ANNUAL REPORT 2016

OUR KNOW-HOW FOR YOUR SAFETY

Nabaltec

NABALTEC GROUP
KEY FIGURES

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

in EUR million	2016 (IFRS)	2015 (IFRS)	Change
Revenues			
Total revenues	159.2	151.3	5.2%
thereof			
Functional Fillers	109.1	102.3	6.6%
Technical Ceramics	50.1	49.1	2.0%
Foreign share (%)	73.3	72.3	–
Earnings			
EBITDA	22.9	24.7	–7.3%
EBIT	12.2	14.5	–15.9%
Consolidated result after taxes*	5.3	6.7	–20.9%
Earnings per share (EUR)*	0.67	0.84	–20.2%
Financial position			
Cash flow from operating activities	26.1	20.1	29.9%
Cash flow from investing activities	–17.0	–13.1	29.8%
Assets, equity and liabilities			
Total assets	202.7	201.9	0.4%
Equity	57.8	58.1	–0.5%
Non-current assets	127.0	117.1	8.5%
Current assets	75.7	84.8	–10.7%
Employees** (number of persons)	460	444	3.6%

* *after non-controlling interests*
** *on the reporting date, including trainees*

NABALTEC AG
A LEADER IN SPECIALTY CHEMICALS

Nabaltec AG, with registered office in Schwandorf, a chemicals business which has received multiple awards for innovativeness, manufactures, develops and distributes highly specialized products based on aluminum hydroxide (ATH) and aluminum oxide, as well as other raw materials, on an industrial scale through its business divisions "Functional Fillers" and "Technical Ceramics."

SUSTAIN-ABLE PRACTICES

A RELIABLE MANUFACTURER AND SUPPLIER OF SPECIALTY CHEMICALS

Nabaltec products have an extremely diverse range of applications and are the preferred choice whenever utmost quality, safety, eco-friendliness and durability are required.

The combination of these characteristics guarantees that Nabaltec's specialty chemical products will have outstanding prospects for growth and has given the company many years of steadily growing financial success.

Beyond economic aspects, however, Nabaltec AG also attaches particular importance to its ecological and social responsibility. Aside from certification of a conventional quality management system in accordance with ISO 9001, the company has also, over the years, introduced a certified environmental management system (ISO 14001) as well as an occupational health and safety management system (BS OHSAS 18001) and an energy management system (ISO 50001).

In addition, sustainable employee development is important to Nabaltec AG in order to be prepared for future personnel challenges and in order to position itself as an attractive employer.

OUR APPLICATIONS

FLAME RETARDANTS/ FLAME RETARDANT FILLERS

Eco-friendly aluminum hydroxide is used as a flame retardant in power and communication cables, and in electric enclosures

ADDITIVES

Used as process additives and as a raw material in color pigments

ENVIRONMENTAL TECHNOLOGY

Aluminum oxide and hydroxide are used e.g. to eliminate fumes, for alternative energy storage or as a raw material in catalyzers

CERAMIC RAW MATERIALS

Aluminum oxide, polishing aluminas and synthetic sintered mullites are used above all in the refractory and polishing industries, in the automotive sector and in glass and ceramics production

CERAMIC BODIES

Our ready-to-press ceramic bodies are used particularly to prevent abrasion, to protect people as well as vehicles and in engineering ceramics

SUSTAIN-
ABLE
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CONTACT IR

InvestorRelations@nabaltec.de
www.nabaltec.de

NABALTEC AG ON THE INTERNET

www.nabaltec.de

CONTENTS

NABALTEC
IN OVERVIEW

FUNCTIONAL FILLERS

In our business division “Functional Fillers,” we develop highly specialized aluminum hydroxide-based products for a wide variety of applications, and we are among the leading manufacturers in the world in this area. In addition to current market trends, the development of our halogen-free eco-friendly flame retardants, additives and boehmites is driven above all by the specific requirements of our customers.

EUR 109.1 MILLION

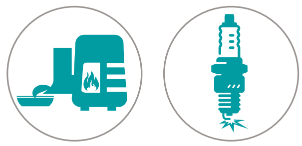
Revenues

EUR 17.3 MILLION

EBITDA

EUR 9.6 MILLION

EBIT



TECHNICAL CERAMICS

In our business division “Technical Ceramics,” we develop innovative materials for a wide variety of industries based on all-natural ingredients and occupy a leading position in the global market for ceramic raw materials and bodies. We are constantly investing in optimizing our production facilities, in innovative technologies and in improving our production processes in order to enable us to consistently supply tailormade qualities which meet our customers’ needs.

EUR 50.1 MILLION

Revenues

EUR 5.6 MILLION

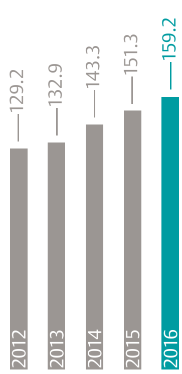
EBITDA

EUR 2.6 MILLION

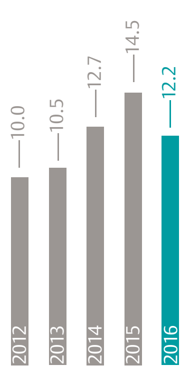
EBIT

NABALTEC AG

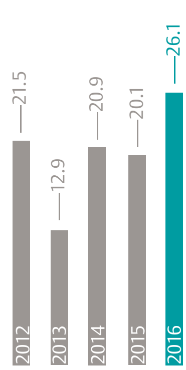
As a fast-growing company, Nabaltec AG was able to continue its very strong performance in the previous year in Financial Year 2016 as well. In particular, the company has posted revenue growth over a period of many years, which illustrates the growing global demand for Nabaltec products.



REVENUES
IN EUR MILLION



EBIT
IN EUR MILLION



OPERATING
CASH FLOW
IN EUR MILLION

FACTS AND FIGURES

INNOVATION

Nabaltec AG is regularly awarded national and international prizes and distinctions for innovation. In 2016, the company was named one of the 100 most innovative German mid-sized companies for the ninth time.

*9*x

DISTINCTION FOR EXEMPLARY INNOVATION MANAGEMENT

EMPLOYEES

Nabaltec AG is regularly recognized as one of the 100 best employers among German mid-sized companies in the “TOP JOB” competition, which compares companies from all over the country and in a wide variety of sectors.

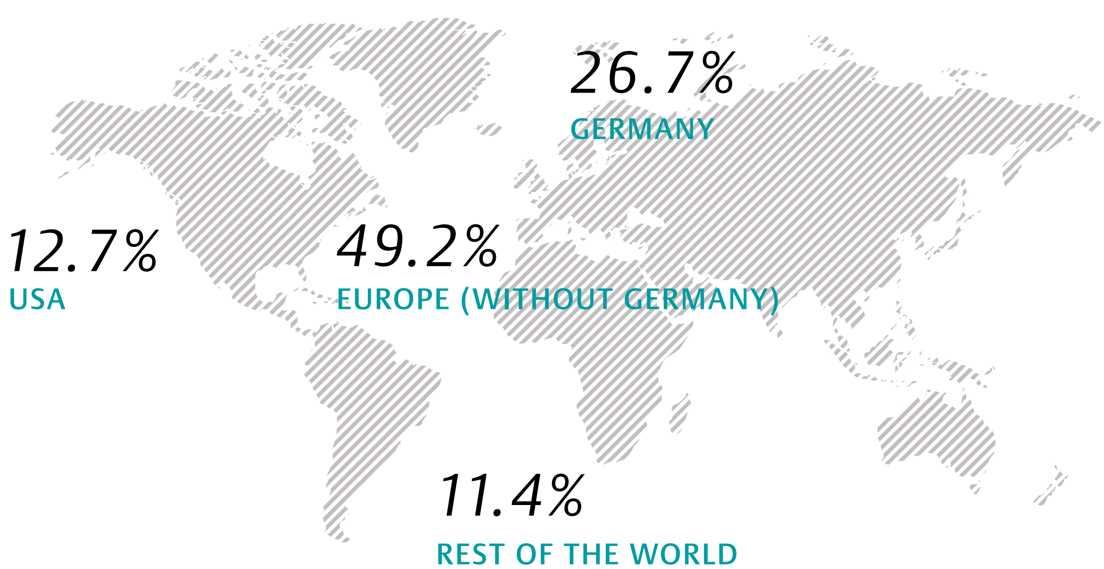
Nabaltec‘s trainees count among the best of their peers on a regular basis.

11.5%

TRAINEE RATIO

GLOBAL REVENUE SHARES

With production sites in Germany and the US and a network of international agencies, Nabaltec maintains a global presence.



MANAGEMENT BOARD OF NABALTEC AG

JOHANNES HECKMANN (CEO)

- Appointed CEO on 1 January 2017
- Management Board member responsible for production as well as research and development since the initial public offering in 2006
- Served in the management of Nabaltec AG since 1995
- Worked as project manager at Schindler Aufzüge AG in Lucerne, Switzerland, before switching to AKW Amberger Kaolinwerke GmbH
- Studied engineering management at the Rosenheim University of Applied Sciences

GÜNTHER SPITZER (CFO)

- CFO since 1 January 2017, responsible for finance/controlling and administration/human resources
- Head of the controlling department since 1998, also served as Director Finance/Controlling at Nabaltec AG since 2009
- Began at VAW aluminium AG in 1985 as a commercial employee
- Trained as an industrial clerk, with in-service study in business administration

DR. MICHAEL KLIMES (COO)

- COO since 1 January 2017, responsible for research and development, production and sales
- Headed the business division “Functional Fillers” since 2007
- Directed the Fillers profit center since 2003
- Flame retardants sales manager at Nabaltec GmbH as of 1995
- 1992: began working at VAW aluminium AG, specialty alumina division, responsible for sales of APYRAL® in Central Europe
- Studied chemistry at Darmstadt University of Technology, followed by diploma thesis and doctorate at the German Plastics Institute in Darmstadt

*from left to right:
Dr. Michael Klimes, Johannes Heckmann, Günther Spitzer*

FOREWORD
OF THE CEO

Ladies and Gentlemen,
Dear Shareholders and Business Partners,

In Financial Year 2016, we faced big challenges together with some uncertainty. It was caused by the insolvency of Sherwin Alumina LLC, the key supplier of our US subsidiary Nashtec, and the resulting unpredictable aspects of such a procedure in the US. It culminated in a complete production halt for Nashtec. Since it was not clear at the time how quickly the situation of our subsidiary Nashtec could be clarified, we refrained from issuing a 2016 revenue and earnings forecast to you, our shareholders, for the company as a whole.

Our decision to proceed cautiously in 2016 – carefully and without undergoing overhasty risks – ended up paying off. Our revenues were up 5.2% to EUR 159.2 million and we posted EBIT of EUR 12.2 million. With an EBIT of 7.7% our earnings power was down slightly from the year before, which is an entirely satisfactory result in view of the extraordinary situation in the US with the insolvency of Nashtec LLC's raw materials supplier and the associated production freeze, as well as the increase in contributions to retirement benefit obligations.

The situation has since been clarified. In March 2017, we were able to acquire all shares in our US subsidiary Nashtec. The agreements which have been reached lay the groundwork for a permanent stand-alone solution. Accordingly, we now once again see ourselves in a position to issue a forecast for 2017. We expect revenue growth in the low single digits and an EBIT margin in the high single digits.

2017 will be entirely characterized by investments and rapid implementation of the stand-alone solution in the US. The production halt there, which we were able to compensate for with deliveries from Germany as of the third quarter of 2016, should be lifted at the end of 2017. This will slow our revenue growth somewhat in 2017, but at the same time create potential to once again participate in market growth in 2018.

Notwithstanding the extraordinary developments in the US, we were able to keep our business on course with strong growth and strong earnings, and our market position was not only held but actually improved. The market drivers in our target industries remain intact, and the positive future growth outlook and climate for our customers are undiminished. This was evident in part from the fact that the business divisions "Functional Fillers" and "Technical Ceramics" contributed equally to growth in 2016.

Customer satisfaction continues to be of central importance in everything we do. As a result, it is particularly important for us to maintain supplies to our customers in the US without interruption. As a result, we work every day to align all of our operations even more closely to customer requirements. Recent examples include the expansion of our research and development activities by concentrating development, application engineering as well as plant and process development at the Schwandorf site. As part of our innovation strategy, and in an effort to become even more focused on customer requirements and applications, we have been moving forward since last year on the expansion of three testing facilities at the Schwandorf site, for extrusion, ceramics and fillers, in which e.g. new products are manufactured in small batches of 10 to 100 kilograms and subjected to application testing.

At the end of 2016, my worthy colleague Gerhard Witzany entered a well-deserved retirement. Together, we were able to build up Nabaltec AG over the past 22 years into one of the leading companies in our sector. For this, he deserves our thanks and best wishes for the future. The new composition of the Management Board sends a clear signal of continuity.

The new Management Board consists of three members. The Supervisory Board has appointed Günther Spitzer and Dr. Michael Klimes to serve alongside me, two colleagues who have already served in executive positions at Nabaltec for many years, during which time they have demonstrated their ability to lead the company and to improve it so that we can continue to hold a leading position in our markets in the future. I look forward to working with them and I can promise you that we will continue to work every day with a high degree of consistency to make Nabaltec even better.

Schwandorf, March 2017

Yours,

JOHANNES HECKMANN
CEO

WITH EMPLOYEES
FROM WITHIN OUR OWN RANKS

"GENERATION CHANGE – WITH THE APPOINTMENT OF LONG-STANDING EMPLOYEES TO MEMBERS OF THE MANAGEMENT BOARD, THE CONTINUOUS DEVELOPMENT OF NABALTEC IS ENSURED."

“WE ESTABLISHED THE FOUNDATION FOR OUR SUCCESS YEARS AGO AND POSTED REVENUES OF EUR 159.2 MILLION, EVEN HIGHER THAN OUR RECORD HIGH IN THE YEAR BEFORE.”

You increased revenues again in 2016 and posted solid results. Looking at the steady improvement in recent years, was that almost a matter of course?

