost model is applied, under which the asset is carried at cost less accumulated amortization and accumulated impairments. The acquisition or production costs include the directly allocable labor costs and other direct costs as well as an appropriate share of the overhead costs. The capitalized amounts are amortized over the economic useful life of the asset, starting from the date of intended use.

The capitalized amount of development costs is subject to an annual impairment test if the asset is not yet ready for being used, or also during the year if there are indications of an impairment.

In principle, Nabaltec AG capitalizes all significant development costs incurred in connection with internally developed software in the application development phase. These costs are amortized over the expected useful life starting from the date the software is initially taken into service.

As internal development projects are often subject to governmental approval procedures and other imponderability's, the criteria for capitalizing the costs incurred prior to approval are usually not met or such costs incurred in the brief phase between research and market introduction are considered immaterial.

### 4.4 Intangible assets

Purchased intangible assets are measured at cost less straight-line amortization. As a rule, intangible assets are amortized systematically over the economic useful life by applying the straight-line method.

The amortization periods are as follows:

- Data processing software 4 to 5 years

The residual carrying amounts, economic useful lives and amortization methods are reviewed at the end of each annual period and adjusted if necessary.

The Group does not carry any intangible assets with indefinite economic useful lives.

With regard to the capitalization of development costs of internally generated assets, please refer to Note 4.3 Research & development costs.

**4.5 Property, plant and equipment**

Property, plant and equipment are measured at acquisition or production cost, less scheduled depreciation based on the expected economic useful life. In addition to directly allocable costs, the acquisition costs also include appropriate shares of overhead costs.

Property, plant and equipment are depreciated by applying the straight-line method.

The depreciation periods are as follows:

- Land, leasehold rights and buildings on non-freehold land
  20 to 50 years

- Technical equipment, plant and machinery
  5 to 22 years

- Other fixtures, fittings and equipment
  3 to 20 years

The residual carrying amounts, economic useful lives and amortization methods are reviewed at the end of every financial year and adjusted if necessary.

**4.6 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. assets that take a substantial period of time to get ready for its intended use or sale) form part of the cost of that asset and, therefore, should be capitalized. Refer to Note 6.2 Property, plant and equipment.

Where funds are borrowed specifically, costs eligible for capitalization are the actual costs incurred less any income earned on the temporary investment of such borrowings.

Other borrowing costs are recognized as an expense as incurred.

**4.7 Governmental grants and other similar subsidies**

Government grants are accounted for as a deduction from the acquisition or production costs of the respective asset (IAS 20.24). These deductions are released over the economic useful life of the asset in the form of reduced depreciation charges. See Note 6.10 Current and non-current liabilities.

**4.8 Lease arrangements – the group as lessee**

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form. The assessment requires the evaluation of whether the performance of the contractual agreement depends on the use of a given asset or assets and whether the agreement conveys a right to use the asset.

Finance leases under which substantially all the risks and rewards incident to ownership of the leased asset are transferred to the Group are recognized as an asset and a liability at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized immediately as expenses in the income statement. If the transfer of ownership to the Group at the end of the lease term is not sufficiently certain, the capitalized leased assets are depreciated completely over the shorter of the lease term and the economic useful life of the asset.

Rental and lease agreements under which the Group does not acquire economic ownership of the underlying assets are classified as operating leases. The expenses of operating leases are recognized as expenses in the consolidated statement of comprehensive income incrementally over the term of the lease on a straight-line basis. The corresponding future obligation is presented in Note 7.1 Other financial obligations.

Under sale-and-lease-back transactions that constitute an operating lease, the profit to be recognized on the sale depends on the relationship of the sales price to the fair value. If the sale price is equal to the fair value, the profit is recognized immediately. Under sale-and-lease-back transactions that constitute a finance lease, the entire profit is generally recognized as deferred income and released over the term of the lease.

### 4.9 Impairment of non-financial assets

The value of the capitalized carrying amount of intangible assets with finite useful lives and property, plant and equipment is reviewed with reference to the future cash flows (discounted by the current market risk-free rate of interest) expected to arise from the use of that asset and with reference to the fair value less costs to sell (impairment test) if particular events or market developments are indicative of a need to correct the estimated economic useful life or an impairment. Furthermore, an impairment test of intangible assets not yet ready for use is conducted annually. If the net carrying amount of an asset exceeds the recoverable amount (higher of the value in use and the fair value less costs to sell), an impairment loss is recognized. The factors considered in determining the expected future cash flows include the current and expected future profits and developments specific to the business segment as well as technological, economic and general developments. If the reason for an earlier impairment is no longer in effect, that impairment loss is reversed, to the extent permitted, up to the depreciated historical cost would have been if the impairment had not been recognized.

### 4.10 Financial assets

According to IAS 39, financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets.

Upon initial recognition, financial assets are measured at fair value. In the case of financial assets that are not measured at fair value through profit and loss, the recognized amount also includes transaction costs that are directly attributable to the purchase of the financial asset or the issuance of the financial liability.

The Group determines the classification of its financial assets upon initial recognition and reviews this classification at the end of each financial year, to the extent permitted and appropriate. As at the balance sheet date, the Group did not carry any financial assets classified as ‘held-to-maturity investments’.

All arm’s length transactions are recognized at the trade date, i.e. the date on which the sales or purchase of the asset, respectively, the liability becomes effective. An arm’s length transaction is a purchase or sale of a financial asset, respectively, liability under the delivery terms require in general by the regulation of or convention within the market concerned.

#### Financial assets measured at fair value through profit or loss

The group of financial assets measured at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as being measured at fair value through profit or loss. Such designation has not been applied within the Group in the reporting period.

Financial assets are classified as held-for-trading when they were acquired for the purpose of selling them in the short term. Derivatives are also classified as held-for-trading, with the exception of those derivatives that constitute a financial guarantee or have been designated as hedging instruments and are effective as such. Gains or losses on financial assets held for trading are recognized in profit or loss.

On the date upon which the Group enters into a contract, it determines whether embedded derivatives need to be presented separately from the host contract. The initial decision is reviewed only in the event of substantial changes in the contractual terms and conditions that give rise to a significant change in the cash flows that would have otherwise resulted from the contract.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In particular, they consist of trade receivables, other assets as well as cash and cash equivalents.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains and losses are recognized in the profit or loss for the period when the loans and receivables are derecognized or impaired and in connection with installment payment plans.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as held-for-sale and not classified as belonging to another category of financial assets. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value based on their stock market or market prices, with unrealized gains or losses recognized directly in equity, less deferred taxes, as unrealized losses or gains from the fair value measurement of financial instruments. If no active market exists and the fair value cannot be determined reliably, they are recognized at amortized cost. The cumulative gain or loss recognized in equity is transferred to the consolidated statement of comprehensive income when the financial asset is derecognized.

### Derecognition of financial assets

A financial asset is derecognized when the Group loses the power of disposal over the contractual rights relating to cash flows that constitute the financial asset concerned.

If the Group transfers its contractual rights to receive cash flows from an asset and substantially all the risks and rewards incident to ownership of that asset have neither been transferred nor retained and the Group retains the power of disposal over the transferred asset, the Group continues to recognize the transferred asset to the extent to which it has a continuing involvement in the asset.

## 4.11 Impairment of financial assets

Financial assets and groups of financial assets are subject to an impairment test at each balance sheet date. Any impairment loss is recognized in profit or loss immediately.

Trade receivables are carried at amortized cost less appropriate valuation allowances. Valuation allowances on receivables are measured with reference to the probability of default.

Other financial assets and receivables are carried at amortized cost. In case of doubt as to the recoverability of other assets, individual valuation allowances are recognized.

## 4.12 Inventories

Inventories are measured at the lower of acquisition or production cost and net realizable value.

Upon initial recognition, raw materials and supplies are measured at acquisition cost plus costs of conversion and incurred in bringing the inventories to their present location and condition, net of trade discounts received. For determining the cost of inventories the weighted average method is applied.

Finished and unfinished goods are measured at production cost. Production costs include the directly allocable production costs and an appropriate share of allocable fixed and variable production overheads. The overhead cost shares are determined on the basis of normal capacity utilization. Selling expenses, general administrative expenses and borrowing costs are not capitalized.

Finished goods are aggregated into measurement units for valuation purposes.

Any write-downs for inventory risks arising from increased storage lives or reduced salability are recognized as an expense when they occur, reducing the inventory value to the net realizable value at the balance sheet date.

**4.13 Cash and cash equivalents**

The cash and cash equivalents presented in the balance sheet comprise petty cash, cash in banks and short term deposits with original maturities of less than three months. The same definition is applied for purposes of the consolidated statement cash flows. Subsequent measurement is at amortized cost.

**4.14 Taxes**

**Current income taxes**

Tax refund claims and tax liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. These amounts are calculated on the basis of the tax rates and tax laws applicable at the balance sheet date.

**Deferred taxes**

Deferred tax assets and liabilities are recognized in accordance with IAS 12 Income Taxes in respect of all temporary differences between the tax bases and the IFRS carrying amounts and in respect of consolidation measures recognized in profit or loss by applying the balance sheet-oriented liability method. IAS 12.34 prescribes that deferred tax assets in respect of tax loss carry forwards can be recognized only to the extent that it is considered probable that sufficient taxable profits will be available in the future against which these tax loss carry forwards can be off set.

Deferred taxes are at tax rates expected to apply to the period in which the asset is realized or the liability settled, according to the current status of the law. Tax rate changes are applied only such changes are considered as being sufficiently probable.

Deferred tax assets and deferred tax liabilities are offset on the balance sheet to the extent allowed.