JOHANNES HECKMANN: Not so much a matter of course as rather the result of our consistent work. After all, we established the foundation for the steady improvement you mentioned and for our success years ago. We have always remained faithful to our strategy and have not allowed ourselves to be disturbed by challenges in our environment, in the economy, in individual target markets or from our competitors. Following this plan, we have been able to continuously post revenue growth, and our 2016 revenues of EUR 159.2 million were even higher than our record-high revenue in the year before. We are also satisfied with our operating profit of EUR 12.2 million, which has to be rated highly in view of the circumstances of the past year.

DR. MICHAEL KLIMES: The right strategy and the performance of our employees are surely most important for the long-term success of our company. We have been able to report steady growth worldwide in each of our business divisions and are one of the leading suppliers today in each of our target sectors. This is due above all to our flexibility and the close relationships we maintain with our customers, whose requirements we always try to meet to the best of our ability. In the business division “Functional Fillers” our halogen-free flame retardant materials are increasingly in demand, due in particular to growing environmental awareness in the target markets. The business division “Technical Ceramics” continues to make progress with its ceramic bodies and materials, and here as well we have the ability to adapt product characteristics using new refinement methods. The constantly changing customer requirements are a key part of our innovation process and ensure that we edit the right themes. And as obvious is it sounds: we work hard every day to make sure this process succeeds.

The developments in connection with the Nashtec subsidiary in the US were a defining topic in 2016. How exactly was Nabaltec able to adapt to this extraordinary situation?

JOHANNES HECKMANN: We had to devote very intensive attention to our US subsidiary Nashtec in 2016 due to the unexpected bankruptcy of its raw material supplier, Sherwin Alumina LLC. Since then, we raised our interest in Nashtec to 100% in March 2017 and were therefore able to establish a complete stand-alone solution under US corporate law. Now the challenge in 2017 is to implement this stand-alone solution operationally.

DR. MICHAEL KLIMES: After we increased capacity at Schwandorf in 2016 for fine precipitated aluminum hydroxide, we were able to maintain the consistent supply of our US customers with APYRAL® 40 CD. We deliberately built up reserves at Schwandorf in the time between initiation of the Sherwin bankruptcy procedure and the production stoppage at Nashtec. As a result, the supply chain was optimized so as to avoid interruptions in supply since US customers have been supplied from Germany. The plan worked out excellent.

GÜNTHER SPITZER: The transition was successful. The precautions taken by the company turned out to be the best scenario under the circumstances. This applies to the stand-alone solution, for which we took the most important step in mid-March 2017 by acquiring all shares in Nashtec. With the additional acquisition of production buildings and some technical equipment, we will now be able to use the current year to retool the production site in accordance with Nashtec's requirements. We expect that we will be able to once again supply our US customers directly from Nashtec in the accustomed quality as of early 2018.

Can the impact of the Nashtec developments on the Group's results in 2016 and 2017 be measured?

JOHANNES HECKMANN: Every observer surely knows that a situation like this has to leave a mark on a company like Nabaltec, which generates about 13% of its revenues in the US. In particular, the increase in freight costs due to the need to supply US customers from Germany have an impact on earnings. However, we shouldn't forget the solid basis which we have in the US. Demand growth is unabated and the market potential is far from exhausted. This market is an enormous driver for us.

"BY BUNDLING OUR R&D ACTIVITIES, WE FOCUS EVEN MORE ON OUR CUSTOMERS' REQUIREMENTS AND THEIR APPLICATIONS."

"THE SHARE PERFORMANCE WAS QUITE POSITIVE UNDER THE CIRCUMSTANCES."

DR. MICHAEL KLIMES: Not least due to the growing significance of the American market, the stand-alone solution we're pursuing also makes sense based on economic and strategic considerations. Supplying the American market from Germany on a permanent basis is not an alternative for us in view of the increasing risks and the need to cultivate close customer relationships.

Why did you not issue any quantitative forecasts in 2016 with regard to your goals. Did this cost you the confidence of the capital market?

GÜNTHER SPITZER: A serious forecast simply was not possible under the circumstances. After all, at the turn of the year, we did not know the extent to which our plans for a stand-alone solution could be implemented. Of course, we had a specific goal in mind, but at the same time, so many interests are involved in the process that negotiations may drag on for a long time. We did not want to make a forecast just for the sake of making a forecast: our partners and investors expect something concrete.

JOHANNES HECKMANN: Our investors and analysts showed a lot of understanding for our course of action in this case. We received very positive feedback consistently because we did not allow ourselves to be pressured into issuing questionable forecasts while the outcome was entirely uncertain. I think that it is these very realistic assessments of our day-to-day operations which demonstrate our credibility and which are the reason we enjoy a great deal of confidence among investors.

Nevertheless, the reaction in the stock market was a flat share price in 2016?

GÜNTHER SPITZER: The share performance was quite positive under the circumstances. The stability of this performance is particularly evident from the fact that, when matters came to a head in August with the temporary plant closure and the complete work stoppage at Nashtec, no negative price effects could be observed. In this respect our policy of maintaining a "steady hand" through open and highly transparent capital market communications paid off, and we will accordingly continue to operate in this way in the future.

JOHANNES HECKMANN: Communications were certainly a determining factor in that case in preventing major negative breakouts in our share price. In the end, it became clear that key investors were staying on board. I can only agree with what my colleague said: now, we have to deliver. Given a sustained positive development in 2017 and based on our stand-alone solution in the US which is already being implemented, we see corresponding potential and believe that we are well-positioned for the future.

What is the basis of your optimism for 2017?

JOHANNES HECKMANN: Our optimism for the future, if you will, is based on our past experiences. We have identified the market drivers and are continuing to position ourselves strategically in order to exploit these factors in an optimal fashion. Demand for our highly specialized products is tendentially growing worldwide, especially for our flame retardants. As long as cables are laid in high-rise buildings and tunnels, the electronics industry needs flame-retardant fillers and ceramic bodies are used in components for mechanical wear components, our target markets will continue to perform well in the future, maybe even better than before.

DR. MICHAEL KLIMES: The principal basis for our success has always been that we do our homework when it comes to operations, and we will continue to do so. Whenever we can make improvements to benefit our customers, we do so. Right now, for example, we are consolidating our research and development activities by concentrating development, application engineering as well as plant and process development at the Schwandorf site. This will allow us to base our development activities even more closely than before on our customers' requirements and applications. We are also of course investing in extending our capacity – where it is appropriate – to be able to develop new products and processes to meet specific customer needs in accordance with our innovation strategy. For example, we have expanded our three testing facilities, for extrusion, ceramics and fillers, to produce small batches of 10 to100 kilograms.

GÜNTHER SPITZER: We have always ensured that our innovation strategy rests on a solid foundation and set up our financial structure accordingly. With an equity ratio of about 30%, we have a very good capital base and a strong basis for our operations. In addition, our debt financing has been aligned in the long term and our liquidity is solid. We were able to increase our operating cash flow by around 30% in 2016. And as in the year before, our shareholders can look forward to a dividend payout in the amount of EUR 1.2 million.

So is there a specific forecast for 2017?

JOHANNES HECKMANN: Yes, as we said earlier: we have laid the foundation for our planned stand-alone solution in the US. The flame-retardant markets have performed very well this year as well, and we're also seeing a recovery in the refractory market, which came under a lot of pressure last year. In addition, we were able to get through the work stoppage at Nashtec in good condition and we expect stable performance in the US market as well. All of this makes us very optimistic. In view of this situation and assuming economic performance remains stable, we expect revenue growth in the low single digits in the current financial year and an EBIT margin in the high single digits.

You started working with a new management team in 2017. How was it decided to rely entirely on "homegrown talents," with Dr. Klimes and Mr. Spitzer?

JOHANNES HECKMANN: This question should basically be directed to the Supervisory Board, but the answer to your question is obvious. I have been familiar with Mr. Spitzer's work ever since I joined the company more than 20 years ago. And Dr. Klimes has also been with Nabaltec for more than two decades. In a way, situations like this are very rare these days: it is not very often that you find people with the commitment to stay at the same company for so long. But that is exactly what Nabaltec tries to encourage and what drives our success, in my view. The company has continued to develop strongly in the past, and my two new colleagues have experienced this development directly. They were a part of this process and they know the company from the ground up.

To me, these two are the ideal choice for the succession of Mr. Witzany, who resigned

"CONTINUITY IS OF GREAT IMPORTANCE FOR NABALTEC AG AND WE KEEP FOLLOWING OUR GOALS."

from the Management Board at the end of 2016 due to age reasons. I am very pleased that the Supervisory Board shares this view, and this was certainly a pleasing development for Mr. Witzany, to whom I would like to once again express my extraordinary thanks for our strong working relationship.

Do you have a particular agenda for your first 100 days, for your first year?

GÜNTHER SPITZER: Continuity is important at Nabaltec AG, and this applies to our goals as well. As a result, we think in long-term cycles and will continue to pursue the strategic alignment which has succeeded until now. Because of this, we are well-positioned for the development in the medium and long term.

DR. MICHAEL KLIMES: Business development is not a question of just a few or just one hundred days. The important thing is and remains maintaining the trust of our customers in our abilities; to this end, as until now, we must continue to critically examine, adapt and to optimize them if necessary. This only works with a long-term strategy and by trusting in our employees and partners. Nabaltec will remain true to this approach.

REPORT OF THE SUPERVISORY BOARD

NABALTEC AG

Dr. Dieter J. Braun

Dr. Leopold von Heimendahl (Chairman of the Supervisory Board)

Prof. Dr.-Ing. Jürgen G. Heinrich

Ladies and Gentlemen,
Dear Shareholders,

Despite the challenging situation at Nashtec, management and employees were able to ensure continued supply of US customers

Financial Year 2016 was a successful year for Nabaltec AG even though it was marked by the uncertain development of environmental factors for the US subsidiary, Nashtec. Faced with this challenging situation, management and employees were able to ensure continued supply and thus retain the US customers. At the same time, a stand-alone solution was developed, in close consultation between the Management and Supervisory Boards, for the secure positioning of Nashtec LLC. We expect this realignment to be implemented in 2017. We will be closely observing this process, as well as all other strategies and measures for exhausting potential in the target markets in the coming year, and we will continue to work intensively to supervise and advise the Management Board in that regard.

The Supervisory Board received comprehensive information from the Management Board

The Supervisory Board duly performed its assigned tasks in Financial Year 2016 in accordance with the law, the Articles of Association and the Rules of Procedure and was routinely informed by the Management Board in detail as to the performance and position of the company. It advised the Management Board in accordance with the underlying information and exercised utmost care in monitoring and supervising the Management Board. The Supervisory Board was involved at an early stage in all decisions of fundamental importance for the company, and was kept fully and directly informed by the Management Board.

Major events, as well as questions relating to strategy, planning, business development, the risk position, risk management and compliance, were considered by the Supervisory Board both on its own and in conjunction with the Management Board. The Supervisory Board voted on the reports and draft resolutions submitted by the Management Board after careful deliberation and review. All transactions requiring approval in Financial Year 2016 were decided positively.

All transactions requiring approval were decided positively

The Supervisory Board of Nabaltec AG expounded on the objectives for composition of the Supervisory Board in 2016, and this addition was published in the Corporate Governance Report.

In the Supervisory Board's estimation, a sufficient number of its members should be considered independent. However, the Supervisory Board reserves the right to approve consulting and employment agreements between individual members of the body and the company if the Management Board and Supervisory Board concur that the conclusion of such an agreement is in the company's interest in that particular case.

In accordance with the German Corporate Governance Code, the Supervisory Board has reviewed the efficiency of its activities and has reached a positive conclusion. The focuses of its review were above all on procedures and the timely and adequate provision of information.

FINANCIAL YEAR 2016

The Supervisory Board once again opted not to form committees in the past financial year. The Supervisory Board of Nabaltec AG consists of three members, and is therefore of suitable size for all matters to be considered and decided by the full Supervisory Board. No conflicts of interest for individual Supervisory Board members arose in the course of deliberations or voting by the Supervisory Board, or in the Board's exercise of its supervisory mandate in the 2016 reporting year.

The Supervisory Board met in four regular sessions: on 14 April 2016, on 30 June 2016 following the Annual General Meeting, on 27 September 2016 and on 15 December 2016. No further sessions were held in 2017 until the Supervisory Board meeting in April, in which the Board votes on adoption of the financial statements. All members were present at all meetings in 2016. The members of the Supervisory Board also deliberated in writing and by telephone, and in ten cases resolutions were approved in writing. Among the Board's decisions were resolutions with regard to the composition of the Management Board, the reappointment of Management Board members and the appointment of new members. Resolutions were also adopted concerning adjustments with respect to the goals for composition of the Supervisory Board and the Rules of Procedure for the Supervisory Board, as well as the purchase of real estate.

The Supervisory Board met in four regular sessions

FOCUS OF DELIBERATIONS

Even outside the Supervisory Board meetings, the Supervisory Board was routinely notified of important events of essential importance for assessing the position, performance and management of the company. The company's current situation, the development of the business position, important transactions and key decisions by the Management Board were also the subject of discussions between the Management Board and the Supervisory Board and were addressed in written reports as well. In particular, the Supervisory Board was notified of market trends, the risk and competitive situation, the development of sales, revenues and earnings and the degree to which projections were met in monthly and quarterly reports. To this end, the Chairman of the Supervisory Board maintained a close and routine exchange of information and thoughts with the Management Board.

The following issues were the subject of particularly intensive consideration by the full Supervisory Board in Financial Year 2016:

- the 2015 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- the composition of the Management Board as of 2016/2017;
- corporate governance, particularly the goals for composition of the Supervisory Board;
- the situation of the US subsidiary Nashtec LLC and the preparation of a stand-alone solution;
- planning for 2017 and mid-term planning through 2019;
- investment and financing planning for 2017–2019.

The goals and realization status of innovative projects, the effectiveness of the risk management system, the accounting process in Nabaltec AG and Nabaltec Group, as well as the monitoring of the internal controlling system were also focuses of the Supervisory Board's work in Financial Year 2016.

The joint 2016 Declaration of Compliance was permanently made available to shareholders on the company's website

On 4 March 2016, the joint 2016 Declaration of Compliance with the German Corporate Governance Code was issued by the Supervisory Board and Management Board and has been permanently made available for shareholders on the company's website, www.nabaltec.de. The recommendations of the German Corporate Governance Code as of 5 May 2015 were the subject of intensive discussion in both bodies. Further information about corporate governance at Nabaltec AG can be found in the Corporate Governance Report on the company's website, www.nabaltec.de, in the Investor Relations/Corporate Governance section.