**4.15 Derivative financial instruments and hedging**

The Group employs derivative financial instruments to hedge against interest rate and currency risks arising from operations. Financial instruments are measured at fair value at the balance sheet date. Measurement gains and losses are recognized through the income statement unless the conditions for hedge accounting are met. Changes in the market value of derivative financial instruments that meet the conditions of hedge accounting are recognized either through the income statement (fair value hedge) or directly in equity (cash flow hedge). In the reporting periods, hedge accounting has been applied for cash flow hedges against interest rate risk only.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading financial assets, if their fair value is positive, or as held-for-trading liabilities, if their fair value is negative. Derivative financial instruments are measured at fair value; changes in their fair value are recognized through the income statement for the period.

**4.16 Equity**

The capital contributions and other payments made by shareholders to the capital reserve are presented after deducting transaction costs directly related to the acquisition of equity and in consideration of any resulting tax effects.

**4.17 Other provisions**

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Company recognizes provisions if, and only if a present obligation (legal or constructive) has arisen toward a third party as a result of a past event (the obligating event), the payment is probable ('more likely than not') and will lead to an outflow of economic resources in the future, and the amount can be estimated reliably. This implies that 'probable' means a probability of more than 50%. Estimated provisions take into account discernible risks and uncertain obligations in the amount that will probably be required to settle those obligations without deduction of any reimbursement claims. Non-current other provisions are discounted to present value. The settlement amount also includes the rate of inflation valid at the balance sheet date.

**4.18 Retirement benefit obligation**

Retirement benefit obligation is measured based on the projected unit credit method according to IAS 19. Calculations performed under this method take into account the pension benefits and vested rights known at the balance sheet date as well as future expected increases of pension benefits and salaries based on conservative estimates of the relevant parameters. Calculations are performed on the basis of an expert actuarial opinion, which includes biometric data.

**4.19 Financial liabilities**

According to IAS 39, financial liabilities are designated either as 'financial liabilities at fair value through profit or loss' or as 'other financial liabilities'.

The Group classifies the financial liabilities upon initial recognition and reviews the classification at the end of each annual period, to the extent permissible and appropriate.

**Financial liabilities measured at fair value through profit or loss**

Upon initial recognition, the financial liabilities measured at fair value through profit or loss are measured at fair value. The gains or losses resulting from fair value changes are recognized immediately in income. This category includes derivative financial instruments with negative market values (Hft). As in prior year, no financial liabilities (FVtPL) were classified by the Group as financial liabilities at fair value through profit or loss at the balance sheet date. Gains or losses resulting from the subsequent measurement of financial liabilities are recognized through profit or loss.

**Profit participation capital**

Profit participation rights represent a financial liability according to IAS 32, which is not measured at fair value through profit and loss. Initial recognition is measured at fair value less transaction costs. The fair value is equal to the cash consideration received (face value) less transaction costs paid. In subsequent periods, the difference between the initially measured value and the redemption amount (face value) is distributed over the term of these instruments using the effective interest method through the income statement.

**Interest-bearing loans and bonds**

Upon initial recognition, loans and bonds are measured at fair value less the transaction costs directly related to the taking up of borrowings. They are not designated as being measured at fair value through profit or loss.

In subsequent periods, the interest-bearing loans and bonds are measured at amortized cost using the effective interest method. Differences between amortized cost and the repayments amount are recognized through profit or loss according to the effective interest method.

Financial liabilities, all of which are therefore classified as other liabilities, are measured at the fair value of the consideration received less the transaction costs related to the taking up of borrowings upon initial recognition. In subsequent periods, financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying obligation has been settled, cancelled or has expired.

## 5. Notes to the consolidated statement of comprehensive income

### 5.1 Revenue

Refer to segment information and the respective notes in Note 7.7 Segment information for reporting on the distribution of revenues among the product segments.

### 5.2 Other own services capitalized

In 2010, EUR 308 thousand (PY: EUR 1,161 thousand) were capitalized as other own services for various technical equipment and machinery, thereof EUR 66 thousand (PY: EUR 813 thousand) for construction period interest.

### 5.3 Other operating income

The following is a specification of other operating income:

| in EUR ’000 | 2010 | 2009 |
|---|---|---|
| Reimbursements from insurances | 877 | 39 |
| Foreign currency translation gains | 658 | 238 |
| Other | 163 | 227 |
| Payments in kind | 115 | 102 |
| Services provided by laboratory | 85 | 105 |
| Delivery of process water | 66 | 153 |
| Gain from sale of warehouse and scrap | 63 | 34 |
| Government grants and similar grants | 44 | 17 |
| Income from reversal of provisions | 35 | 105 |
| Routing and tracking services | 35 | 2 |
| Gains on disposal of property, plant and equipment | 24 | 5 |
| **Total** | **2,165** | **1,027** |

Government grants relate to subsidies for expenses. The conditions attached to these grants were fully met; no uncertainties remain.

### 5.4 Cost of materials

Cost of materials is specified as follows:

| in EUR ’000 | 2010 | 2009 |
|---|---|---|
| Raw materials, supplies and merchandise | 60,305 | 37,450 |
| Cost of purchased services | 510 | 611 |
| **Total** | **60,815** | **38,061** |

### 5.5 Personnel expenses

Personnel expenses are specified in the table below:

| in EUR ’000 | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 14,568 | 11,543 |
| Social security | 2,709 | 2,211 |
| Expenses for retirement benefit obligation | 1,651 | 1,758 |
| Other pension expenses | 89 | 83 |
| **Total** | **19,017** | **15,595** |

Expenses for retirement benefit obligation fulfill the criteria of the so-called ‘Defined Benefit Plans’ as specified by IAS 19.

Other pension expenses relate to contributions made by the employer for pension plans of the employees that fulfill the criteria of the so-called ‘Defined Contribution Plans’ as described by IAS 19.

In addition, the Company’s contributions toward the social pension fund in the amount of EUR 1,268 thousand (PY: EUR 1,199 thousand) are included in the balance sheet item ‘Social Securities’, which are withheld once a month.

### 5.6 Employees

The average number of employees in the Group developed as follows:

| | 2010 | 2009 |
|---|---|---|
| Blue-collar employees | **177** | 176 |
| White-collar employees | **126** | 118 |
| Part-time employees | **15** | 18 |
| **Total** | **318** | **312** |

In additional, an average of 43 apprentices (PY: 35) were employed in the course of the financial year.

### 5.7 Depreciation, amortization and impairment

The depreciation, amortization and impairment charged against non-current assets are presented in the statement of changes in non-current assets.

Intangible as well as tangible assets are assessed for impairment if such indicators arise. Impairment tests were performed. The impairment amount is determined as the difference between the carrying amount and the recoverable amount for the asset's cash-generating unit (CGU). The recoverable amount of the CGUs was determined on the basis of the recoverable amount and the value in use, using the discounted cash flow method. The discounted cash flows are based on three-year forecasts, which in turn are based on financial budgets approved by Management. The cash flow forecasts, which take past experience into account, are based on Management's best estimate of the Company's future development.

As a result of the asset impairment tests conducted, Management concluded that there was no need to recognize impairment losses in the financial year 2010.

### 5.8 Other operating expenses

The following is a specification of other operating expenses:

| in EUR '000 | 2010 | 2009 |
|---|---|---|
| Transportation charges | **7,570** | 4,810 |
| Services from third parties not attributable to the process of production | **4,318** | 2,998 |
| Minimum lease payments (rent and lease) | **2,244** | 2,127 |
| Sales commission | **2,180** | 1,520 |
| Legal and advisory fees | **912** | 484 |
| Other administration expenses | **870** | 724 |
| Insurances | **585** | 601 |
| Foreign currency translation losses | **382** | 282 |
| Travel expenses | **335** | 271 |
| Employee benefit costs | **329** | 340 |
| Advertising expenses | **266** | 166 |
| Bad debt allowance | **128** | 44 |
| Losses from sale of fixed assets | **23** | 1 |
| Other taxes | **13** | 177 |
| Other | **499** | 447 |
| **Total** | **20,654** | **14,992** |

### 5.9 Research & development costs

In 2010, various research and development costs of EUR 1,821 thousand (PY: EUR 1,491 thousand) were recognized as expenses.

### 5.10 Interest and similar income

Interest and similar income are presented in the table below:

| in EUR ’000 | 2010 | 2009 |
|---|---|---|
| Return on plan assets (liability insurance) | **116** | 112 |
| Interest income from bank balances | **99** | 7 |
| **Total** | **215** | **119** |

### 5.11 Interest and similar expenses

Interest and similar expenses are presented in the table below:

| in EUR ’000 | 2010 | 2009 |
|---|---|---|
| Interest expenses paid to banks | **3,189** | 2,721 |
| Interest expenses arising from provisions | **668** | 0 |
| Interest expenses arising from corporate bonds | **411** | 0 |
| Interest expenses profit participation right | **405** | 405 |
| Interest expenses from factoring | **396** | 260 |
| Commission on bank guaranty | **134** | 136 |
| Expenses from finance lease | **64** | 131 |
| Other | **59** | 599 |
| Losses from interest rate swaps | **0** | 190 |
| **Total** | **5,326** | **4,442** |

To improved presentation of interest expenses arising from provisions, which were categorized as personnel expenses in prior year, these were reclassified to interest and similar expenses in the current financial year.

### 5.12 Income taxes

Income taxes are specified as follows:

| in EUR ’000 | 2010 | 2009 |
|---|---|---|
| **Current income taxes:** | | |
| Current tax expenses in respect of the current year | **16** | 0 |
| Adjustments recognized in current year in relation to the current tax of prior years | **0** | 202 |
| **Deferred taxes:** | | |
| Origination and reversal of temporary differences | **−670** | −1,868 |
| **Total** | **−654** | **−1,666** |

The current tax expenses for the financial year 2010 consist of current trade tax for 2010.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. For the calculation of deferred taxes in Germany, a tax rate of 28.08% (PY: 28.08%) is applied. It comprises the unchanged currently valid corporate income tax rate of 15%, the unchanged solidarity surcharge of 5.5% and the Group’s average trade tax rate of 12.6% (PY: 12.6%). The respective domestic tax rates are applied for foreign entities.