2016 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, which were prepared in accordance with the German Commercial Code, 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, each for 31 December 2016, and has issued an unqualified auditor's opinion.

The Supervisory Board engaged the auditor in accordance with the resolution of the Annual General Meeting of 30 June 2016. The auditor's independence declaration was obtained by the Supervisory Board in advance pursuant to Section 7.2.1 of the German Corporate Governance Code. No circumstances were evident which established doubts as to the auditor's independence. Moreover, the auditor was obligated to immediately notify the Supervisory Board of circumstances which could establish a bias on its part and to report any services it performed in addition to the audit. The focus of the audit for Financial Year 2016 was set on "capitalization of fixed assets" and "valuation of Nashtec LLC."

All documents relating to the financial statements, as well as the auditor's audit reports, were made available to the Supervisory Board in a timely manner for independent review. These documents and the auditor's report were the subject of intensive consideration at the session of 6 April 2017. The auditor was present at this meeting, reported on the key findings of the audit and was available for further questions. Based on its independent review of the annual financial statements, the consolidated financial statements, the management report and the consolidated management report, the Supervisory Board has raised no objections and adopts the findings of the auditor Deloitte GmbH. The Supervisory Board therefore approved the annual financial statements prepared by the Management Board for Nabaltec AG and Nabaltec Group for 31 December 2016. The annual financial statements of Nabaltec AG are therefore adopted.

The financial statements of 31 December 2016 for Nabaltec AG and Nabaltec Group were reviewed and approved by the Supervisory Board

PERSONNEL CHANGES IN THE MANAGEMENT BOARD

Mr. Gerhard Witzany, a member of the Nabaltec AG Management Board, resigned from the Management Board on 31 December 2016 for reasons of age, while the term of the long-serving Management Board member Mr. Johannes Heckmann was extended by five years, through 24 August 2021. Mr. Heckmann was also named Chief Executive Officer (CEO) effective 1 January 2017. Also on 1 January 2017, two longtime employees of Nabaltec AG were appointed by the Supervisory Board to five-year terms on the Management Board: Mr. Günther Spitzer, who will serve as Chief Financial Officer (CFO), and Dr. Michael Klimes as Chief Operating Officer (COO).

Johannes Heckmann assumes the position of Chairman of the Management Board; Günther Spitzer and Dr. Michael Klimes joined the Management Board on 1 January 2017

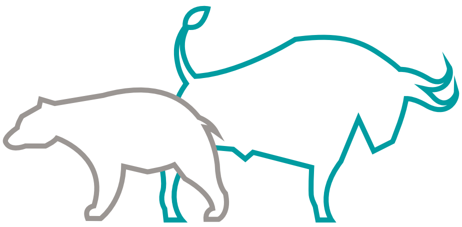
The Supervisory Board would like to thank the Management Board and all the employees for their consistently strong, trusting and constructive collaboration, for the work they performed and for their special commitment last year, and looks forward with confidence to the company's development in the future.

Schwandorf, 6 April 2017

v. Heimendahl

DR. LEOPOLD VON HEIMENDAHL
Chairman of the Supervisory Board

NABALTEC SHARE
THE STOCK MARKET 2016



ISIN/WKN: DE000A0KPPR7/A0K PPR
Since 24 November 2006 the Nabaltec share has been listed in the Open Market division of the Frankfurt Stock Exchange (in the Entry Standard segment up to and including February 2017, and in the Scale segment as of March 2017).

NABALTEC SHARE ON THE CAPITAL MARKET

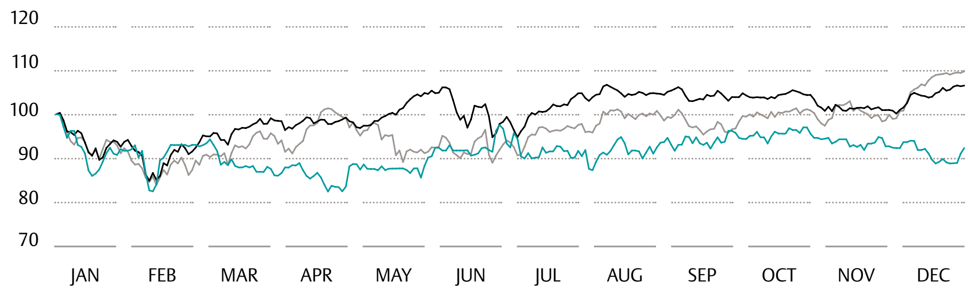
Performance of Nabaltec share was largely stable in 2016

In a year in which a considerable amount of uncertainty prevailed with regard to the future of its US subsidiary, Nashtec, and in which Nabaltec AG refrained from issuing a quantified revenue and earnings forecast, Nabaltec AG's share price nevertheless remained largely stable. While the share was unable to match its 2015 performance, with a closing price of EUR 14.39, down around 10% from the year before, this performance should be seen in light of the uncertain environment in 2016, and positive performance should return in 2017 once the situation in the US is clarified and as investors begin to focus more clearly on future revenues and earnings.

The trend in the comparison index, the SDAX, was very similar: although the SDAX finished the year up 4.6% from the year before, it too was unable to repeat its very strong performance last year, when the index was up by about 27%. The specialty chemicals index was up slightly on the year, by 5.3%.

The share price reached its high for the year, EUR 15.60, at the very beginning of the year, on 4 January 2016, and then remained steady in the following months, with slight breakouts higher and lower. The share price reached its lowest value of the reporting period in the first quarter, falling to EUR 12.85 on 10 February 2016. The price fell back down to EUR 12.85 on 21 and 27 April 2016. The share price began to gradually recover towards the end of the second quarter, and by the beginning of December, it was trading in a relatively strong range between EUR 14.00 and EUR 15.00. Its average price for the year was EUR 14.23.

PERFORMANCE OF THE NABALTEC SHARE 2016 (XETRA, INDEXED)



Nabaltec AG's market capitalization was EUR 115.12 million at the end of 2016, compared to EUR 128.16 million as of 31 December 2015.

KEY DATA FOR THE NABALTEC SHARE (XETRA)

	2016	2015
Number of shares	8,000,000	8,000,000
Market capitalization (cutoff date, in EUR million)	115.12	128.16
Average price (in EUR)	14.23	15.59
High (in EUR)	15.60	18.43
Low (in EUR)	12.85	12.04
Closing price (cutoff date, in EUR)	14.39	16.02
Average daily turnover (in shares)	1,923	4,013
Earnings per share* (in EUR)	0.67	0.84

* *after non-controlling interests*

TRADING VOLUME

The Nabaltec share's average XETRA daily trading volume was 1,923 shares in 2016, lower than last year's daily trading volume of 4,013 shares. A total of about 0.5 million shares were traded on XETRA in the reporting year, representing around one sixth of the free float shares. Since it was first listed, the liquidity of the Nabaltec share has been reinforced by a voluntary commitment from a designated sponsor. Since 2013, this function has been performed by Baader Bank Aktiengesellschaft and ODDO SEYDLER BANK AG.

Liquidity of the shares supported by two designated sponsors

EARNINGS PER SHARE

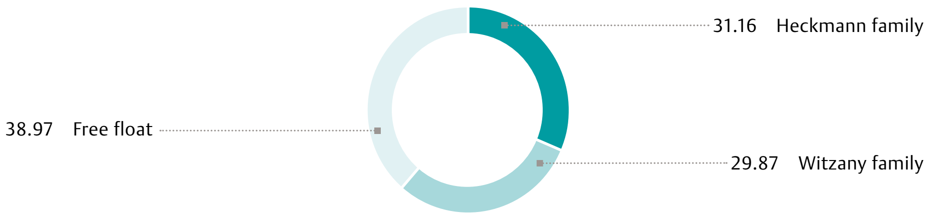
Earnings per share (EPS) were EUR 0.67 in 2016 (after non-controlling interests), compared to EUR 0.84 the year before. Nabaltec AG calculates earnings per share based on the average number of shares in circulation, in accordance with IAS 33. There was no dilution in 2016.

Earnings per share at EUR 0.67 in 2016

SHAREHOLDER STRUCTURE

The majority of Nabaltec's 8,000,000 shares continue to be held by the Heckmann and Witzany families. As of the cutoff date, the Heckmann family held 31.16% of the company's capital stock and the Witzany family held 29.87%. The residual shares are in free float.

SHAREHOLDER STRUCTURE (IN %)



ANALYSTS' RECOMMENDATIONS

Analyst recommendations in 2016 were consistently positive

Hauck & Aufhäuser has been following the Nabaltec share with research reports consistently since 2011, and published seven studies and updates last year. Hauck & Aufhäuser issued a "buy" recommendation in each of its analyses and set a price target of EUR 23.50 in its last study of the year 2016, on 30 November.

Baader Bank Aktiengesellschaft has been reporting on Nabaltec routinely since 2013 and published eleven studies on the share in the reporting year. In its first study of 2016, the study of 18 January 2016, it issued a "hold" recommendation with a price target of EUR 17.50, and its other analyses rated the share a "buy." Its final update of 2016 was published on 30 November 2016 and set a price target of EUR 15.90.

Recommendations of Nabaltec share can be found online in the Investor Relations section of www.nabaltec.de, under Analysts' Recommendations.

CAPITAL MARKET COMMUNICATIONS

Nabaltec AG has continuously exceeded prescribed minimum reporting standards ever since its IPO 10 years ago

On 24 November 2016, Nabaltec celebrated the 10th anniversary of its IPO. Over that time, in which it was traded in the Open Market division of Deutsche Börse AG (in the Entry Standard segment up to and including February 2017 and in the Scale segment as of March 2017), the company has kept its investors constantly informed, exceeding the prescribed minimum standards. Examples include quarterly reporting in accordance with IFRS in German and in English, a voluntary commitment to observe a four-month period for publication of its annual report and coverage through routine analyst reports. In addition, Nabaltec AG voluntarily complies with the specifications of the German Corporate Governance Code.

Nabaltec AG continued its intensive investor relations activities in Financial Year 2016. It took part in several investor and analyst conferences and was represented at road shows in Germany as well as at various investor conferences, such as DVFA Spring Conference, held in May 2016 in Frankfurt am Main.

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

Nabaltec AG's 2015 Annual Report received the Bronze Award in the "Chemicals" category from the League of American Communications Professionals (LACP) in the international "2015 Vision Award – Annual Report Competition." This renowned award in international financial reporting recognizes the quality of Nabaltec AG's capital market communication. Nearly 1,000 applicants from 25 countries took part in the competition.

The LACP Award recognizes Nabaltec AG's outstanding capital market communications

On the company's website, www.nabaltec.de, investors can find all the information they need about the Nabaltec share (in the Investor Relations section) as well as additional information about the company.

BASIC DATA FOR THE NABALTEC SHARE

ISIN (International Security Identification Number)	DE000A0KPPR7
Share symbol	NTG
Stock exchanges	Frankfurt (Open Market), over the counter in Berlin, Düsseldorf, Munich, Stuttgart
Sector	Industrial
Industry group	Products & Services
Index membership (31 December 2016)	Entry Standard, Entry All Share, DAXsector All Industrial, DAXsubsector All Industrial Products & Services

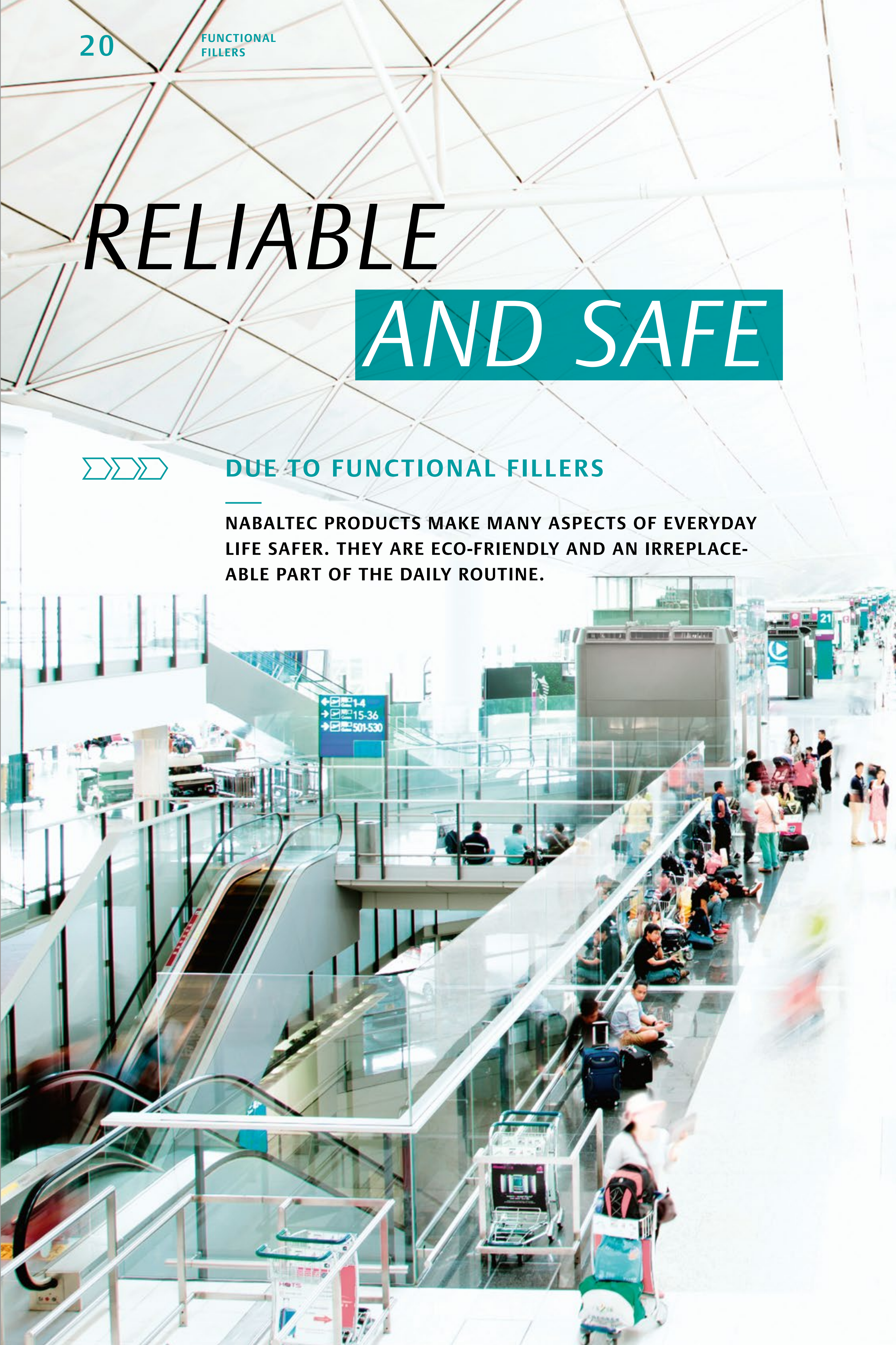
Contact Investor Relations:

Phone: +49 9431 53-202
Fax: +49 9431 53-260
E-mail: InvestorRelations@nabaltec.de

RELIABLE AND SAFE

DUE TO FUNCTIONAL FILLERS

NABALTEC PRODUCTS MAKE MANY ASPECTS OF EVERYDAY LIFE SAFER. THEY ARE ECO-FRIENDLY AND AN IRREPLACEABLE PART OF THE DAILY ROUTINE.