The table below presents the reconciliation between the expected income tax expense in each annual period and the income tax expense actually presented in the consolidated statement of comprehensive income:

| in EUR '000 | **2010** | 2009 |
|---|---|---|
| Tax rate | **28.08%** | 28.08% |
| Earnings before tax (EBT) | **1,437** | –7,031 |
| Expected tax expense | **404** | –1,974 |
| **Deviations** | | |
| 1. Non-recognizable deferred tax assets related to loss carry forwards USA | **0** | 180 |
| 2. First-time recognition of deferred taxes related to loss carry forwards USA | **–1,310** | 0 |
| 3. Utilization of loss carry forwards not yet capitalized | **–70** | 0 |
| 4. Deviating foreign tax rates | **38** | 0 |
| 5. Adjustments to actual income tax prior years | **0** | 121 |
| 6. Non-deductible expenses | **102** | 110 |
| 7. Tax effects from consolidation measures | **192** | –93 |
| 8. Other | **–10** | –10 |
| **Tax expenses presented in the consolidated statement of comprehensive income** | **–654** | **–1,666** |

Deferred tax assets and liabilities are specified as follows:

| | Consolidated Balance Sheet | | Consolidated Statement of Comprehensive Income | |
|---|---|---|---|---|
| in EUR '000 | **12/31/2010** | 12/31/2009 | **2010** | 2009 |
| **Deferred tax assets** | | | | |
| Financial assets | **20** | 204 | **–184** | 204 |
| Prepaid expenses | **81** | 95 | **–14** | 95 |
| Other assets | **275** | 0 | **275** | 0 |
| Retirement benefit obligation | **1,113** | 984 | **129** | 63 |
| Other provisions | **495** | 413 | **82** | 69 |
| Liabilities from financial leasing | **89** | 358 | **–269** | –305 |
| Liabilities from profit participation | **1,049** | 898 | **151** | 898 |
| Loss carry forward | **2,779** | 2,862 | **–83** | 1,022 |
| Total deferred tax assets – gross | **5,901** | 5,814 | **87** | 2,046 |
| Deferred tax assets not recognized | **0** | 1,115 | **–1,115** | –12 |
| **Total deferred tax assets – net** | **5,901** | 4,699 | **1,202** | 2,058 |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Non-current assets | **6,554** | 6,254 | **–300** | –256 |
| Inventories | **306** | 281 | **–25** | –15 |
| Other | **447** | 240 | **–207** | 81 |
| **Total deferred tax liabilities** | **7,307** | 6,775 | **–532** | –190 |
| | **–1,406** | **–2,076** | **670** | **1,868** |

The deferred tax asset arising from the loss carry forward relates to Nashtec LLC in the amount of EUR 2,170 thousand. Nashtec LLC is not regarded as a taxable entity according to US tax law for federal tax and state tax. The proportion of the US tax loss carry forward allocable to Nabaltec AG as shareholder amounts to EUR 6,384 thousand (PY: EUR 6,032 thousand) and, generally, tax losses can be applied retroactively for two years and carried forward for no more than 20 years on the federal level in the United States:

| in EUR '000 | **2010** | 2009 |
|---|---|---|
| Expiration within | | |
| 1 year | **0** | 0 |
| 2 – 5 years | **0** | 0 |
| 6 – 10 years | **0** | 0 |
| 11 – 20 years | **6,384** | 6,032 |

Deferred tax assets and liabilities in the USA are set off against deferred tax assets from tax loss carry forwards. The tax loss carry forwards in the USA are higher than the actual realized losses due to favorable tax depreciation rules. Thanks to the altered earnings prospects at Nashtec LLC, all the arising tax loss carry forwards relating to Nabaltec have been capitalized as deferred tax assets as at December 31, 2010. Prior year, tax loss carry forwards in the amount of EUR 6,032 thousand were not capitalized.

Dividend distributions by Nabaltec AG to shareholders neither result in income tax effects on the level of Nabaltec AG in 2010 nor in 2009.

## 6. Notes to the consolidated balance sheet

### 6.1 Intangible assets

Please refer to the statement of changes in non-current assets for more information on the changes in intangible assets.

Intangible assets consist mainly of data processing software and industrial property rights.

As in prior year, intangible assets were not assigned by way of collateral as of December 31, 2010.

There were no significant obligations for the acquisition of intangible assets.

### 6.2 Property, plant and equipment

The changes in property, plant and equipment are presented in the statement of changes in non-current assets.

The Company has entered into lease and hire-purchase agreements relating to various technical equipment and part of other fixtures, fittings and equipment. These agreements are classified as finance leases in accordance with IAS 17. Contract terms comply with those commonly applied in the industry. The lease agreements originally had a contract term of 3 – 6 years and do not include price adjustment clauses. Some of the lease agreements include purchase options. As of December 31, 2010, the carrying amounts of technical equipment and of other fixtures, fittings and equipment held in connection with finance lease agreements amounted to EUR 2,396 thousand (PY: EUR 3,528 thousand). Likewise with prior year, no additions were made in the course of the financial year. The leased assets serve as collateral for the respective obligations under the finance leases and hire-purchase agreements.

Assets amounting to EUR 59,462 thousand (PY: EUR 59,486 thousand) are pledged as securities for bank loans.

Land charges in favor of the owner amounting to EUR 10,440 thousand as of December 31, 2010 (PY: EUR 10,440 thousand) were assigned by way of collateral for bank loans.

Borrowing costs in the amount of EUR 66 thousand (PY: EUR 813 thousand) were capitalized in the annual period 2010 in connection with the long term construction of various technical equipment, buildings and fixtures, which were largely completed in the fourth quarter of 2010. The average interest rate that was used to determine the borrowing costs eligible for recognition in the balance sheet was 6.25%.

### 6.3 Inventories

Inventories are specified as follows:

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| Raw materials and supplies | 12,546 | 10,180 |
| Unfinished goods | 393 | 187 |
| Finished products and merchandise | 8,476 | 8,846 |
| **Total** | **21,415** | **19,213** |

All inventory items were assigned by way of collateral for liabilities to banks.

Inventory write-downs in the amount of EUR 336 thousand (PY: EUR 332 thousand) were recognized as expenses.

### 6.4 Trade receivables

Trade receivables are specified in the table below:

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| Trade receivables – gross | 2,072 | 831 |
| Bad debt allowance | –460 | –332 |
| **Total** | **1,612** | **499** |

At the balance sheet date, all trade receivables are non-interest-bearing and are receivable in less than one year.

Please refer to Note 7.2 Disclosures on financial instruments for more information on the development of the bad debt allowance account and the age structure of receivables.

### 6.5 Income tax claims

Income tax claims with a carrying amount of EUR 169 thousand (PY: EUR 248 thousand) consist of tax refund claims receivable from German tax authorities and from Stadtkasse Schwandorf, resulting from corporate income tax, the solidarity surcharge and trade tax.

### 6.6 Other assets

Other assets consist of the following financial and non-financial assets:

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| Receivables from fixed deposits > 3 months | 10,000 | 0 |
| Receivables from factoring | 1,129 | 1,030 |
| Other | 995 | 371 |
| **Other financial assets** | **12,124** | **1,401** |

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| VAT (value added tax) receivables | 1,067 | 1,168 |
| Prepaid expenses | 95 | 83 |
| **Other non-financial assets** | **1,162** | **1,251** |
| **Total** | **13,286** | **2,652** |

The receivables from factoring in the amount of EUR 1,129 thousand (PY: EUR 1,030 thousand) presented at December 31, 2010, consist of the purchase price retention related to factoring arrangements.

Other assets are receivable in less than one year.

### 6.7 Cash and cash equivalents

Cash and cash equivalents at the balance sheet date are presented in the table below:

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| Cash in banks | 18,956 | 494 |
| Petty cash | 1 | 3 |
| **Total** | **18,957** | **497** |

Bank balances bear interest at variable interest rates for overnight call money. The short term deposits range from one day to three months, depending on the Group's cash requirements. These deposits bear interest at the respective interest rates for short term deposits.

For purposes of the consolidated cash flow statement, there were no differences in the holdings of cash and cash equivalents as of December 31.

The cash and cash equivalents are not subject to restrictions.

### 6.8 Equity

Changes in equity of Nabaltec AG are presented in the consolidated statement of changes in equity.

#### Subscribed capital

At the balance sheet date, the fully paid-in capital (capital stock) amounted to EUR 8,000 thousand (PY: EUR 8,000 thousand). It consisted of 8,000,000 non-par bearer shares, each representing an imputed proportion of capital stock in the amount of EUR 1.00. Each share bears a voting right.

#### Authorized capital

By resolution of the annual shareholders' meeting of October 23, 2006, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions October 22, 2011, by up to EUR 3,000 thousand through the issuance up to 3,000,000 non-par bearer shares (non-par shares) and also to decide on any exclusion of subscription rights in connection with such issues (Authorized Capital 2006/I).

#### Conditional capital

By resolution of the annual shareholders' meeting of October 23, 2006, the capital stock was increased conditionally by the issuance of up to 3,000,000 non-par bearer shares (non-par shares) (Conditional Capital 2006/I). The Conditional Capital only serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants that were issued by the Company with the authorization of the annual shareholders' meeting of October 23, 2006.

#### Capital reserve

At December 31, 2010, the capital reserve amounted to EUR 29,764 thousand (PY: EUR 29,764 thousand). The capital reserve basically resulted from the issuance of 2,000,000 non-par bearer shares at a price of EUR 15.50 per non-par share holding an interest of EUR 1.00 per non-par share in subscribed capital causing a premium of EUR 14.50 per non-par share or rather EUR 29,000 thousand in total.