REVENUE SHARES WITHIN THE SEGMENTS

CONSTRUCTION
e.g. power cables, insulation, plastic profiles
57%

CHEMICALS
e.g. additives and fillers, catalysis (FCC), thermosets
17%

E&E
e.g. data and signal cables, insulating parts and PCBs, batteries
17%

TRANSPORTATION
e.g. interior, rubber elements
8%

OTHER
e.g. pigments for colors and varnishes, paper applications
1%

RESILIENT AND REFRAC

FOR TECHNICAL CERAMICS

NABALTEC PRODUCTS ARE HIGHLY SPECIALIZED RAW MATERIALS FOR APPLICATIONS UNDER EXTREME PRESSURE.

TORY

REVENUE SHARES WITHIN THE SEGMENTS

REFRACTORIES
e.g. furnace linings
47%

CHEMICALS
e.g. polishing agents, catalysis (automotive)
14%

CERAMICS
e.g. tiles, glazes, seals, kiln rollers
16%

E&E
e.g. high-voltage insulators
7%

MECHANICAL ENGINEERING
e.g. engineering ceramic components, wear protection
4%

DEFENSE TECHNOLOGY
e.g. ballistic protection
2%

OTHER
e.g. automotive, friction linings
10%

CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2016

OUR EXPORT SHARE

73.3%

2016

72.3%

2015

NABALTEC AG
CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2016

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE GROUP'S BUSINESS MODEL

BUSINESS OPERATIONS

Environmentally friendly and highly specialized products

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 production capacity entails approximately 250,000 tons per annum (t.p.a.) with an export share of over 70%.

The range of applications of Nabaltec products is highly diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment
- fillers and additives, e.g. flame retardants used in the electronics industry
- 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

Outstanding growth prospects for Nabaltec products

Whenever applications require a high degree of quality, safety, environmental friendliness and product duration, Nabaltec products are always preferred. It is the combination of these important characteristics that guarantee Nabaltec products outstanding growth prospects. Particularly in the area of functional fillers, non-halogenated flame retardants, such as Nabaltec products, are increasingly replacing heavy metal containing plumbiferous, and thus environmentally hazardous, fillers. The main drivers are the globally increased environmental consciousness, comprehensive international and national regulations and the industry's self-imposed obligations. Flame protection 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. In order to benefit from this trend disproportionately high and to gain market leadership within this segment, we have expanded our production capacity for ATH-based flame-retardant fillers specifically. Today, Nabaltec is one of the world's leading suppliers in this area.

Nabaltec has fine precipitated aluminum hydroxide production sites in the two most important demand-driven markets in Europe and the US. This permits Nabaltec to produce cost-efficiently in customer proximity and, therefore, to serve the most significant markets directly. However, production at the Corpus Christi site in the US was temporarily halted at the end of August 2016 due to the fact that the raw materials supplier, Sherwin Alumina, was compelled to discontinue operations because of a Chapter 11 bankruptcy procedure. Its customers have been supplied from Germany ever since.

Also within the business division "Technical Ceramics," Nabaltec products have excellent growth potential thanks to a wide range of applications and relevant target markets. In the ceramic raw materials segment, the market for reactive aluminum oxide is developing over proportionally well due to increasing refractory industry requirements. Markets for technical ceramics and the abrasive industry also continue showing solid growth.

The market for reactive aluminum oxide is developing over-proportionally well

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

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, the company was transformed into a stock corporation and has been listed in the Open Market (Entry Standard) segment of the Frankfurt stock exchange since November 2006. Since March 2017 they are included in the new market segment "Scale."

Nabaltec AG holds a 51% interest in Nashtec LLC (USA). Its partner, Allied Alumina LLC, holds a 49% interest (as of 31 December 2016). In the past, Nashtec LLC purchased key raw materials, particularly the aluminum hydroxide required for the production of APYRAL®, from Sherwin Alumina LLC, a wholly-owned subsidiary of Allied Alumina LLC. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code ("Chapter 11 procedure") with the United States Federal Bankruptcy Court in Corpus Christi, Texas, USA. Sherwin Alumina has discontinued operations because of the Chapter 11 procedure and Nabaltec AG's US subsidiary Nashtec was forced to halt production at the end of August 2016. Since then, customers which had previously been supplied by Nashtec have been receiving their products from Germany. Nabaltec AG's goal is to continue to operate Nashtec based on a stand-alone solution. However, that has no effect on the qualification of Nashtec LLC as a subsidiary of Nabaltec AG.

In the first quarter of 2016, Nabaltec established a wholly-owned subsidiary, Nabaltec Asia Pacific K.K., based in Tokyo, Japan, which will market and distribute Nabaltec AG's entire portfolio of products.

Nabaltec Asia Pacific K.K. is not included in Nabaltec AG's consolidated financial statements, but is instead recognized at the cost of the shares, since it is not material for Nabaltec AG's financial, earnings and liquidity position.

Nabaltec AG did not have any other participations or subsidiaries as at 31 December 2016.

Reflecting the characteristics of the target and buyers' markets, Nabaltec AG's operations are divided into two divisions, each in turn comprising of market segments and business units.

Nabaltec AG divides its operations into two business divisions

In addition, the company operates four service departments as profit and cost centers. The company's divisions will undergo a partial reorganization in Financial Year 2017.

With the market segment "Environmental Engineering," Nabaltec concentrates on the development of new raw materials for energy storage, electro mobility and catalysis.

BUSINESS DIVISIONS

Functional Fillers:
- Flame Retardants
- Additives
- Environmental Technique

Technical Ceramics:
- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS
- Administrative Services
- Controlling/Finance
- Technical Services
- Laboratory Services

1.2 OBJECTIVES AND STRATEGIES

For the further development of the company, Nabaltec AG focuses on the following objectives and core strategic areas:

1. QUALITY LEADERSHIP AND A MARKET SHARE AMONG THE RESPECTIVE TOP THREE SUPPLIERS IN THE TARGET MARKETS

Nabaltec is one of the leading suppliers of flame-retardant fillers

Fire safety concerns within the plastics and cable & wire industry will continue growing in the years to come, which is supported by recent market research results by, among others, Roskill and Freedonia. Halogenated flame-retardant fillers will increasingly be replaced by non-halogenated fillers. In order to benefit from this trend disproportionately and to gain market leadership within this segment, we have specifically expanded our production capacity for ATH-based flame-retardant fillers. Today, Nabaltec is already 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 quality requirements. Markets for technical ceramics and the abrasives industry also continue to show solid growth. Nabaltec responds to this growth by expanding its marketing activities.

We are already market-leader in aluminum-oxide based readily available ceramic bodies for highly specialized applications in technical ceramics, due to, among others, the state-of-the-art production facility for granulated ceramic bodies in Schwandorf.

2. STRATEGIC POSITIONING WITHIN GROWTH MARKETS

Environmentally friendly, non-toxic and highly safe products and processing solutions are globally advancing forward encouraged particularly by regulatory requirements or self-imposed commitments from the industry. With an export share of around 70%, we already profit from these worldwide trends. The aim of being one of the world's top three suppliers in our own target markets goes hand in hand with the aim of being equally well represented across all global markets.

3. OPTIMIZING CUSTOMER BENEFITS BY CONTINUOUSLY IMPROVING PRODUCTION PROCESSES AND PRODUCT QUALITY

Product and process development are continuously optimized

Through our constant exchange with our customers, the company's product and process development activities are continuously optimized and directed toward specific customer requirements. This does not only result in processing advantages for the customer, such as a simpler and faster fabrication, but rather also in cost advantages for Nabaltec, due to lower production and development costs. Therefore, Nabaltec continuously invests in its own testing facility as well as in internal research and development departments, and the company has been collaborating with various research institutions for years.

Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both aspects 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.

4. SYSTEMATIC EXPANSION OF OUR PRODUCT RANGE

Nabaltec develops its own product portfolio along three dimensions:

- through development of new products, often in close collaboration with key customers; examples include boehmites and abrasive oxides
- through focused quality development of existent products that meet specific customer requirements
- through further development of existing products for entirely new applications

Thanks to our own testing facility, Nabaltec is optimally equipped for development activities and sample production of up to several hundred tons and for new product launches.

5. FLEXIBLE AND QUICK ADAPTION OF CAPACITIES AND COST STRUCTURES THANKS TO HIGH-RESOLUTION CONTROLLING PROCESSES

Nabaltec pursues a margin-oriented capacity policy

Nabaltec pursues a margin-oriented capacity policy. Fluctuations in demand and changes in batch size have to be taken into account as soon as possible if production processes are to remain profitable, since production processes in specialty chemistry cannot be varied without inherent delays. Therefore, Nabaltec has developed a fast-acting and highly differentiated controlling system, so that it has at its disposal the appropriate instruments so as to align costs to a large extent with fluctuations in demand and batch size.

6. SECURING FUTURE INVESTMENTS THROUGH A STRONG FINANCIAL BASE

In order to take full advantage of the market potential relating to both business divisions, further investments are necessary. This investment activity is at the same time a high market entry barrier for potential new suppliers. In order to ensure that the required investment capital will be available, Nabaltec relies on a financing base consisting of shareholders' equity, loans against borrower's notes and subsidies.

1.3 CONTROLLING

Incentive scheme defines responsibilities

Nabaltec AG has implemented a company-wide incentive scheme, assigning responsibilities and defining specific objectives even for the smallest units of the company. Comprehensive earnings, cost and performance forecasts facilitate analysis for achievement of the company's objectives. Variance analyses are available online, indicating a need for action at an early stage and promoting the process of agreement on targets. Comparisons of estimates against results are conducted on a monthly basis for all cost centers and cost units.

Since 1998, "Navision" ERP software has been used in all commercial departments. All cost accounting at Nabaltec, including earnings statements, have been presented based on the "macs" controlling software since 2003. Revenues, contribution margins, EBIT, ROCE, ROI, amortization terms and cash flows are the key control parameters which are used as a basis for business management decisions.

1.4 BASIS OF THE REMUNERATION SYSTEM FOR THE GOVERNING BODIES

The remuneration of the Management and Supervisory Board members is explained in greater detail in the Group notes.

MANAGEMENT BOARD

The Management Board agreements were revised on 19 June 2016 by resolution of the Supervisory Board. The remuneration for the Management Board members includes fixed and variable components; the latter are based on annual business performance on a recurring basis and are capped relative to the member's fixed annual salary. This remuneration covers all activities of the individual Management Board members for the company and its subsidiaries and holdings.

Variable compensation system for the Management Board

The assessment basis for variable compensation is calculated as follows: each Management Board member receives a profit share equal to 4% of the amount by which pre-tax consolidated net income in accordance with IFRS, adjusted for non-controlling interests and subtracting losses carried forward from the year before, exceeds 8.33 times the member's fixed salary (up to and including 24 August 2016), or EUR 4.2 million (as of 25 August 2016). Variable compensation is capped at 100% of the fixed annual salary.

As a part of the fixed compensation component, the company provides Management Board members with ancillary benefits in addition to the fixed salary, such as use of a company car, accident insurance, health and long-term care insurance subsidies which conform to the statutory rules for employees and continued payment of wages for a limited time in case of illness and death. Management Board members also receive a pension upon retirement amounting to 67% of their last fixed gross salary, and surviving spouses are entitled to up to 75% of the pension as a widow's pension.

Management Board members are covered by a D&O insurance policy with an insured sum of EUR 17.5 million, with a deductible amounting to 10% of the claim, as required by law, up to one and half times the amount of their fixed annual compensation.

SUPERVISORY BOARD

Remuneration of Supervisory Board members was last revised by resolution of the shareholders at the general meeting of 21 June 2012. Remuneration is comprised of a fixed salary in the amount of EUR 10,000.00 a year and an attendance fee of EUR 1,000.00 per meeting of the Supervisory Board, with the chairman of the Supervisory Board receiving 1.5 fold of the aforementioned amounts. If the term of a Supervisory Board member begins or ends over the course of a financial year, the member is entitled to fixed remuneration for that year on a prorated basis.

In the interest of the company, the members of the Supervisory Board are covered by a D&O insurance policy, which has been taken out by the company, with an insured sum of up to EUR 17.5 million, and with no deductible for the insured Supervisory Board members. Insurance premiums are paid by the company.

1.5 RESEARCH AND DEVELOPMENT

R&D activities play a central role for the company

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. A key element of the research and development strategy is close collaboration and joint development efforts with customers. In all our business divisions, the focus is on providing customers with an optimal product and helping them achieve a competitive advantage. As a leading supplier of highly specialized products, Nabaltec considers research and development to be one of its central core competencies.

Close collaboration with customers is a common thread for all business divisions and processes. Application-oriented sales allows us to identify specific customer requirements at an early stage and incorporate them as soon as possible into development work. This is true both for the optimization of established products and for the development of new products. Thanks to the strong technical training and expertise of its sales employees, Nabaltec is in a position to quickly identify new trends in established markets and to identify new markets as well.