#### Earnings reserves

At December 31, 2010, earnings reserves amounted to EUR 9,711 thousand (PY: EUR 9,707 thousand). The earnings reserves result from the first time adoption of IFRS. On January 1, 2010, Nashtec Management Corp. – in which Nabaltec AG held interests – was liquidated. This result in minor changes in the earnings reserve and profit carry forward. No dividend distributions were authorized nor are any distributions anticipated for the annual periods 2010 and 2009.

Regarding the changes in profit/loss carried forward, please refer to the consolidated statement of changes in equity.

### Accumulated other comprehensive expenses

Any differences arising on currency translation and any changes in the market value of derivative financial instruments for which hedge accounting is applied as well as arising tax effects in this context are recognized directly in equity and presented separately in equity within the item of accumulated other comprehensive income/expenses. As of December 31, 2010, accumulated other comprehensive expenses amounted to EUR −576 thousand (PY: EUR −898 thousand).

### Interest held by other shareholders

As at December 31, 2010, non-controlling interests amount to EUR −3,969 thousand (PY: EUR −4,003 thousand) in the equity of Nashtec LLC.

## 6.9 Current and non-current provisions

Changes in provisions are presented in the tables below:

| **Financial year 2010**<br>in EUR ’000 | Opening Balance 01/01/2010 | Additions | Write-downs | Reversal | **Closing Balance 12/31/2010** |
|---|---|---|---|---|---|
| Provisions for personnel | 545 | 74 | 104 | 0 | **515** |
| Provisions related to ecological / decommissioning obligations | 247 | 0 | 92 | 35 | **120** |
| Other | 76 | 140 | 73 | 0 | **143** |
| **Total** | **868** | **214** | **269** | **35** | **778** |

| **Financial year 2009**<br>in EUR ’000 | Opening Balance 01/01/2009 | Additions | Write-downs | Reversal | **Closing Balance 12/31/2009** |
|---|---|---|---|---|---|
| Provisions for personnel | 533 | 121 | 109 | 0 | **545** |
| Provisions related to ecological / decommissioning obligations | 237 | 141 | 26 | 105 | **247** |
| Provisions for contingent losses | 63 | 0 | 63 | 0 | **0** |
| Other | 97 | 75 | 96 | 0 | **76** |
| **Total** | **930** | **337** | **294** | **105** | **868** |

### Retirement benefit obligation

The Group has set up defined benefit pension plans. Based on these plans, pension benefits are promised to a major part of the employees for the time after retirement. These are final pay plans issued to Management and employees based on the pension scheme. Part of contributions to the pension plans are paid to liability insurances.

The specification of pension benefit expenses recognized in the consolidated statement of comprehensive income and the amounts recognized for the respective pension plans in the consolidated balance sheet are presented in the tables below:

| **Expenses for pension benefits** in EUR '000 | **2010** | 2009 |
|---|---|---|
| Current service cost | **448** | 348 |
| Interest expenses | **651** | 541 |
| Expected return on plan assets | **−37** | −18 |
| Actuarial gains (–) and losses (+) | **1,202** | 869 |
| **Expenses for pension benefits** | **2,264** | **1,740** |
| | | |
| Actual return on plan assets | **22** | 18 |

Actuarial gains and losses are immediately fully recognized in the income statement and, similar to current service cost, is presented under personnel expenses. The interest portion of the additions to the retirement benefit obligation as well as the return on plan assets is presented under interest and similar expenses.

| **Assets/liabilities under defined benefit obligations** in EUR '000 | **12/31/2010** | 12/31/2009 |
|---|---|---|
| Defined benefit obligation | **14,033** | 11,942 |
| Fair value of plan assets | **−980** | −864 |
| | **13,053** | **11,078** |
| | | |
| Unrecognized actuarial gains/losses | **0** | 0 |
| Unrecognized past service cost | **0** | 0 |
| **Defined benefit obligation** | **13,053** | **11,078** |

Changes in the present value of the defined benefit obligations are presented in the table below:

| in EUR '000 | |
|---|---|
| Defined benefit obligations at January 1, 2009 | 10,395 |
| Interest expenses | 541 |
| Current service cost | 348 |
| Benefits paid | −211 |
| Actuarial losses | 869 |
| Other | 0 |
| **Defined benefit obligations at December 31, 2009** | **11,942** |
| | |
| Interest expenses | 651 |
| Current service cost | 448 |
| Benefits paid | −210 |
| Actuarial losses | 1,202 |
| Other | 0 |
| **Defined benefit obligations at December 31, 2010** | **14,033** |

Of the total defined benefit obligation amounting to EUR 14,033 thousand as per December 31, 2010 (PY: EUR 11,942 thousand), an amount of EUR 4,363 thousand (PY: EUR 3,510 thousand) is covered by liability insurances.

For 2011, benefit payments are expected to amount to approximately EUR 222 thousand.

Changes in the fair value of plan assets are presented in the table below:

| in EUR '000 | |
|---|---|
| Fair value of plan assets at January 1, 2009 | 752 |
| Expected return | 18 |
| Employer contributions | 94 |
| Benefits paid | 0 |
| Actuarial gains/losses | 0 |
| **Fair value of plan assets at December 31, 2009** | **864** |
| | |
| Expected return | 37 |
| Employer contributions | 94 |
| Benefits paid | 0 |
| Actuarial gains/losses | –15 |
| **Fair value of plan assets at December 31, 2010** | **980** |

Plan assets recognized in the balance sheet comprise the positive value of a liability insurance, which falls under the scope of IAS 19.7 (b) and thus has to be accounted for as a plan asset. The Group anticipates contributions to plan assets in the amount of EUR 94 thousand for the financial year 2011.

The reconciliation of the recognized pension provision with the present value of the defined benefit obligation is presented below:

| in EUR '000 | **12/31/2010** | 12/31/2009 | 12/31/2008 | 12/31/2007 |
|---|---|---|---|---|
| Present value of the defined benefit obligation | **14,033** | 11,942 | 10,395 | 10,253 |
| Fair value of plan assets | **980** | 864 | 752 | 647 |
| Pension provision | **13,053** | 11,078 | 9,643 | 9,606 |

In the following table, the underlying assumptions used for determining retirement benefit obligation are summarized:

| in % | **2010** | 2009 |
|---|---|---|
| Discount rate | 4.90 | 5.50 |
| Salary trend | 2.75 | 2.75 |
| Pension trend | 2.00 | 2.00 |
| Fluctuation rate | 1.00 | 1.00 |

Mortality rates after retirement of pensioners aged 65 according to Heubeck-Richttafeln 2005G

### 6.10 Current and non-current liabilities

| **Carrying amounts** in EUR '000 | | Carrying amount | thereof due within < 1 year | thereof due within 1 – 5 years | thereof due within > 5 years |
|---|---|---|---|---|---|
| Financial liabilities arising from corporate bonds | **12/31/2010** | **28,694** | **–** | **28,694** | **–** |
| | 12/31/2009 | 0 | – | 0 | – |
| Payable to banks | **12/31/2010** | **47,941** | **8,332** | **33,144** | **6,465** |
| | 12/31/2009 | 51,934 | 4,737 | 32,338 | 14,859 |
| Profit participation capital | **12/31/2010** | **4,951** | **–** | **4,951** | **–** |
| | 12/31/2009 | 4,927 | – | 4,927 | – |
| Trade payables | **12/31/2010** | **11,244** | **11,244** | **–** | **–** |
| | 12/31/2009 | 6,066 | 6,066 | – | – |
| Liabilities from finance lease | **12/31/2010** | **319** | **319** | **–** | **–** |
| | 12/31/2009 | 1,277 | 958 | 319 | – |
| Income taxes payable | **12/31/2010** | **16** | **16** | **–** | **–** |
| | 12/31/2009 | 480 | 480 | – | – |
| Other liabilities | **12/31/2010** | **14,149** | **14,149** | **–** | **–** |
| | 12/31/2009 | 13,062 | 10,393 | 2,669 | – |
| | **12/31/2010** | **107,314** | **34,060** | **66,789** | **6,465** |
| **Total** | **12/31/2009** | **77,746** | **22,634** | **40,253** | **14,859** |

**Financial liabilities arising from corporate bonds**
On October 15, 2010, corporate bonds with a nominal volume of EUR 30,000 thousand were issued. These bonds have a term of five years and a nominal interest rate of 6.50% p.a. Directly attributable transaction costs amounted to EUR 1,341 thousand. Subsequent to the pro rata temporis amortization of these transaction costs, this amount decreased to EUR 1,306 thousand as at December 31, 2010; therefore, the corporate bonds amounted EUR 28,694 thousand.

**Payables to banks**
Payables to banks mainly comprise long term loans borrowed under prevailing market interest rates. Their fair value equals the sum of the inherent carrying amounts.

Loan agreements of Nabaltec AG are partly subject to covenants, which are partially based on leverage coverage ratios as well as on 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 2010, covenants valid as at December 31, 2010, were adhered to. Due to the positive overall development within the Nabaltec Group, the bank collateral pool was terminated in the fourth quarter of 2010.

### Profit participation capital

As per December 31, 2010, the Company has a liability pertaining to profit participation capital in the amount of EUR 4,951 thousand (PY: EUR 4,927 thousand). The scheduled term of the profit participation capital with an amount of EUR 5,000 thousand ends in 2013. Prior to this time, there is no ordinary call right. The profit participation right grants only creditor claims against the Company and no shareholder rights are constituted. The Company is obliged to pay interest of 8.10% p.a. on the nominal amount by the end of the term; quarterly advance payments are made on the interest obligation. Under certain conditions, due advance payments can be deferred; in such cases, the interest rate would increase. At the end of the term, the profit participation right must be repaid at the nominal amount, less any participation in the Company's losses.

The difference arising from changes in the carrying value of the profit participation capital (compounding due to applying the effective interest method) in comparison to prior year was recognized as an interest expense through the income statement in the financial year 2010.