Optimizing production processes for energy and resource efficiency

In order to ensure continued success in a global market, the optimization of production processes is also a high priority for R&D work. Efficient use of energy and resources are the key drivers in this regard.

Our historically grown, in-house expertise which has been built up over the years is supplemented in meaningful fashion through joint projects with universities, public and private institutions and research and technology companies. Research partners currently include RWTH Aachen University, the Fraunhofer Institute for Structural Durability, Plastics Division, in Darmstadt, the Sächsische Textilforschungsinstitut e.V., a textile research institution, the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the Forschungsinstitut für anorganische Werkstoffe -Glas/Keramik- GmbH, a research institute for inorganic materials in Höhr-Grenzhausen, the Fraunhofer Institute for Silicate Research in Würzburg, the German Institute for Refractories and Ceramics (Deutsche Institut für Feuerfest und Keramik GmbH) in Höhr-Grenzhausen as well as Forschungsgemeinschaft Feuerfest, a refractory products research association, in Höhr-Grenzhausen. Nabaltec's innovativeness is also supported by participation in various projects of the AiF (the German Federation of Industrial Research Associations) and the BMWi (Federal Ministry of Economics and Technology) in both of our business divisions.

International prizes and awards for innovativeness

An expression of Nabaltec's strong commitment to research and development is its receipt of various national and international awards and distinctions for innovativeness. For example, Nabaltec AG has been recognized as one of the 100 most innovative mid-sized German companies nine times and has received awards for innovativeness in multiple areas.

Currently, the focus of Nabaltec's research and development activities is above all on improving and refining existing products and processes. The requirements are defined by customer and market demands, which are constantly changing. These requirements must be met at all times, while at the same time supplementing and extending our product range in target markets.

Our focus in this regard is on constantly improving quality and on identifying and exploiting new applications.

The following subjects were at the center of R&D activities for the business division "Functional Fillers" in the 2016 reporting year:

Minerals-based flame retardants continue to be a key growth market

Mineral-based flame retardants continue to represent a key growth market for Nabaltec's innovative and eco-friendly products. The trend towards the replacement of halogenated flame retardants with non-halogenated flame retardants continued to ensure growth in 2016. Additional growth came from the implementation of the CPR (Construction Products Regulation) within the EU. These new EU-wide rules create new applications for Nabaltec's mineral-based products which were formerly inaccessible. The steady exploitation of these new applications, in some cases resulting in the development of new products, was of central significance in the reporting year. In particular, the strong attention paid in the CPR to the issues of "flue gas development" and "flue gas corrosiveness" have been key drivers for the development of new uses and applications.

Development and marketing of new materials for alternative energy storage and electric mobility

Efforts to optimize and market our new raw materials for alternative energy storage and electric vehicles continued steadily in 2016. For the extension of our activities in connection with the catalysis and the adsorbents industry, the focus is now on the development of processes for large-scale production. This is another reason why Nabaltec AG decided to move its pilot plant from Kelheim to Schwandorf. Concentrating product and process development in a single location will cut development time and the lessons learned in this regard can be more quickly applied towards large-scale production.

The business division "Technical Ceramics" was focused on the following developments in the reporting year:

A focus of development activities in the NABALOX® product segment in 2016 was on steady improvements to abrasives which are already established in the market. Particular attention was also given to the development of new softly calcined aluminum hydroxides, for use primarily with high-quality abrasives. As the marketing of these products continued to progress, and amid a wide variety of feedback and suggestions from our customers and development partners, development continued in 2016, and additional customer-specific products were developed.

Reactive aluminum oxides are used mainly in the refractory industry

Nabaltec's reactive aluminum oxides are currently used primarily in the refractory industry, where the products already contribute significantly toward the production of higher performance monolithic and shaped products. This product segment is also characterized by intensive collaboration with our customers, resulting in constant efforts to develop new products and improve existing ones.

In the course of development work, a new product family was developed in 2014. As a result of market feedback and our aim to continuously work on new products and to optimize and adapt existing products, the product portfolio for this product line was successfully expanded in 2016.

With regard to the patented NABACAST® product group, further products have been developed and presented to customers. In the course of ongoing development work, new potential applications have come to light which led to the development of additional products within the product group.

In very close cooperation with our customers, specific developments were again carried out for our customers in the area of the GRANALOX® product range. As a result of that intensive cooperation, a variety of product variants adapted to customer requirements were developed and successfully delivered.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

Global production was up 3.1% in 2016

Global economic growth was modest in 2016, on the whole, although the pace of growth picked up somewhat after mid-year. According to data from the Kiel Institute for the World Economy (IfW), the global economy expanded at a rate of 3.1% in 2016. Production growth accelerated in the summer, particularly in the industrialized economies. US production increased noticeably in the third quarter of 2016 and US gross domestic product (GDP) was up 0.8 percent for the quarter.

The modest economic expansion in the Euro zone in 2016 came in spite of a slightly negative contribution from foreign trade. On the whole, IfW estimates European GDP growth at 1.7% in its January 2017 report, down from 1.9% in 2015. Economic growth in the Euro zone was broad-based from a regional perspective, as all countries in the zone reported growth in 2016.

Expansive monetary policies, increasing fiscal stimulus measures and a gradual acceleration in wage growth are continuing to have an impact on the economy in industrialized countries. In emerging economies as well, the overall situation improved: for example, the Chinese economy expanded at a much faster rate in the summer and the pace of decline in Russian production slowed down noticeably.

German economy characterized by solid and steady growth in 2016

In 2016 as well, the economic situation in Germany was characterized by solid and steady economic growth. The inflation-adjusted gross domestic product (GDP) in 2016 was up 1.9% from the year before, according to preliminary estimates from the Federal Statistical Office. GDP growth in the previous two years was in a similar range: 1.7% in 2015 and 1.6% in 2014. German GDP growth in 2016 exceeded the ten-year average (+1.4%) by half a percent. The "World Economic Outlook," issued in January by the International Monetary Fund, estimates German GDP growth at 1.7%.

As was the case in the year before, the key growth driver for the German economy in 2016 was domestic consumption, which was up 2.5%. This was in addition to 3.1% growth in investments, driven in particular by domestic housing construction. Investments in machinery, vehicles and other equipment were also higher (+1.7%). The net contribution of foreign trade, expressed as the difference between exports and imports, had a slightly negative impact on GDP of 0.1 percentage points in 2016.

2.1.2 INDUSTRY DEVELOPMENT

The year 2016 was a difficult one for the German chemical industry. Production was up by a minimal amount (up 0.5%), but industry revenues were down to EUR 183 billion as prices fell by 3%. Investments remained stable at a high level, EUR 7.1 billion, and employment and capacity utilization did as well (Source: VCI – Verband der Chemischen Industrie e.V.). Domestic revenues were down 4% from the year before, to EUR 71.5 billion, as chemicals orders from other industrial sectors were down sharply. Foreign business was slightly better, with revenues down 2.5% from the year before, to EUR 111.5 billion.

The long-term trend of increasing demand remains intact

The long-term trend of increasing demand for non-halogenated, flame-retardant fillers, and particularly aluminum hydroxide, remains intact. Independent forecasts expect worldwide demand to grow at a rate of 4.4% per year through 2023 (ATH-based; Source: Freedonia). Market growth is stimulated above all by the growing public awareness as to the need for fire safety as well as the ongoing replacement of potentially hazardous flame retardants with eco-friendly, halogen-free aluminum hydroxide. This trend has had a particularly positive effect on the fine precipitated aluminum hydroxide product segment.

Nabaltec's 2016 results improved upon its very strong performance in the previous year in all four quarters. The long-term prospects for boehmite, with its diverse array of applications, also remain strong in the estimation of Nabaltec AG.

In the specialty oxide and reactive aluminum oxide segments, the refractory market is shaped by demand within the steel industry, which found itself in a difficult position on the whole in 2016. Nabaltec was able to counteract the continuingly weak demand in the steel industry through industry diversification. But market experts continue to expect an annual growth rate of around 4% for refractory products and technical ceramics through 2021 (Source: Roskill).

2.2 COURSE OF BUSINESS

Nabaltec was able to continue its very strong performance from the year before in 2016

Nabaltec AG's successful performance in the year before carried over into last year, as revenues in each quarter were up from the year before. On the year, consolidated revenues were EUR 159.2 million, up 5.2% from the year before (2015: EUR 151.3 million). Both business divisions contributed to the revenue growth in 2016. Revenues in the business division "Functional Fillers" were EUR 109.1 million in 2016, up 6.6% from the year before (EUR 102.3 million), while revenues in the business division "Technical Ceramics" were up 2.0%, to EUR 50.1 million (2015: EUR 49.1 million).

This very strong and stable growth could not be realized to the same extent on the earnings side due to extraordinary effects in connection with the US subsidiary Nashtec, as well as an increase in pension reserves. The EBIT margin (EBIT as a percentage of total performance) was 7.7%, down from 9.5% in the same period of the year before.

Because of the extraordinary developments for Nabaltec AG at the beginning of the year 2016, the company did not issue any quantitative forecasts in last year's report for the reporting period. The forecasts for investment and financing activities were met in 2016.

2.3 OVERVIEW OF THE COURSE OF BUSINESS

2.3.1 RESULTS FROM OPERATIONS

Nabaltec Group reported EUR 159.2 million in revenues in financial year 2016, for a strong 5.2% gain over the year before (2015: EUR 151.3 million). The key sales driver in the reporting period was the fine hydroxide product segment, where sales were up 9.5% over the year before. Sales volume over all divisions was up 5.8%, while the export ratio increased to 73.3% from 72.3% in 2015.

All four quarters equally contributed to the good sales development

All four quarters contributed equally to the strong revenue growth. Revenues in the first quarter of 2016 were EUR 41.2 million, even higher than the very strong result posted in the same quarter of the year before. Second-quarter revenues were EUR 42.8 million, up from the year before as well as from the previous quarter. Revenues in the second half of the year were also up from 2015, with EUR 38.4 million in the third quarter and EUR 36.9 million in the fourth quarter.

Incoming orders amounted to EUR 170.5 million over the year as a whole, up 10.0% from the year before. Nabaltec ended 2016 with orders on hand of EUR 37.1 million, compared to EUR 25.9 million in the previous year. This change can be ascribed in particular to slightly longer delivery times for fine hydroxides due to the temporary shift of production from the US to Schwandorf, while demand and capacity utilization remained strong.

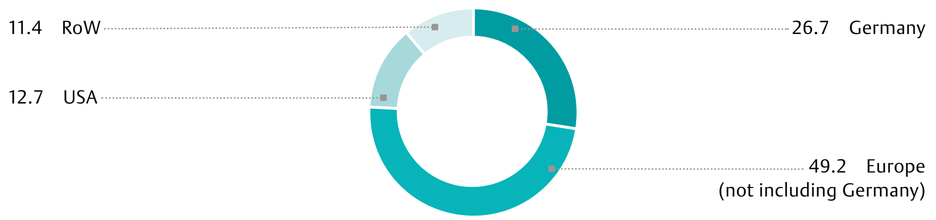
The business division “Functional Fillers” posted EUR 109.1 million in revenues in financial year 2016, up 6.6% from the year before, when revenues were EUR 102.3 million. This growth was driven primarily by an increase in volume, while the distribution among high value-added segments remained stable. The effect of the temporary loss of fine hydroxide production in the US was cancelled out entirely in terms of sales volume and revenues. The relatively new boehmite product segment posted strong 68.8% revenue growth, although volume is still low in absolute terms.

The US subsidiary Nashtec experienced disruptions in 2016 as a result of Sherwin Alumina LLC’s Chapter 11 bankruptcy procedure, with the temporary work stoppage and the shifting of production to Schwandorf. In 2017 Nabaltec AG is continuing to work on a stand-alone solution so that Nashtec will be able to resume operations (cf. supplemental report in the Consolidated Notes).

Due primarily to an increase in sales volume, particularly in the reactive alumina product segment, revenues in the business division “Technical Ceramics” reached EUR 50.1 million, up from EUR 49.1 million in the year before, for a gain of 2.0%.

REVENUE BY BUSINESS DIVISION IN 2016 (IN EUR MILLION)

REVENUE BY REGION IN 2016 (IN %)



Total performance was up 4.1% in 2016

Nabaltec Group's total performance was up 4.1% in 2016, from EUR 153.3 million to EUR 159.6 million. This growth was slightly more modest than the growth in revenues, a circumstance which is attributable to the decrease in inventories of finished and unfinished goods, particularly due to developments in the US. Own work capitalized amounted to EUR 0.7 million.

Other operating income, amounting to EUR 2.2 million, is attributable primarily to exchange rate gains and other income from services and deliveries to third parties. Other operating income was down EUR 0.6 million from the year before, due above all to a decrease in gains from the EUR/USD exchange rate relative to the year before.

OPERATING EXPENSE RATIOS AS A PERCENTAGE OF TOTAL PERFORMANCE (IN %)

	2016	2015
Cost of materials	50.7	52.4
Personnel expenses	19.9	17.5
Other operating expenses	16.4	15.9

Gross profit up from year before, to EUR 5.0 million

The cost of materials ratio (cost of materials as a percentage of total performance) decreased slightly, to 50.7% (2015: 52.4%). The gross earnings ratio (gross earnings as a percentage of total performance) increased slightly in 2016, from 49.4% to 50.6%. In absolute terms, gross earnings amounted to EUR 80.8 million, up EUR 5.0 million from last year's value of EUR 75.8 million.

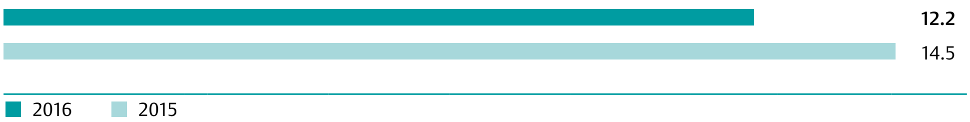
The personnel-expenses ratio (personnel expenses as a percentage of total performance) increased from 17.5% last year to 19.9% in 2016. This was attributable to an increase in pension commitments, higher collective wages and the increase in the number of Group employees from 444 on 31 December 2015 to 460 on 31 December 2016.

Other operating expenses increased from EUR 24.3 million to EUR 26.2 million, due primarily to higher freight costs, higher sales commissions and the expansion of sales activities in Asia and the US. The ratio of other operating expenses to total performance was up from 15.9% last year to 16.4%. The ratios for the key expense categories were largely even with the year before.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were down 7.3%, from EUR 24.7 million to EUR 22.9 million.

Adjusting for EUR 10.7 million in depreciation and amortization in 2016, Nabaltec's operating profit (EBIT) came to EUR 12.2 million, compared to EUR 14.5 million in the year before. The slightly diminished earnings power is attributable above all to extraordinary effects in connection with the temporary plant closure at Nashtec in the US and the associated need to supply customers from the Schwandorf site, as well as to the increase in pension reserves.

EBIT (IN EUR MILLION)



EBT was EUR 9.2 million in 2016

Earnings before taxes (EBT) amounted to EUR 9.2 million in the reporting year (2015: EUR 10.9 million). This includes net interest income of EUR –3.1 million in 2016, with EUR 3.3 million in interest expenses and EUR 0.3 million in interest income. In the previous year, net interest income was EUR –3.7 million. The improvement is due in particular to a reduction in interest expenses due to the complete amortization of all bilateral bank loans in 2016.

Tax expenses came to EUR 3.9 million in 2016 (2015: EUR 3.4 million) and include EUR 0.6 million in deferred taxes (2015: EUR 0.9 million).

Consolidated earnings after adjusting for non-controlling interests came to EUR 5.3 million last year, compared to EUR 6.7 million the year before. Earnings per share fell from EUR 0.84 in 2015 to EUR 0.67 in the reporting year.

Segment Report: Developments Within the Business Divisions

FUNCTIONAL FILLERS (IN EUR MILLION)

	2016	2015
Revenues	109.1	102.3
EBITDA	17.3	17.8
EBIT	9.6	10.5
Investments	13.7	9.3

The underlying market drivers for Nabaltec products were fully intact in 2016

Revenues in the business division “Functional Fillers” were up 6.6% in 2016. The fundamental market drivers for Nabaltec products remained intact in 2016 and offer excellent prospects for the future. Non-halogenated flame retardant fillers remain on the rise worldwide due to their eco-friendly nature and are increasingly displacing the halogenated alternatives which were formerly in use.

REVENUE BUSINESS DIVISION “FUNCTIONAL FILLERS” PER QUARTER (IN EUR MILLION)

Based on EBITDA the business division "Functional Fillers" decreased slightly in the reporting period, by 2.8%, from EUR 17.8 million to EUR 17.3 million.

Business division "Functional Fillers" was the focus of investments in 2016

The business division "Functional Fillers" was the focus of investments within Nabaltec Group in 2016, accounting for around 73% of total investments, which were made primarily in optimizing production processes, improving infrastructure and replacement investments.

TECHNICAL CERAMICS (IN EUR MILLION)

	2016	2015
Revenues	50.1	49.1
EBITDA	5.6	6.9
EBIT	2.6	4.1
Investments	5.3	3.7

Revenues in the business division "Technical Ceramics" increased by 2.0% in the reporting year, from EUR 49.1 million to EUR 50.1 million. This change was due above all to a slight increase in sales volume.

REVENUE BUSINESS DIVISION "TECHNICAL CERAMICS" PER QUARTER (IN EUR MILLION)

EBITDA in the business division "Technical Ceramics" was down 18.8% from the year before, from EUR 6.9 million to EUR 5.6 million.

Around 27% of total investments went into the business division "Technical Ceramics," primarily into expanding capacity for high value-added products and optimizing production processes.

2.3.2 FINANCIAL POSITION

Financial management is assigned to the Management Board directly and primarily includes managing the capital structure, managing liquidity, interest rate and currency hedging and obtaining funds. The subsidiary Nashtec is integrated into the Group's liquidity management system.

Exchange rate fluctuations are mainly neutralized

The impact of fluctuations in the USD/EUR exchange rate has been largely neutralized by Nabaltec's production in the US, through the subsidiary Nashtec. Nabaltec uses exchange rate hedging instruments in connection with the change in the USD/EUR structure since the third quarter of 2016, as well as additional exchange rate risks, when such a course is indicated due to the volatility of the markets or the scope of the foreign exchange transactions.

Liquid funds in the amount of EUR 9.7 million were made available to the subsidiary through the reporting date (2015: EUR 9.4 million). The interest rates and contractual terms conform to the standards for mid-sized companies. Nabaltec also uses various interest rate hedging instruments with a mid- to long-term interest rate lock period (e.g. interest rate swaps) on a case-by-case basis in connection with variable-interest outside financing.

Funding to finance growth and investments will be secured by means of loans against borrower's notes. All bilateral bank loans were amortized as scheduled in 2016.

2.3.2.1 CAPITAL STRUCTURE

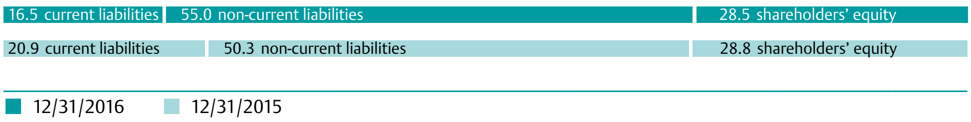
Consolidated shareholders' equity was EUR 57.8 million as of 31 December 2016, nearly the same as the year before (EUR 58.1 million). The Group's internal financing capacity, with consolidated earnings of EUR 5.3 million, was offset in 2016 by a EUR 1.2 million dividend payout and changes in shareholders' equity with no effect on profit and loss, consisting primarily of actuarial losses from the pension reserve. While total assets increased somewhat, to EUR 202.7 million (2015: EUR 201.9 million), the equity ratio decreased slightly, from 28.8% to 28.5%. This continues to represent a solid capital base by industry standards.

Equity ratio at 28.5%

Net non-current liabilities increased in the reporting year from EUR 101.6 million to EUR 111.5 million. This number includes the loans against borrower's notes, with a net total of EUR 71.3 million, and pension reserves in the amount of EUR 38.1 million. The EUR 10.1 million increase in pension reserves over the year before is due above all to a decrease in the interest rate and an increase in pension commitments.

Current liabilities decreased from EUR 42.2 million to EUR 33.4 million in the reporting year. This change was attributable above all to the decrease in accounts payable to banks.

STRUCTURE OF EQUITY & LIABILITIES (IN %)



Other Off-balance Sheet Financing Instruments

Nabaltec has, to a minor extent, concluded lease agreements with terms of up to five years. Nabaltec also makes use of factoring on a continuous basis for trade receivables, in part as a way of minimizing default risks. Nabaltec Group does not use any other instruments which can be categorized as financial engineering.

2.3.2.2 INVESTMENTS

Nabaltec Group made EUR 19.0 million in investments last year, compared to EUR 13.0 million the year before (in each case including investment grants offsetting part of the total). Investments were made primarily in infrastructure projects and technical equipment and machinery for capacity expansion, process optimization and replacement investments.

Nabaltec invested a total amount of EUR 19.0 million in 2016

2.3.2.3 CASH FLOW

Nabaltec Group's operating cash flow was up 29.9% from the year before, to EUR 26.1 million (2015: EUR 20.1 million). This improvement, which was significantly higher than the growth in earnings, was attributable above all to positive changes in working capital in the amount of EUR 6.9 million.

Cash flow from investment activity was EUR −17.0 million in the reporting period, compared to EUR −13.1 million in the year before (adjusted for EUR 1.0 million in investment grants).

Interest expenses were down in the reporting year

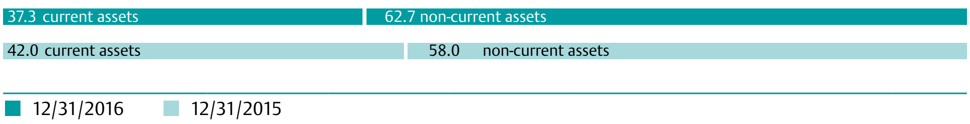
Cash flow from financing activity was EUR −15.4 million in 2016, compared to EUR 7.6 million in the year before. The previous year's value was determined above all by effects resulting from partial repayment of the loan against borrower's note from 2013 in the amount of EUR 43.5 million and the receipt of a new loan against borrower's note in the second quarter of 2015, in the amount of EUR 70.0 million. In 2016, on the other hand, cash flow from financing activity was shaped by amortization payments, which conformed to long-term forecasts. A dividend payout in the amount of EUR 1.2 million was made in the past year. Interest payments were reduced from EUR 2.9 million to EUR 2.5 million in the reporting year.

Nabaltec Group's total funds, consisting of the sum of cash and cash equivalents, amounted to EUR 36.2 million on 31 December 2016, compared to EUR 42.3 million on the reporting date of the year before.

2.3.2.4 NET ASSETS

Nabaltec Group's total assets increased to EUR 202.7 million on 31 December 2016, up from EUR 201.9 million.

STRUCTURE OF ASSETS (IN %)



As part of assets, property, plant and equipment increased to EUR 125.3 million, up from EUR 116.6 million the year before. In addition, EUR 1.1 million in deferred tax assets were recognized. Total non-current assets amounted to EUR 127.0 million in 2016, accounting for 62.7% of total assets as of 31 December 2016, while current assets amounted to 37.3% of total assets.

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

In addition to the performance figures of Nabaltec AG already published in the financial report (see Sections 2.2 Course of Business and 2.3 Overview of the Course of Business), Nabaltec AG uses the following financial performance indicators for internal management purposes. This internal controlling and management system enables management to pursue value-based management of the Group.

Key ratios used by Nabaltec AG:

RETURN ON SALES AND CAPITAL (IN %)

	2016	2015
Return on equity	9.2	12.7
Return on Capital Employed (ROCE)	8.5	10.4

Return on equity, consisting of the ratio of Group profit to equity, amounted to 9.2% in the reporting year, down from 12.7% in the year before. This decrease is attributable to the earnings trend.

Return on Capital Employed (ROCE) is the ratio of EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 8.5%, down from 10.4% in the prior year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

At the end of 2016, Nabaltec Group had a total of 460 employees (31 December 2015: 444). Of this number, 455 were employed in Germany (31 December 2015: 442). This figure also includes 53 apprentices (31 December 2015: 48).

Nabaltec sets a high value on good training. In 2016 as well, the rate of apprentices represented a remarkably large share of the workforce, 11.5%. This rate again exceeded the industry average significantly in 2016. Nabaltec's apprentices are regularly among the best of their class. Training positions are currently available for male and female industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists, as well as for chemicals production workers.

2016 training ratio of 11.5% well above industry average

Nabaltec AG is regularly among the 100 best employers among German mid-sized companies, according to the "TOP JOB" nationwide multi-sector survey. Distinctions like these, which Nabaltec received for the fourth time in 2015, indicate how seriously the company takes its responsibility towards its employees. A central concern for Nabaltec is to offer its employees prospects and opportunities for advancement within the company in order to promote identification with the company by these means as well, and encourage hard work and commitment.

Nabaltec is regularly among the 100 best employers among German mid-sized companies

Customer Relations

Over the last few years, Nabaltec has been able to once again strengthen and develop its market standing. Important arguments in collaboration with customers include Nabaltec's proven reliability as a supplier and its consistent quality. Nabaltec has demonstrated that it is a very reliable partner for long-term relationships built on trust. These attributes pose an important competitive advantage in the current market environment.

Nabaltec also distinguishes itself as a competent and capable supplier through its consistent development of consulting expertise by investing personnel and resources in R&D.

Nabaltec participates in various European associations in order to ensure full access to key markets and technologies. In addition to the two professional associations within Cefic, the European Chemical Industry Council, Pinfa, (the Phosphorus, Inorganic & Nitrogen Flame Retardants Association) and EPSA (European Producers of Specialty Alumina), Nabaltec is also involved in Forschungsgesellschaft Kunststoffe e.V., a plastics research association. In the US, Nabaltec participates in Pinfa North America and the American Ceramics Society. Nabaltec's close relationship with Forschungsgemeinschaft Feuerfest, a refractory materials research association, and its associated membership in Verband der Deutschen Feuerfest-Industrie e.V., the German Refractory Industry Association, ensures intensive connections with this key market.

Through these activities, Nabaltec is able to identify major trends in its primary markets, "ceramics" and "flame retardants," at a very early stage and on a global scale, allowing Nabaltec to respond early on.

Nabaltec products are specifically designed to meet customers' requirements

A basic prerequisite for Nabaltec's market success is products which are specifically developed and optimized to meet customers' requirements, and which are supplied in the needed quantities over long periods of time in stable to consistently optimal quality. Nabaltec's products help make our customers' products safer, eco-friendlier, more robust and more competitive while at the same time optimizing their production processes. For this reason, joint development projects and business relationships result in long-term supply contracts and lasting relationships. Particularly for new products, Nabaltec often undergoes long and intensive approval procedures with its customers. In most cases, the successful conclusion of these procedures results in long-term supply agreements based on reliable conditions and quantities.

Management Systems

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and trade association requirements, Nabaltec decided as far back as 2007 to introduce a health and workplace safety management system in accordance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series) in addition to its existing quality and environmental management systems in accordance with ISO 9001 and ISO 14001. In 2016, recertification audits of the existing management systems based on ISO 9001 and ISO 14001 were performed in the Schwandorf and Kelheim locations. At the Corpus Christi site, a recertification audit of the quality management system in accordance with ISO 9001 was also successfully conducted. A monitoring audit for the workplace safety and health management system was performed in accordance with BS OHSAS 18001.

Nabaltec introduced a certified energy management system in 2010

In order to be able to effectively meet the requirements of a continuously changing energy market, Nabaltec introduced a certified energy management system as early as 2010. In 2016, the certification was confirmed in a recertification audit at the Schwandorf and Kelheim sites in accordance with ISO 50001.

Nabaltec AG's commitment to sustainability was recognized in 2016 with a "silver" rating in an assessment study from the EcoVadis Initiative.

Environmental Protection

Nabaltec requires its own products to significantly contribute toward environmental protection and toward the improvement of the eco-balance 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 break nitrous oxides in diesel particle filters down or substitute halogenated flame retardant components, such as bromine, in plastics. In this respect, it is of central importance that research and development, production as well as up- and downstream logistics are as environmentally friendly as possible. The conservation of natural resources is a 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 extends well beyond its own sites.