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. The right to redemption payments is not effective, should such rights only be covered by committed equity. This could result in prospective cash flows deviating from contractual cash flows. Nabaltec will meet the profit participation rights as contractually agreed. According to the intermediate budget, there will be sufficient fund will be available so as to fully pay the redemption amount upon maturity. Correspondingly, the contractual cash flows are anticipated.

### Trade payables

Trade payables are due within 90 days.

The carrying amounts of trade payables are equal to their fair values.

### Liabilities from finance lease

The minimum lease payments for 2010 as well as future minimum lease payments from finance leasing can be reconciled to their present values as follows:

| in EUR '000 | Lease payments | Interest portion | Present value of minimum lease payments |
|---|---|---|---|
| < 1 year | 325 | 6 | 319 |
| 1 – 5 years | 0 | 0 | 0 |
| **Total** | **325** | **6** | **319** |

With regards to rental and lease expenses in financial years 2010 and 2009, please refer to the specification of other operating expenses in Note 5.8 Other operating expenses.

### Income tax payables

Those comprise outstanding trade tax liabilities in Germany for the current financial year.

### Other liabilities

Current other liabilities consist of the following financial and non-financial liabilities:

| in EUR '000 | **12/31/2010** | 12/31/2009 |
|---|---|---|
| Loan due to non-controlling shareholder | **8,914** | 8,102 |
| Investment grants | **1,983** | 0 |
| Negative fair value of interest rate swap | **726** | 657 |
| Interest expenses arising from corporate bonds | **411** | 0 |
| Employer's Liability Insurance Association | **313** | 243 |
| Preparation and audit of the annual financial statements | **135** | 90 |
| Other | **204** | 205 |
| **Other current financial liabilities** | **12,686** | **9,297** |

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| Outstanding vacation claims | **578** | 442 |
| Bonuses and performance-based pay | **530** | 338 |
| Payables to tax authorities | **175** | 152 |
| Other consumption tax | **160** | 147 |
| Social securities payable | **20** | 17 |
| **Other current non-financial liabilities** | **1,463** | **1,096** |
| **Total other current liabilities** | **14,149** | **10,393** |

Liabilities arising from bonuses and performance-based pay depend on the fulfillment of the underlying objectives. Liabilities for outstanding vacation claims were recognized on the basis of individual employees.

Payables to tax authorities result primarily from payroll and church taxes for the past financial year outstanding as at the balance sheet date.

Other current financial liabilities relating to investment grants amounting to EUR 1,983 thousand (PY: EUR 2,669 thousand) comprise a fixed assets investment grant already received from the government of Upper Palatinate (Oberpfalz) for prospectively planned investments. This investment grant has not been allocated to a specific investment as yet. These items consisted exclusively of other financial liabilities. The carrying amount is approximately equal to its fair value. In the current financial year EUR 4,017 thousand (PY: EUR 3,331 thousand) of the received grants were deducted in arriving at the carrying amount of the respective non-current assets.

Due to their short term maturity, the carrying amounts of current other liabilities are approximately equal to their fair values.

## 7. Other disclosures

### 7.1 Other financial obligations

Obligations under operating leases – the Group as lessee

The Group is subject to financial obligations under rental and lease agreements. In particular, Nabaltec AG sold several technical equipment and machinery under the terms of a sale-and-lease-back transaction. The remaining terms of the contracts are between 1 – 5 years. The contracts' original terms were from 3 – 6 years and do not contain any price adjustment clauses or call options.

In the current financial year, an amount of EUR 2,244 thousand (PY: EUR 2,127 thousand) was recognized as expenses under rental and operating lease agreements.

The total amount of future minimum lease payments under operating leases by maturities is specified as follows:

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| Minimum lease payments due in < 1 year | **2,456** | 2,191 |
| Minimum lease payments due 1 – 5 years | **4,831** | 6,097 |
| Minimum lease payments due > 5 years | **0** | 187 |
| **Total** | **7,287** | **8,475** |

**Contingent liabilities and other commitments**

At the balance sheet date, there were no significant contingent liabilities or pending litigation for which provisions had to be recognized. At December 31, 2010, the Company was subject to open purchase orders for capital expenditure projects in the amount of EUR 1,611 thousand (PY: EUR 1,821 thousand).

### 7.2 Disclosures on financial instruments

Carrying amounts, valuation, fair values by measurement categories

The carrying amounts and fair values of all financial instruments recognized in the consolidated financial statements are presented in the table below:

| in EUR '000 | Category in accordance with IAS 39 | Carrying amount 2010 | Carrying amount 2009 | Fair value 2010 | Fair value 2009 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Trade receivables | LaR | **1,612** | 499 | **1,612** | 499 |
| Other receivables | | | | | |
| Other non-derivative and financial assets | LaR | **12,124** | 1,401 | **12,124** | 1,401 |
| Positive fair value interest rate derivatives (without a hedging relationship) | HfT / FVtPL | **0** | 0 | **0** | 0 |
| Positive fair value interest rate derivatives (designated in an effective cash flow hedging relationship) | – | **0** | 0 | **0** | 0 |
| Cash and cash equivalents | LaR | **18,957** | 497 | **18,957** | 497 |
| **Financial liabilities** | | | | | |
| Financial liabilities at amortized cost | | | | | |
| Financial liabilities arising from corporate bonds | FLaC | **28,694** | 0 | **28,694** | 0 |
| Payables to banks | FLaC | **47,941** | 51,934 | **47,941** | 51,934 |
| Profit participation capital | FLaC | **4,951** | 4,927 | **4,951** | 4,927 |
| Trade payables | FLaC | **11,244** | 6,066 | **11,244** | 6,066 |
| Liabilities from finance lease | – | **319** | 1,277 | **319** | 1,277 |
| Other financial liabilities | | | | | |
| Other non-derivative financial liabilities | FLaC | **11,960** | 8,640 | **11,960** | 8,640 |
| Negative fair value interest rate derivatives (without a hedging relationship) | HfT / FVtPL | **0** | 0 | **0** | 0 |
| Negative fair value interest rate derivatives (designated in an effective cash flow hedging relationship) | – | **726** | 657 | **726** | 657 |
| Negative fair value forward foreign exchange derivatives (without a hedging relationship) | HfT / FVtPL | **0** | 0 | **0** | 0 |

The following abbreviations were used for the valuation categories according to IAS 39:

| | |
|---|---|
| LaR | Loans and Receivables |
| HfT | Held for Trading |
| FVtPL | Fair Value through Profit and Loss |
| FLaC | Financial Liabilities Measured at amortized Cost |

The fair values of derivative financial instruments and loans were determined by discounting the expected future cash flows to their present values using prevailing market interest rates. The fair values of other financial assets were determined using prevailing market interest rates.

The cash and cash equivalents, trade receivables and other receivables are receivable in less than one year. Therefore, their carrying amounts are approximately equal to their fair values.

### Net gain / loss by measurement categories

The following table presents income and expenses from financial instruments according to measurement categories as defined by IAS 39:

| **Measurement categories in accordance with IAS 39** | | | From subsequent measurement | | | |
|---|---|---|---|---|---|---|
| | | From interest | At Fair Value | Currency translation | Impairment/ allowance | **Net gain/loss 2010** |
| Loans and Receivables | LaR | 99 | – | 4 | −128 | **−25** |
| Held for Trading | HfT | – | – | – | – | **–** |
| Other Liabilities | FLaC | −4,460 | – | 272 | – | **−4,188** |
| **Total 2010** | | **−4,361** | **–** | **276** | **−128** | **−4,213** |

| **Measurement categories in accordance with IAS 39** | | | From subsequent measurement | | | |
|---|---|---|---|---|---|---|
| | | From interest | At Fair Value | Currency translation | Impairment/ allowance | **Net gain/loss 2009** |
| Loans and Receivables | LaR | 7 | – | 38 | −44 | **1** |
| Held for Trading | HfT | – | −184 | – | – | **−184** |
| Other Liabilities | FLaC | −4,176 | – | −82 | – | **−4,258** |
| **Total 2009** | | **−4,169** | **−184** | **−44** | **−44** | **−4,441** |

Interest income and expenses from financial instruments are presented in the consolidated statement of comprehensive income within the positions interest and similar income and, respectively, expenses. Interest income from financial assets classified as loans and receivables mainly comprise interest income from current accounts and short term deposits. Interest expenses from financial liabilities in the category other liabilities primarily comprise interest expenses due to banks and, respectively, profit participation capital.

Total interest expense relating to corporate bonds, applying the effective interest method, amounts to EUR 446 thousand for 2010 (PY: EUR 0 thousand) and relating to profit participation capital amount to EUR 429 thousand (PY: EUR 429 thousand).

Net gains/losses arising from the subsequent measurement of derivative financial instruments classified as held for trading include interest as well as foreign currency translation effects. The related amounts are presented within the positions interest and similar income, respectively, expenses. Effects, however, arising from subsequent measurements of interest rate derivatives in an effective cash flow hedging relationship are recorded directly in equity. Recognition through profit or loss of an ineffective portion was not required.

Net gains/losses arising from foreign currency translation of financial assets classified as loans and receivables as well as liabilities classified as other liabilities mainly comprise trade receivables and payables nominated in foreign currency and is presented within the positions other operating income and expenses.

Net gains/losses from impairment mainly include additions and reversals of individual bad debt allowances relating to trade receivables. The respective amounts are recorded within the positions other operating income and expenses.

**Fair Value Hierarchy**

Effective January 1, 2009, a hierarchy for the measurement of fair value was introduced for financial assets and liabilities valued at fair value through profit or loss. The valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value based on their observable or unobservable nature.

The three-level hierarchy is summarized as follows:

Level 1: On the first level of the ‘Fair Value Hierarchy’, quoted market prices in an active market are the best evidence of fair value and should be used, where they exist, to measure the financial instrument.

Level 2: If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm’s length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Level 3: Valuation methods applied on this level are based on parameters and assumptions not readily available from an active market.

Group financial instruments measured at fair value were assigned to the following hierarchy levels:

**12/31/2010**

| in EUR '000 | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Positive fair value interest rate swap | 0 | 0 | 0 | **0** |
| **Liabilities** | | | | |
| Negative fair value interest rate swap | 0 | 726 | 0 | **726** |

**12/31/2009**

| in EUR '000 | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Positive fair value interest rate swap | 0 | 0 | 0 | **0** |
| **Liabilities** | | | | |
| Negative fair value interest rate swap | 0 | 657 | 0 | **657** |

In 2010, there were no reclassifications between the different levels.

**Hedging relationships**

Interest rate swaps are used to limit currency and interest rate risk exposures resulting from changes in market interest level and changes of future cash outflows due to variable interest loans. The designated effective hedging relationships are accounted for in compliance with the regulations set out by IAS 39 for hedge accounting. As a result interest rate risk can be controlled and volatilities of results reduced.

At the inception of the hedge, the hedging relationship is formally designated and documented, including the Group's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the Group will assess the hedging instrument's effectiveness. The hedging relationship is assessed on an ongoing basis (i.e. over the entire hedge term) and it is determined whether the hedging relationship was highly effective.

For hedging relationships accounted for under the regulations as set out in hedge accounting, IAS 39 requires, among others, that the designated hedging relationship is effective. The changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%. The effective portion of a hedge within the above presented range is recorded directly in equity whereas the ineffective portion is immediately recognized the consolidated statement of comprehensive income.

As summarized in the table on the fair values of financial liabilities, the Company recognized an interest rate swap as per December 31, 2010, in the amount of EUR –726 thousand (PY: EUR –657 thousand) as hedge instrument as part of a cash flow hedge. Changes in the fair value of the interest swap resulted in a loss in 2010 of EUR –69 thousand (PY: gain of EUR 420 thousand) that was fully and directly recognized in equity. The loan underlying the interest swap will be redeemed in equal amounts in the years 2011 to 2016; the final payment will be made in 2016. The payment flows arising from the interest swap is expected over the same period. The interest swap will prospectively be accounted for in the consolidated result in the financial year 2016.

Furthermore, an additional interest rate swap with a positive fair value of EUR 453 thousand as per December 31, 2008, was paid off in 2009 resulting in a loss of EUR 190 thousand, recognized in the item interest and similar expenses in 2009.

In principle, there have been no changes to the risk positions compared to prior year in the risks described below.

### Default risk

The Group is exposed to default risks primarily through its trade receivables. In order to reduce these risks, receivables are factored. Debtors' default risks are transferred by way of contractual agreements to the factor, except for a security deposit. The respective carrying amounts are therefore completely derecognized and are no longer carried as trade receivables. This does not include trade receivables which are not accepted by the factor e.g. because of exceeding a credit limit. Additionally, trade receivables are insured against default.

The amounts presented in the balance sheet are net of bad debt allowances for prospectively uncollectible receivables, which are estimated by Management on the basis of past experience and the current economic environment. Individual bad debt allowances are charged as soon as there is an indication that those receivables may be uncollectible. Such indications are based on intensive contacts maintained through the Company's credit management.

In case of counterparty default, the maximum default risk of the Group's financial assets, which comprise trade receivables, cash and cash equivalents and other assets, is equal to the carrying amounts of the corresponding instruments.

The Group is not subject to any significant concentration of default risks because they are well spread over a large number of counterparties and customers. As in prior year, the Group's assets are not subject to any restrictions on title or disposal.

The following table summarizes the changes in bad debt allowances on trade receivables:

| in EUR '000 | **2010** | 2009 |
|---|---|---|
| **Balance per 01/01/** | **332** | 288 |
| Additions recognized as expenses in the income statement | **128** | 44 |
| Reversal | **0** | 0 |
| **Balance per 12/31/** | **460** | 332 |

The age structure of trade receivables is presented in the table below:

| in EUR '000 | Carrying amount | neither past due nor value-adjusted | past due, but not value-adjusted | | | |
|---|---|---|---|---|---|---|
| | | | < 3 months | 3 – 6 months | 6 – 12 months | > 12 months |
| **12/31/2010** | **1,612** | **1,612** | **0** | **0** | **0** | **0** |
| 12/31/2009 | 499 | 499 | 0 | 0 | 0 | 0 |

With regard to the trade receivables which are neither value-adjusted nor past due, there were no indications at the balance sheet date that would suggest that debtors will not fulfill their payment obligations.

The amount of trade receivables neither past due nor impaired does not include any amounts of trade receivables, whose terms have been renegotiated.

No value adjustments were charged against the remaining other financial assets. At the balance sheet date, there were no past-due claims in this category.

### Liquidity risk

The Group continually monitors the risk of liquidity shortfalls. For this purpose, the Group takes into account the maturities of financial assets and liabilities and the expected cash flows from operating activities, among others. The objective of the Group is to ensure the supply of sufficient financial resources as well as to maintain a maximum flexibility by disposing of current accounts, loans and financial leases.

The following table presents the contractually agreed (not discounted) cash outflows of financial liabilities. All financial liabilities for which payments have been already contractually agreed on were included. Budget data for prospective, new liabilities are not included. Amounts denominated in foreign currencies have been translated using the spot rate as of the balance sheet date. The variable interest payments arising from financial instruments were calculated using the last interest rates fixed before the balance sheet date. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

| **Cash outflows (not discounted)** in EUR '000 | | Total | thereof < 1 year | thereof 1 – 5 years | thereof > 5 years |
|---|---|---|---|---|---|
| Financial liabilities arising from corporate bonds | **12/31/2010** | **39,750** | **1,950** | **37,800** | **–** |
| | 12/31/2009 | – | – | – | – |
| Payables to banks | **12/31/2010** | **55,953** | **10,679** | **38,609** | **6,665** |
| | 12/31/2009 | 51,981 | 4,737 | 32,385 | 14,859 |
| Profit participation capital | **12/31/2010** | **5,810** | **405** | **5,405** | **–** |
| | 12/31/2009 | 5,000 | – | 5,000 | – |
| Trade payables | **12/31/2010** | **11,244** | **11,244** | **–** | **–** |
| | 12/31/2009 | 6,066 | 6,066 | – | – |
| Liabilities from finance lease | **12/31/2010** | **325** | **325** | **–** | **–** |
| | 12/31/2009 | 1,342 | 1,017 | 325 | – |
| Other financial liabilities | **12/31/2010** | **12,686** | **12,686** | **–** | **–** |
| | 12/31/2009 | 11,966 | 9,297 | 2,669 | – |
| | **12/31/2010** | **125,768** | **37,289** | **81,814** | **6,665** |
| **Total (financial liabilities)** | **12/31/2009** | **76,355** | **21,117** | **40,379** | **14,859** |

### Foreign currency risk

Foreign currency risk that the Group is exposed to result from its operating activities. Although Group companies mainly operate in their individual functional currency, Group companies are exposed to foreign currency risks based on planned payments in a currency other than their functional currency.

Foreign currency risks are presented by means of sensitivity analyses as required by IFRS 7. These show the effects of hypothetical changes of relevant risk parameters on profit before taxes and shareholders' equity as a consequence of upward revaluation and devaluation of the euro against all other foreign currencies. Financial instruments denominated in a currency that is not the functional currency and of monetary nature are included within the scope of these analyses. According to the requirements of IFRS 7, differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. No effects resulted on shareholders' equity.

| | Rate change in % | Effect on profit before taxes in EUR '000 |
|---|---:|---:|
| **2010** | | |
| **USD** | **+5** | **96** |
| **USD** | **– 5** | **– 96** |
| **2009** | | |
| USD | +5 | 107 |
| USD | – 5 | – 107 |

### Interest rate risk

Interest rate risk that the Group is exposed to results mainly from interest rate fluctuations and the related financial variable interest-bearing liabilities due to banks. The Group's interest expenses are managed through a combination of fixed interest-bearing liabilities and variable interest-bearing liabilities. For hedging purposes of the interest rate risk inherent from non-current variable interest-bearing positions, interest rate swaps are applied that switch the differences between payments subject to variable interest and payments subject to fixed interest regarding a nominal amount within agreed time intervals to the contracting party.

Interest rate risks are risks are presented by means of sensitivity analyses as required by IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity (from subsequent measurement of designated interest rate derivatives in an effective cash flow hedging relationship) as follows:

| | Increase/decrease in basis points | Effect on profit before taxes in EUR '000 | Effect on shareholders' equity* in EUR '000 |
|---|---|---|---|
| **2010** | | | |
| **Europe** | **+10** | **–9** | **0** |
| **USA** | **+10** | **–6** | **22** |
| **Europe** | **–10** | **9** | **0** |
| **USA** | **–10** | **6** | **–22** |
| **2009** | | | |
| Europe | +10 | –13 | 0 |
| USA | +10 | –15 | 27 |
| Europe | –10 | 13 | 0 |
| USA | –10 | 15 | –27 |

* Disregarding the effects on profit before taxes

### 7.3 Additional disclosures on capital management

Nabaltec AG conducts sound capital management enabling the Group to continue on a growth path as well as ensuring solvency. In this regard, particular emphasis is given to preserving a balanced ratio of equity to debt over the long term.

The equity and debt positions of Nabaltec AG at December 31, 2010 and 2009, monitored for purposes of the Group's capital management, are presented in the table below:

| | 12/31/2010 in EUR '000 | 12/31/2009 in EUR '000 | Change in % |
|---|---|---|---|
| **Equity** | **42,137** | **40,043** | **5.23** |
| in % of total capital | **31.69** | 37.68 | –15.90 |
| Non-current financial liabilities | **73,253** | 52,443 | 39.68 |
| Current financial liabilities | **17,566** | 13,797 | 27.32 |
| **Debt*** | **90,819** | **66,240** | **37.11** |
| as % of total capital | **68.31** | 62.32 | 9.61 |
| **Total capital for capital management purposes** | **132,956** | **106,283** | **25.10** |

* The Group defines debt as financial liabilities arising from corporate bonds, payables to banks, liabilities from profit participation capital, liabilities from finance leases, and liabilities due to non-controlling shareholders.