Conservation of natural resources is a central concern for Nabaltec

As in prior years, special emphasis was placed on optimizing energy processes in production as a means of cutting costs. In 2016 as well, a great deal of projects were performed in this area. Together with external partners, Nabaltec has developed techniques requiring much less process energy, leading to a substantial reduction in CO_2 emissions. A very substantial percentage of Nabaltec's energy requirements are met through renewable energy in collaboration with the Schwandorf special-purpose association for waste recycling.

In general, Nabaltec endeavors to develop production processes with a closed loop for all production facilities. Regarding the handling of chemicals, such as lye, which are used for the production of fine hydroxide, Nabaltec consistently seeks to keep them from being released into the environment and instead to ensure that they are reused in a closed-loop production cycle. In addition, new technologies are used in order to substantially reduce the need for washing water due to increased production and higher quality requirements.

Capital Market

Since its initial public offering in 2006, Nabaltec has had intact access to the capital market. This is proven by the bond offering in 2010 as well as the loans against borrower's note in 2013 and 2015. This market access, maintained by transparent and reliable communications at all times, secures a balanced and largely independent means of financing for Nabaltec, which is also perceived positively in the sales markets.

3. REPORT ON SUBSEQUENT EVENTS

Events of particular importance for the assessment of Nabaltec Group's financial, earnings and liquidity position which took place after the reporting date, 31 December 2016, can be found in the supplemental report in the Consolidated Notes.

4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

4.1 OUTLOOK

OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

Nabaltec expects intact sales markets and stable demand in 2017

Nabaltec also foresees intact sales markets and stable demand for its products in 2017, if the market environment does not change fundamentally. The company has taken a leading international position within its markets. Based on the further development of its market position in 2016 and the reputation it has built up over many years, Nabaltec sees good future prospects for its key products.

ECONOMIC AND INDUSTRY DEVELOPMENT

In its economic outlook, the Kiel Institute for the World Economy (IfW) calls for the global economy to expand over the next two years. From global GDP growth of 3.1% in 2016, IfW expects growth to climb to 3.5% in 2017 and 3.6% in 2018. Production in the advanced economies is expected to increase in the view of the continuation of expansive monetary policies, the growth in fiscal stimulus measures and slightly stronger demand growth in developing and emerging markets, resulting in an acceleration in economic activity. The forecasts of the International Monetary Fund (IMF) call for GDP growth in the advanced economies of 1.9% in 2017 and 2.0% in 2018, up from 1.6% in 2016. The expansion in emerging markets will accelerate slightly, particularly due to the recent rebound in commodities prices.

For the Euro zone, IfW expects an increase in economic performance of 1.7% in 2017

IfW expects a modest expansion in the Euro zone, with a growth rate of 1.7% in each of the next two years. Unresolved structural problems in parts of the Euro zone continue to weigh down the outlook, and the upcoming 2017 parliamentary elections in four of the Euro zone's five largest member states (Germany, France, Italy and the Netherlands) contain uncertainty for the Euro zone's orientation in terms of economic policy.

IfW expects the German economy to grow by 1.7% in 2017. The forecast from Deutsche Bank AG is more cautious: in its research, the bank's analysts call for 1.1% GDP growth in 2017. The British exit from the EU will hardly impact the German economy, according to IfW. The long-term economic impact of the US presidential election and the constitutional referendum in Italy is difficult to gauge at the moment. An increase in exports and an uptick in construction investments, driven by the financing conditions, are expected to stimulate growth. However, once the impact of oil prices in holding prices down begins to subside in the coming years, private households will feel the effect of rising prices for consumer goods, which should diminish purchasing power.

GDP GROWTH FORECAST COMPARED TO PRIOR YEAR (IN %)

	2017	2018
World	3.5	3.6
USA	2.5	2.7
Euro zone	1.7	1.7
Germany	1.7	2.0
France	1.2	1.4
Italy	0.8	1.0
United Kingdom	1.2	1.6
Japan	1.2	0.7
China	6.4	5.9
India	6.8	7.2

Source: IfW, "Weltkonjunktur im Winter 2016," 14 December 2016

The chemicals industry association VCI (Verband der Chemischen Industrie e.V.) does not expect strong growth in chemicals production in the coming year, with a growth rate of 0.5%. In particular, it expects political uncertainty and mounting economic risks in foreign markets to inhibit growth within the industry. With prices climbing slightly, by 1%, total revenues are expected to increase to EUR 185 billion, due above all to foreign business.

Outlook in key target markets largely positive

The outlook in key target markets is largely positive, in Nabaltec's view, as regulatory requirements continue to stimulate growth in eco-friendly flame retardants. The German construction sector and the automotive industry remain stable. Positive conditions in the railway sector especially generated positive growth in the electrical industry, and this trend is expected to continue in 2017. The cable industry is benefiting from special conditions such as the expansion of power grids due to the connection of decentralized installations for the generation of renewable energy, such as wind and solar power. As a result, the cable industry will have higher demand in the future for high-quality non-halogenated flame retardant formulas, which are the domain of Nabaltec AG.

OUTLOOK ON THE COURSE OF BUSINESS

Nabaltec intends to continue growing at a moderate pace in 2017

Nabaltec intends to remain on a moderate growth course in 2017. The year 2017 is off to a good start. Revenue growth is to be achieved primarily through price increases in the "Functional Fillers" segment. The US subsidiary Nashtec LLC is not currently expected to contribute to production in the 2017 financial year due to the need to transition to a stand-alone solution.

Orders on hand amounted to EUR 37.1 million as of 31 December 2016.

In 2017, fine hydroxides will continue to be the most important product segment by far within the "Functional Fillers" division, and the growth outlook is positive for this segment. Nabaltec also expects slight growth in "Technical Ceramics" in 2017.

EXPECTED EARNINGS, NET ASSETS AND FINANCIAL POSITION

Assuming stable economic performance, Nabaltec expects revenue growth in the low single digits in 2017. The company expects an EBIT margin in the high single digits in 2017.

Nabaltec expects investments in 2017 to be up from the year before. Investments are planned primarily in altering and expanding the production site in the US, as well as in process optimization and infrastructure.

Net financial income is expected to improve slightly in 2017 over the year before.

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 Nabaltec Group's control, affect future sales and earnings. As a result, actual results may deviate from the statements and forecasts made in this report.

4.2 RISKS AND OPPORTUNITIES REPORT

SALES MARKET

The 2008/2009 international economic crisis showed that a shock in demand such as was seen then can have far-reaching consequences in Nabaltec AG's target markets as well. In spite of greater flexibility and adjustments in cost structures and capacities, such high fluctuations in demand can implicate noticeable volume and margin risks. Additional sales risks include the potential loss of significant key accounts, loss of market share due to technological innovation and new advances by competitors. Due to Nabaltec's strong position as an innovation and quality leader as well as continuous monitoring of target markets, such risks can be confined and the relevant market mechanisms can, at the same time, be used as an opportunity within global competition.

PROCUREMENT MARKET

Nabaltec monitors its suppliers' economic situation very closely and deliberately builds up alternatives for all products. Nabaltec AG uses mid- and long-term supply agreements for its supply of raw materials. Supply of the energy sources which are most important for the production process, such as electricity, gas and steam, is secured by long-term agreements. The certification of the energy management system in accordance with ISO 50001 supports these efforts. In addition, efforts are constantly being made to optimize production processes in order to reduce specific energy usage. An additional risk is an excessive increase in logistics costs. Nabaltec AG can counter this risk by passing on logistics costs to customers and by finding a balanced logistical mix. For example, Nabaltec AG has its own railway siding, which makes transport by rail very attractive.

Supply of the most important energy sources is secured by long term agreements

The arrangement in the US is a special situation, with Nashtec LLC relying on a direct supply of raw materials from Sherwin Alumina LLC. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code at the United States Federal Bankruptcy Court in Corpus Christi, Texas. Sherwin Alumina LLC discontinued operations in the third quarter of 2016, as part of the bankruptcy proceedings. As a result, Nashtec LLC was also compelled to temporarily halt operations. Since then, Nabaltec AG has been supplying its US customers from its plant in Schwandorf, Germany.

FINANCIAL MARKET

Swaps are used as interest rate hedges

When necessary, foreign exchange rate risks are strategically minimized using hedging instruments covering risks arising from US dollar exposure. In case of medium-term financing, interest risks are hedged using swaps or loan agreements are concluded with fixed interest rates. Nabaltec AG and its US subsidiary have a detailed financial and liquidity forecast which is subjected to routine comparisons of estimates against results. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. The risk of changes in interest rates is countered in part through hedging. Nabaltec AG's loan agreements are partially subject to covenants which are tied e.g. to leverage coverage ratios as well as the equity ratio. If the covenants are not observed, the lender has the option to increase the interest margin or exercise its right of extraordinary termination. Covenants valid as of 31 December 2016 were not breached in the reporting year.

Factoring is used to a substantial extent for the financing of accounts receivable.

PERSONNEL

Intensive training/education and management trainee programs

Particularly the fluctuation of employees in key positions gives rise to personnel risks. Nabaltec minimizes these risks through intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, employee substitution arrangements that govern the temporary replacement of key employees, and early advance plans for successors. The company also offers good career opportunities and advancement possibilities. Nabaltec's market position, the reputation it has earned in the industry, its high reliability and its familiar strong focus on research and development make Nabaltec an attractive employer within its market segments and region.

PRODUCTION, PROCESSES AND IT

Production-specific risks are limited and manageable

Nabaltec has an integrated quality management system with ISO 9001 accreditation that is implemented company-wide. Therefore, Nabaltec considers production-specific risks to be clear and manageable. For IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundantly designed high-quality hardware. Through regular verification of the access structure, data protection is guaranteed; data security is therefore based on generally well-established procedures. Compliance with data protection policies based on the legal requirements is ensured at all times within the company and is additionally monitored by an external data protection officer.

ENVIRONMENTAL PROTECTION

Environmental risks can arise from exceeding admissible thresholds for noise and dust pollution or through the emission of hazardous substances. Nabaltec counters these risks by means of extensive environmental management based on ISO 14001, which is accredited and is periodically further developed and audited. Nabaltec uses closed-loop production processes, e.g. for water and lye.

TECHNOLOGICAL DEVELOPMENT

Potential technological risks could result from customers replacing Nabaltec products due to a change in technology, from the failure to use new technologies and from not recognizing technological developments. As an innovation leader, Nabaltec tries to minimize these risks by engaging in continuous and intensive research and development efforts and by maintaining pronounced customer proximity. In fact, technological developments offer numerous opportunities for Nabaltec to generate a competitive edge in product quality, by occupying new markets through fast-paced product adjustments and by creating process, processing and quality advantages together with our customers in order to set the stage for economic success.

LEGAL FRAMEWORK

Changes within the legal framework could lead to risks for Nabaltec. Currently, regulatory changes are creating additional market opportunities – and this trend is not expected to reverse in the medium and long term. Eco-friendly products such as Nabaltec's are being pushed forward on a global scale in an effort to eliminate materials which are harmful to the environment from the cycle.

Regulatory changes currently provide additional market opportunities

As an intensive electricity user in international competition, Nabaltec will benefit from the renewable energy surcharge in 2017 as well. On the other hand, the provisions of the "2017 Renewable Energy Act" will, in the medium term, lead to an increase in renewable energy expenses in the mid six-figures range.

RISK MANAGEMENT SYSTEM

For Nabaltec Group, the relevance of risk management is derived from its business activities and its worldwide operations, involving an international competitive and regulatory environment, as well as the general complexity of the global economy. Nabaltec Group's success depends to a considerable extent on identifying associated risks and opportunities as well as dealing with them consciously and 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.

Effective risk management is decisive to secure the long-term future of the company

Nabaltec is constantly working to develop the risk management within the company. The continuous optimization of risk prevention tools in all areas enables the early identification and elimination of business risks. Integral elements include risk management as an ongoing process, risk controlling, extensive communication and documentation processes, as well as an internal monitoring system. All discernible internal and external risks are identified, documented, assessed and included in a risk matrix as efficiently as possible. This risk matrix represents the basic framework 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 evaluation of various types of risks and risk profiles that are monitored and managed by the controlling department. Reports on business risks as well as continuous status reports are prepared for the Management Board and discussed by the management circle. 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 laws and regulations 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 participation in international professional committees.

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

OVERALL ASSESSMENT

Based on our continuous surveillance of relevant markets, as described above, as well as the 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 significant risks, except the risks described above associated with the US subsidiary Nashtec. On the whole, the company's risks are well-managed and their potential impact is therefore limited. Nabaltec Group's future existence is secured.

Risks well-managed within the Group

5. CORPORATE GOVERNANCE STATEMENT AND REPORT

The activities of Nabaltec AG's executive and supervisory committees are governed by the principles of responsible management. Since the company is listed on the Open Market of the Frankfurt stock exchange with admission to the Entry Standard segment (as of March 2017: Scale segment), 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) – simultaneously also for the Supervisory Board. The declaration is published on the company's website www.nabaltec.de under Investor Relations/Corporate Governance.