In the financial year, equity increased by EUR 2,094 thousand to EUR 42,137 thousand in principle due to the profit incurred by the Group.

Borrowed capital increased by EUR 24,579 thousand to EUR 90,819 thousand in the financial year due to the issuance of corporate bonds (EUR 28,694 thousand).

In total, the capital measures conducted in 2010 reduced the equity ratio (as a percentage of total capital) to 31.69% compared to prior year 37.68%. The ratio of debt to total capital, according to the definition applied for capital management purposes, rose from 62.32% as of December 31, 2009 to 68.31% as of December 31, 2010.

Within the Company's continued development, the Group optimizes its financial management, accompanied by continuous monitoring and management of its equity ratio.

The objective of this financial management is to improve the Company's solvency in regards to Nabaltec AG's business partners and optimize its capital costs.

Nabaltec AG is not subject to any capital requirements imposed by its Articles of Association. Regarding covenants from loan agreements please refer to Note 6.10 Current and non-current liabilities.

### 7.4 Related party transactions

According to IAS 24 Related Party Disclosures, related parties are composed of those companies and persons that possess the ability directly or indirectly to control the other party or to exercise significant influence or joint control over the other party.

The following persons and companies have been identified as related parties:

- Members of the Management Board (see Note 7.8 Governing bodies of the Company) and their family members;
- Members of the Supervisory Board (see Note 7.8 Governing bodies of the Company) and their family members;
- Companies that are controlled directly or indirectly by members of the Management Board or Supervisory Board.

Members of the Management Board received short term compensation of EUR 914 thousand (PY: EUR 825 thousand) in the financial year 2010. In addition, post-employment expenditures of EUR 831 thousand (PY: EUR 1,432 thousand) were incurred.

Members of the Management Board hold the following interest in the Company as at December 31, 2010:

| | |
|---|---|
| Johannes Heckmann | 1,295,250 no-par value shares |
| Gerhard Witzany | 1,254,310 no-par value shares |

Members of the Supervisory Board received short term compensation of EUR 42 thousand (PY: EUR 42 thousand) in the financial year 2010.

Members of the Supervisory Board hold the following interest in the Company as at December 31, 2010:

Dr. Leopold von Heimendahl
42,000 no-par value shares

Dr. Dieter Braun
51,000 no-par value shares

Prof. Dr. Jürgen G. Heinrich
1,700 no-par value shares

At December 31, 2010 and 2009, there were receivables due from and payables due to related parties as follows:

| | Receivables | | Payables | |
|---|---|---|---|---|
| in EUR '000 | **12/31/2010** | 12/31/2009 | **12/31/2010** | 12/31/2009 |
| Entities controlled by members of the Supervisory Board | **0** | 0 | **0** | 0 |
| Entities controlled by members of the Management Board | **10** | 9 | **7** | 0 |

At December 31, 2010 or in the course of 2010 as well as at December 31, 2009 or in the course of 2009, there were neither allowances for bad debt nor expenses for uncollectible receivables or bad debt due from related parties.

In 2010 and 2009, the following expenses and income with related parties were recognized in addition to compensation granted to the members of the Management Board:

| | Income | | Expenses | |
|---|---|---|---|---|
| in EUR '000 | **2010** | 2009 | **2010** | 2009 |
| Entities controlled by members of the Supervisory Board | **0** | 0 | **5** | 5 |
| Entities controlled by members of the Management Board | **91** | 92 | **11** | 3 |

Transactions with entities controlled by members of the Management Board comprise services related to human resources management (income amounting to EUR 91 thousand; PY: EUR 92 thousand) as well as other services (expenses amounting to EUR 11 thousand; PY: EUR 3 thousand). Expenses incurred for members of the Supervisory Board resulted from the research and development activities regarding ceramic process engineering performed by one member.

In connection with the corporate bonds issued in the financial year 2010 with a nominal value of EUR 30,000 thousand, the Company has payables due to the Management Board of nominally EUR 1,023 thousand as at the balance sheet date December 31, 2010. With regard to the members of the Supervisory Board, the payable amounts to a nominal value of EUR 158 thousand.

### 7.5 Earnings per share

The number of shares outstanding showed the following changes during the financial year:

| | **2010** | 2009 |
|---|---|---|
| Common shares outstanding at 01/01/ | **8,000,000** | 8,000,000 |
| There were no transactions in the financial year. | | |
| Common shares outstanding at 12/31/ | **8,000,000** | 8,000,000 |
| **Undiluted weighted average number of common shares outstanding** | **8,000,000** | 8,000,000 |

For calculating the undiluted earnings per share, the profit or loss attributable to the holders of the Company's common shares are divided by the weighted average number of common shares in circulation during the financial year.

In accordance with IAS 33 Earnings Per Share, the effects of potential common shares are also taken into account for determining the diluted earnings per share. No dilutive effects apply for Nabaltec AG. Thereby, the undiluted earnings per share are equal to the diluted earnings per share for 2010 and 2009.

Earnings per share, so calculated, are presented in the table below:

| | 2010 | 2009 |
|---|---|---|
| Consolidated earnings after tax – Shareholders of Nabaltec AG in EUR '000 | **1,779** | – 5,047 |
| Undiluted weighted average number of common shares outstanding | **8,000,000** | 8,000,000 |
| Earnings per share in EUR | **0.22** | – 0.63 |

For additional information, we refer to Note 6.8 Equity.

**7.6 Notes to the consolidated statement of cash flows**

The consolidated statement of cash flows indicates the sources and uses of funds. In accordance with IAS 7 Statement of Cash Flows, the cash flows from operating activities, investing and financing activities are presented separately.

The net funds presented in the consolidated statement of cash flows comprise the item of cash and cash equivalents presented in Note 6.7 Cash and cash equivalents.

Deviations between additions shown in the consolidated statement of changes in non-current assets and cash expenditures for investments in technical equipment, plant and machinery result from unsettled invoices due to related purchases and the offsetting of received investment grants with the additions shown in the consolidated statement of changes in non-current assets.

The paid, respectively, received interest and income tax are directly evident from the consolidated statement of cash flows.

## 7.7 Segment information

Business segments represent the primary format for the Group's segment reporting. Risks and the internal organizational and reporting structure of the Group are determined mainly by the distinctions between the products produced.

### Business segments

Nabaltec is divided into two business segments; 'Functional Fillers' and 'Technical Ceramics'. Each segment represents a strategic business division, the products and markets of which differ from those of the other.

The 'Functional Fillers' segment produces and distributes non-halogenated flame retardant fillers for the plastics – and the cable & wire industry as well as additives.

The 'Technical Ceramics' segment produces and distributes ceramic raw material and ceramic bodies for numerous applications in technical ceramics as well as the refractory industry.

The column 'other' includes assets and liabilities that cannot be matched to the individual segments.

Transfer prices applied between the business segments are fundamentally determined on the basis of the prevailing market terms that would be charged in an arm's-length transaction. The segment income, expenses and result include transfers between the business divisions, which are eliminated as part of the consolidation process. In the financial years 2010 and 2009, no inter-segment transactions between the business divisions were incurred.

| **Financial year ended December 31, 2010**<br>in EUR '000 | Functional Fillers | Technical Ceramics | Other | Nabaltec Group |
|---|---|---|---|---|
| **Revenues** | | | | |
| Third party revenue | 75,916 | 36,785 | – | 112,701 |
| **Segment result** | | | | |
| EBITDA | 9,022 | 5,302 | – | 14,324 |
| EBIT | 3,391 | 3,157 | – | 6,548 |
| **Assets and liabilities** | | | | |
| Segment assets | 105,270 | 40,293 | 20,435 | 165,998 |
| Segment liabilities | 12,009 | 5,248 | 106,604 | 123,861 |
| **Other segment information** | | | | |
| Capital expenditures | | | | |
| – Property, plant and equipment | 4,610 | 2,187 | – | 6,797 |
| – Intangible assets | 25 | 17 | – | 42 |
| Depreciation and amortization | | | | |
| – Property, plant and equipment | 5,605 | 2,112 | – | 7,717 |
| – Intangible assets | 26 | 33 | – | 59 |

| **Financial year ended December 31, 2009**<br>in EUR '000 | Functional Fillers | Technical Ceramics | Other | Nabaltec Group |
|---|---|---|---|---|
| **Revenues** | | | | |
| Third party revenue | 50,193 | 22,867 | – | 73,060 |
| | | | | |
| **Segment result** | | | | |
| EBITDA | 2,788 | 945 | – | 3,733 |
| EBIT | –1,616 | –1,092 | – | –2,708 |
| | | | | |
| **Assets and liabilities** | | | | |
| Segment assets | 94,955 | 36,112 | 744 | 131,811 |
| Segment liabilities | 8,457 | 3,430 | 79,881 | 91,768 |
| | | | | |
| **Other segment information** | | | | |
| Capital expenditures | | | | |
| – Property, plant and equipment | 17,217 | 1,280 | – | 18,497 |
| – Intangible assets | 7 | 1 | – | 8 |
| Depreciation and amortization | | | | |
| – Property, plant and equipment | 4,374 | 2,001 | – | 6,375 |
| – Intangible assets | 30 | 36 | – | 66 |

### Information by region

The geographical regions are defined as Germany, Rest of Europe, USA and Rest of World (RoW).

| **Financial year ended December 31, 2010** in EUR '000 | Germany | Rest of Europe | USA | RoW | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Third party revenue | 33,938 | 51,411 | 16,752 | 10,600 | 112,701 |
| **Other segment information** | | | | | |
| Segment assets | 144,975 | – | 21,023 | – | 165,998 |
| Capital expenditures | | | | | |
| – Property, plant and equipment | 6,663 | – | 134 | – | 6,797 |
| – Intangible assets | 42 | – | – | – | 42 |

| **Financial year ended December 31, 2009** in EUR '000 | Germany | Rest of Europe | USA | RoW | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Third party revenue | 21,987 | 37,267 | 7,805 | 6,001 | 73,060 |
| **Other segment information** | | | | | |
| Segment assets | 111,737 | – | 20,074 | – | 131,811 |
| Capital expenditures | | | | | |
| – Property, plant and equipment | 18,324 | – | 173 | – | 18,497 |
| – Intangible assets | 8 | – | – | – | 8 |

In 2010, one customer accounted for more than 10% of total revenues. Revenue from this customer amounts to EUR 12,477 thousand and is included in the 'Functional Fillers' segment. Similarly, in 2009, one customer accounted for more than 10% of total revenues (EUR 8,089 thousand).

The non-current assets of the Group are located in Germany and the United States. Non-current assets are defined as assets that are used for operating activities and are expected to remain within the Company for longer than 12 months. The location of the respective assets determined the allocation.

**7.8 Governing bodies of the Company**

Management Board

- Mr. Johannes Heckmann (Engineering)
- Mr. Gerhard Witzany (Business Administration)

Supervisory Board

- Dr. Leopold von Heimendahl (Chairman)
- Dr. Dieter J. Braun (Vice Chairman)
- Prof. Dr. Jürgen G. Heinrich

**7.9 Voluntary Declaration pursuant to Section 161 of the German Stock Corporation Act regarding the German Corporate Governance Code**

The Management Board and the Supervisory Board of Nabaltec AG have voluntarily issued and made available to shareholders the Declaration on the German Corporate Governance Code in compliance with Section 161 of the German Stock Corporation Act required from listed entities. The declaration is published on the Company's website www.nabaltec.de under 'Investors Relation/Corporate Governance'.

**7.10 Significant events after the reporting period**

No significant events took place subsequent to the balance sheet date.

**7.11 Auditors' fees and services pursuant to Section 314 of the German Commercial Code**

The fee for the audit of the 2010 financial statements amounts of EUR 80 thousand (including the fee for the audit of the Company's consolidated financial statements 2010). For other assurance services, the auditor received a fee of EUR 12 thousand. The fee for tax advisory services amounts to EUR 22 thousand.

Schwandorf, March 2, 2011

Nabaltec AG
The Management Board

Johannes Heckmann Gerhard Witzany

# Independent auditor's report

We have audited the consolidated financial statements comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, statement of changes in non-current assets, and notes, as well as the group management report prepared by Nabaltec AG, Schwandorf, for the financial year from January 1 to December 31, 2010. Preparation of the consolidated financial statements and group management report in accordance with the IFRS, as endorsed by the EU, and the supplementary provisions of German commercial law pursuant to Section 315a Paragraph 1 HGB ("German Commercial Code") 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 consolidated financial statements and group management report based on our audit. Additionally, we were engaged to assess whether the consolidated financial statements have been prepared in accordance with the IFRS as a whole.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB 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, results of operations and financial position in the consolidated financial statements in accordance with applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and group management report are examined primarily on a sample basis in the course of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles applied by the Group and significant estimates made by the Management Board as well as evaluating the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements of Nabaltec AG comply with the IFRS as adopted by the EU, the supplementary provisions of German commercial law pursuant to Section 315a Paragraph 1 HGB and give a true and fair view of the Group's net assets, results of operations and financial position in accordance with these requirements. The group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position, as well as the risks and opportunities of future development.

Nuremberg, March 10, 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann)
Auditor

(ppa. Sauer)
Auditor

# ANNUAL FINANCIAL STATEMENTS

as of December 31, 2010

# Balance sheet of Nabaltec AG, Schwandorf

as of December 31, 2010

## ASSETS

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| **A. Non-current Assets** | | |
| **I. Intangible Assets** | | |
| 1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets | **105** | 141 |
| 2. Advance payments | **71** | 65 |
| | **176** | **206** |
| **II. Property, Plant and Equipment** | | |
| 1. Land, leasehold rights and buildings, including buildings on non-freehold land | **15,123** | 15,660 |
| 2. Technical equipment and machinery | **50,242** | 52,757 |
| 3. Other fixtures, fittings and equipment | **2,000** | 1,797 |
| 4. Advance payments as well as plant and machinery under construction | **3,353** | 698 |
| | **70,718** | **70,912** |
| **III. Financial Assets** | | |
| 1. Shares in affiliated companies | **163** | 163 |
| 2. Loans to affiliated companies | **9,079** | 8,382 |
| 3. Other loans | **0** | 864 |
| | **9,242** | **9,409** |
| | **80,136** | **80,527** |
| **B. Current Assets** | | |
| **I. Inventories** | | |
| 1. Raw materials and supplies | **11,080** | 8,896 |
| 2. Finished goods and purchased products | **8,118** | 8,707 |
| | **19,198** | **17,603** |
| **II. Accounts Receivable and other Assets** | | |
| 1. Trade receivables | **1,596** | 416 |
| 2. Other assets | **13,361** | 2,816 |
| | **14,957** | **3,232** |
| **III. Cash and cash equivalents** | **18,672** | **278** |
| | **52,827** | **21,113** |
| **C. Prepaid Expenses** | **334** | **389** |
| | **133,297** | **102,029** |

## EQUITY & LIABILITIES

| in EUR '000 | 12/31/2010 | 12/31/2009 |
|---|---|---|
| **A. Shareholders' Equity** | | |
| I. Subscribed capital<br>Conditional capital EUR 3,000 thousand (PY: EUR 3,000 thousand) | **8,000** | 8,000 |
| II. Capital reserve | **30,824** | 30,824 |
| III. Profit participation capital | **1,211** | 1,730 |
| IV. Accumulated profits | **0** | 0 |
| | **40,035** | **40,554** |
| **B. Non-current Assets Investment Grants** | **42** | **177** |
| **C. Provisions** | | |
| 1. Retirement benefit obligation and similar provisions | **8,738** | 8,440 |
| 2. Accrued taxes | **16** | 487 |
| 3. Other provisions and accrued liabilities | **3,302** | 2,595 |
| | **12,056** | **11,522** |
| **D. Accounts Payable** | | |
| 1. Liabilities arising from corporate bonds | **30,000** | 0 |
| 2. Payables to banks | **38,589** | 41,433 |
| 3. Trade payables | **9,534** | 5,019 |
| 4. Payables to affiliated companies | **248** | 287 |
| 5. Other payables<br>– thereof relating to taxes EUR 174 thousand (PY: EUR 145 thousand)<br>– thereof relating to social securities: EUR 20 thousand (PY: EUR 17 thousand) | **2,793** | 3,037 |
| | **81,164** | **49,776** |
| | **133,297** | **102,029** |

# Income statement

for the period January 1 to December 31, 2010

| in EUR '000 | 01/01/ – 12/31/2010 | | 01/01/ – 12/31/2009 | |
|---|---|---|---|---|
| 1. Revenue | | 112,701 | | 73,060 |
| 2. Change in finished goods | | –756 | | –2,183 |
| 3. Other capitalized own services | | 308 | | 1,161 |
| **Total performance** | | **112,253** | | **72,038** |
| 4. Other operating income | | 2,787 | | 1,199 |
| | | **115,040** | | **73,237** |
| 5. Cost of materials: | | | | |
| a) Cost of raw materials and supplies and purchased goods | 63,933 | | 41,319 | |
| b) Cost of purchased services | 510 | 64,443 | 611 | 41,930 |
| **Gross profit** | | **50,597** | | **31,307** |
| 6. Personnel expenses: | | | | |
| a) Wages and salaries | 14,410 | | 11,427 | |
| b) Social security and other pension costs – thereof for pension costs: EUR 681 thousand (PY: EUR 1,617 thousand) | 3,375 | | 3,826 | |
| 7. Amortization/Depreciation of intangible assets and property, plant and equipment | 7,023 | | 5,480 | |
| 8. Other operating expenses | 21,722 | 46,530 | 14,824 | 35,557 |
| | | 4,067 | | **–4,250** |
| 9. Income from securities and loans (financial assets) – thereof from affiliated companies: EUR 190 thousand (PY: EUR 198 thousand) | 190 | | 198 | |
| 10. Interest and similar income | 99 | | 270 | |
| 11. Amortization of financial assets and marketable securities – thereof arising from affiliated companies: EUR 0 thousand (PY: EUR 254 thousand) | 0 | | 254 | |
| 12. Interest and similar expenses – thereof for profit participation rights capital: EUR 405 thousand (PY: EUR 405 thousand) | 4,526 | | 2,853 | |
| **Financial result** | | **–4,237** | | **–2,639** |
| **13. Result from ordinary operating activities** | | **–170** | | **–6,889** |
| 14. Exceptional expenditures | 320 | | 0 | |
| 15. Exceptional result | | 320 | | 0 |
| | | –490 | | **–6,889** |
| 16. Income taxes | 16 | | 202 | |
| 17. Other taxes | 13 | 29 | 55 | 257 |
| **18. Net loss for the year** | | **–519** | | **–7,146** |
| 19. Profit carried forward | | 0 | | 3,876 |
| 20. Withdrawal profit participation capital | | 519 | | 3,270 |
| **21. Accumulated profit** | | **0** | | **0** |

# Notes

# Financial calendar

| | |
|---|---|
| **31 May 2011** | **Interim Report 1/2011** |
| **9 June 2011** | **Annual General Meeting** |
| **23 August 2011** | **Interim Report 2/2011** |
| **15 October 2011** | **Corporate bond: annual interest payment** |
| **29 November 2011** | **Interim Report 3/2011** |

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