Schwandorf, 17 March 2017

Nabaltec AG
The Management Board

JOHANNES HECKMANN | GÜNTHER SPITZER | DR. MICHAEL KLIMES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2016 (IFRS)

EARNINGS PER SHARE

EUR 0.84
2015

EUR 0.67
2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2016	1/1/ – 12/31/2015
Revenues	5.1	159,215	151,346
Change in inventories of finished goods and work in progress		–361	1,496
Own work capitalized	5.2	716	450
Total performance		**159,570**	**153,292**
Other operating income	5.3	2,171	2,800
Cost of materials	5.4	–80,947	–80,271
Gross earnings		**80,794**	**75,821**
Personnel expenses	5.5	–31,679	–26,791
Depreciation	5.7	–10,679	–10,170
Other operating expenses	5.8	–26,206	–24,339
Operating profit (EBIT)		**12,230**	**14,521**
Interest and similar income	5.10	263	253
Interest and similar expenses	5.11	–3,331	–3,924
Net income from ordinary activities (EBT)		**9,162**	**10,850**
Taxes on income	5.12	–3,878	–3,408
Net after-tax earnings		**5,284**	**7,442**
Thereof:			
Shareholders of the parent company		5,344	6,709
Non-controlling interests		–60	733
Net after-tax earnings		**5,284**	**7,442**
Earnings per share (in EUR)*	7.5	**0.67**	**0.84**

*also see 6.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2016	1/1/ – 12/31/2015
Net after-tax earnings		**5,284**	**7,442**
Items which may be reclassified to profit and loss			
Currency translation (after taxes)		428	1,054
Net income from hedge accounting (after taxes)		–629	–541
Total		**–201**	**513**
Items which will not be reclassified to profit and loss			
Actuarial gains and losses (after taxes)		–4,220	–1,354
Total		**–4,220**	**–1,354**
Other comprehensive income		**–4,421**	**–841**
Thereof:			
Shareholders of the parent company		–4,445	–876
Non-controlling interests		24	35
Total comprehensive income		**863**	**6,601**
Thereof:			
Shareholders of the parent company		899	5,833
Non-controlling interests		–36	768

CONSOLIDATED BALANCE SHEET

FOR 31 DECEMBER 2016

ASSETS

in TEUR	See Notes	12/31/2016	12/31/2015
Non-current assets		**127,013**	**117,108**
Intangible assets			
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments)	6.1	506	507
Property, plant and equipment		125,303	116,601
Land, leasehold rights and buildings, including buildings on unowned land	6.2	33,288	29,316
Technical equipment and machinery	6.2	74,429	74,985
Other fixtures, fittings and equipment	6.2	3,090	2,884
Advance payments and assets under construction	6.2	14,496	9,416
Financial assets		78	0
Shares in affiliated companies	6.3	78	0
Deferred tax assets	5.12	1,126	0
Current assets		**75,685**	**84,784**
Inventories		30,882	30,781
Raw materials and supplies	6.4	17,864	16,778
Work in process	6.4	32	226
Finished goods and merchandise	6.4	12,986	13,777
Other assets and accounts receivable		8,620	11,731
Trade receivables	6.5	3,091	5,203
Other assets	6.6	5,529	6,528
Cash and cash equivalents	6.7	36,183	42,272
TOTAL ASSETS		**202,698**	**201,892**

LIABILITIES

in TEUR	See Notes	12/31/2016	12/31/2015
Shareholders' equity		**57,765**	**58,102**
Subscribed capital	6.8	8,000	8,000
Capital reserve	6.8	29,764	29,764
Earnings reserve	6.8	9,711	9,711
Profit carry-forward		17,855	12,346
After-tax earnings		5,344	6,709
Other changes in equity with no effect on profit and loss	6.8	–13,471	–9,026
Non-controlling interests	6.8	562	598
Non-current liabilities		**111,520**	**101,621**
Pension reserves	6.9	38,076	27,951
Other provisions	6.9	1,088	887
Accounts payable to banks	6.10	71,345	71,314
Deferred tax liabilities	5.12	1,011	1,469
Current liabilities		**33,413**	**42,169**
Accounts payable from income taxes	6.10	1,112	1,565
Other provisions	6.9	162	154
Accounts payable to banks	6.10	1,224	12,234
Trade payables	6.10	14,526	12,278
Other accounts payable	6.10	16,389	15,938
TOTAL LIABILITIES		**202,698**	**201,892**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

CONSOLIDATED CASH FLOW STATEMENT

	in TEUR	See Notes	1/1/ – 12/31/2016	1/1/ – 12/31/2015
	Cash flow from operating activity			
	Earnings before taxes		**9,162**	**10,850**
+	Depreciation of fixed assets	5.7	10,679	10,170
–/+	Income/loss from the disposal of assets		14	81
–	Interest income	5.10	-263	–253
+	Interest expenses	5.11	3,331	3,924
	Net operating income before changes in working capital		**22,923**	**24,772**
+/–	Increase/decrease in provisions		3,583	279
–/+	Increase/decrease in trade receivables and other assets not attributable to investment or financing activity		3,111	–221
+/–	Increase/decrease in inventories		–101	–3,234
+/–	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity		313	852
	Cash flow from operating activity before taxes		**29,829**	**22,448**
–	Income taxes paid		–3,698	–2,332
	Net cash flow from operating activity		**26,131**	**20,116**

CONSOLIDATED CASH FLOW STATEMENT

in TEUR		See Notes	1/1/ – 12/31/2016	1/1/ – 12/31/2015
Cash flow from investment activity				
+	Payments received from the disposal of property, plant and equipment		14	3
+	Payments received from investment grants	6.10	0	1,000
–	Payments made for investments in property, plant and equipment	6.2	–16,786	–13,854
–	Payments made for investments in intangible assets	6.1	–154	–211
–	Payments made for investments in financial assets		–78	0
Net cash flow from investment activity			**–17,004**	**–13,062**
Cash flow from financing activity				
–	Payments made for dividends		–1,200	–960
+	Payments received from borrowings	6.10	0	69,800
–	Payments made for the repayment of borrowings	6.10	–11,754	–58,373
–	Interest paid		–2,505	–2,901
+	Interest received		53	47
Net cash flow from financing activity			**–15,406**	**7,613**
Net change in cash and cash equivalents			**–6,279**	**14,667**
Change in funds due to changes in exchange rates			**190**	**374**
Funds at start of period		6.7	42,272	27,231
Funds at end of period		6.7	**36,183**	**42,272**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholders' equity attributable to shareholders of Nabaltec AG		
in TEUR	Subscribed capital	Capital reserve	Earnings reserve
Balance per 1/1/2015	8,000	29,764	9,711
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	–	–	–
Balance per 12/31/2015	8,000	29,764	9,711
Balance per 1/1/2016	8,000	29,764	9,711
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	–	–	–
Balance per 12/31/2016	8,000	29,764	9,711

Profit carry-forward	Other changes in equity with no effect on profit and loss	Total	Non-controlling interests	Consolidated shareholders' equity
13,306	–8,150	52,631	–170	52,461
–960	—	–960	—	–960
—	–1,354	–1,354	—	–1,354
—	1,055	1,055	–1	1,054
—	–577	–577	36	–541
—	–876	–876	35	–841
6,709		6,709	733	7,442
6,709	–876	5,833	768	6,601
19,055	–9,026	57,504	598	58,102
19,055	–9,026	57,504	598	58,102
–1,200	—	–1,200	—	–1,200
—	–4,220	–4,220	—	–4,220
—	411	411	17	428
—	–636	–636	7	–629
—	–4,445	–4,445	24	–4,421
5,344	—	5,344	–60	5,284
5,344	–4,445	899	–36	863
23,199	–13,471	57,203	562	57,765

STATEMENT OF CONSOLIDATED FIXED ASSETS

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

	Cost of acquisition/production					
in TEUR	1/1/2016	Additions	Disposals	Reclassification	Currency differences	12/31/2016
Intangible assets	**2,775**	**153**	**2**	**0**	**0**	**2,926**
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	2,650	172	2	71	0	2,891
Advance payments	125	–19	0	–71	0	35
Property, plant and equipment	**202,125**	**18,731**	**678**	**0**	**1,039**	**221,217**
Land, leasehold rights and buildings, including buildings on unowned land	40,015	4,059	0	1,235	284	45,593
Technical equipment and machinery	143,231	2,778	406	4,636	683	150,922
Other fixtures, fittings and equipment	9,463	827	272	158	30	10,206
Advance payments and assets under construction	9,416	11,067	0	–6,029	42	14,496
Financial assets	**0**	**78**	**0**	**0**	**0**	**78**
Shares in affiliated companies	0	78	0	0	0	78
Total fixed assets	**204,900**	**18,962**	**680**	**0**	**1,039**	**224,221**

FOR THE FINANCIAL YEAR 1 JANUARY 2015 TO 31 DECEMBER 2015

	Cost of acquisition/production					
in TEUR	1/1/2015	Additions	Disposals	Reclassification	Currency differences	12/31/2015
Intangible assets	**2,600**	**211**	**36**	**0**	**0**	**2,775**
Concessions, proprietary rights and similar rights and assets as well as licenses to such rights and assets	2,535	86	36	65	0	2,650
Advance payments	65	125	0	–65	0	125
Property, plant and equipment	**186,481**	**12,826**	**463**	**0**	**3,281**	**202,125**
Land, leasehold rights and buildings, including buildings on unowned land	38,656	535	127	16	935	40,015
Technical equipment and machinery	135,035	4,302	209	1,855	2,248	143,231
Other fixtures, fittings and equipment	8,741	751	127	0	98	9,463
Advance payments and assets under construction	4,049	7,238	0	–1,871	0	9,416
Total fixed assets	**189,081**	**13,037**	**499**	**0**	**3,281**	**204,900**

			Depreciation		Book Value	
1/1/2016	Additions	Disposals	Currency differences	12/31/2016	12/31/2016	12/31/2015
2,268	**154**	**2**	**0**	**2,420**	**506**	**507**
2,268	154	2	0	2,420	471	382
0	0	0	0	0	35	125
85,524	**10,525**	**650**	**515**	**95,914**	**125,303**	**116,601**
10,699	1,487	0	119	12,305	33,288	29,316
68,245	8,283	402	367	76,493	74,429	74,986
6,580	755	248	29	7,116	3,090	2,883
0	0	0	0	0	14,496	9,416
0	**0**	**0**	**0**	**0**	**78**	**0**
0	0	0	0	0	78	0
87,792	**10,679**	**652**	**515**	**98,334**	**125,887**	**117,108**

			Depreciation		Book Value	
1/1/2015	Additions	Disposals	Currency differences	12/31/2015	12/31/2015	12/31/2014
2,178	**125**	**35**	**0**	**2,268**	**507**	**422**
2,178	125	35	0	2,268	382	357
0	0	0	0	0	125	65
74,521	**10,045**	**380**	**1,338**	**85,524**	**116,601**	**111,960**
9,147	1,304	55	303	10,699	29,316	29,509
59,490	8,013	199	941	68,245	74,986	75,545
5,884	728	126	94	6,580	2,883	2,857
0	0	0	0	0	9,416	4,049
76,699	**10,170**	**415**	**1,338**	**87,792**	**117,108**	**112,382**

NABALTEC AG
CONSOLIDATED NOTES

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

1. GENERAL

Nabaltec AG, with registered office in Schwandorf, Germany[1], was formed by Company Agreement of 14 December 1994 with the corporate name Nabaltec GmbH and registered office in Schwandorf (entered into the Commercial Register of the Local Court of Amberg under Commercial Register No. B 3920). It acquired the specialty oxides business of VAW aluminium AG in 1995 and was transformed into a joint-stock company in 2006.

The corporate purpose pursuant to § 2 of the Articles of Association of Nabaltec AG is the manufacture of products based on mineral raw materials, particularly aluminum hydroxide and aluminum oxide, and the distribution of those products.

The shares of Nabaltec AG have been listed in the open market (Entry Standard) division of the Frankfurt Stock Exchange since 24 November 2006. They are included in the new market segment “Scale” since 1 March 2017.

The present consolidated financial statements were approved by the Management Board on 17 March 2017.

2. ACCOUNTING POLICIES

The recognition and measurement methods presented below are consistently applied in all of the reporting periods presented here.

2.1 PRINCIPLES OF ACCOUNTING

The consolidated financial statements for 31 December 2016 (including disclosures for the year before as of 31 December 2015) were prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU, as well as the provisions of the German Commercial Code which are to be observed additionally in accordance with § 315a (1) of the German Commercial Code. The IFRS include the International Financial Reporting Standards and International Accounting Standards (IAS) published by the International Accounting

[1] Nabaltec AG, Alustraße 50 – 52, 92421 Schwandorf, Germany

Standards Board, as well as the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All valid standards conforming to EU rules were applied for Financial Year 2016.

The consolidated financial statements convey a true and fair view of the financial, earnings and liquidity position of Nabaltec AG.

Nabaltec AG's financial year runs from 1 January to 31 December of each year.

The consolidated financial statements are presented in Euros (EUR). Unless otherwise indicated, all values are rounded up or down to the nearest thousand Euros (EUR thousand) using commercial rounding. It should be noted that differences may arise when using rounded numbers and percentages.

Disclosures distinguish between current and non-current assets and liabilities, which in some cases are detailed in the Notes according to their time to maturity.

The consolidated statement of comprehensive income is prepared in accordance with the total cost method.

2.2 ACCOUNTING STANDARDS APPLIED

All accounting standards whose application is mandatory for financial years beginning on 1 January 2016 were applied for Financial Year 2016. This particularly includes the following standards and interpretations, which were to be applied for the first time:

- Amendments to IAS 1, "Disclosure Initiative": The IASB published amendments to IAS, "Presentation of financial statements," in December 2014. The amendments are designed to improve financial reporting with regard to disclosures in the Notes and include (a) a stronger focus on the principle of materiality, (b) further disaggregation of line items in the balance sheet and the disclosure of subtotals, (c) greater flexibility in preparation of the Notes with regard to the sequence of disclosures and (d) lifting of the specifications in IAS 1 with regard to the identification of major accounting policies as a component of the disclosures in the Notes. The new version is applicable to financial years beginning on or after 1 January 2016. The amendments were endorsed by the EU on 18 December 2015. The application of the new and revised standards had no material impact on the consolidated financial statements.

- Amendments to IAS 16 and IAS 38, "Clarification of acceptable methods of depreciation and amortization": The amendment to IAS 16 clarifies that revenue-based methods of depreciating property, plant and equipment are not appropriate. The amendment to IAS 38 introduces the refutable presumption that revenues are not an appropriate basis for the amortization of intangible assets. This presumption can only be refuted in the following two cases:

  a) If the intangible asset can be expressed as a measure of revenues. This would be the case, for example, if the term of a mining concession is not defined in advance, but is instead tied to the total revenues which are generated by the activity.

  b) If revenues and the consumption of economic benefits are highly correlated.

CONSOLIDATED FINANCIAL STATEMENTS

The new version is applicable for financial years beginning on or after 1 January 2016. The amendments were endorsed by the EU on 2 December 2015. First-time application had no impact on the consolidated financial statements.

- Amendments to IAS 19, “Employee benefits”: The IASB published amendments to IAS 19, “Defined benefit plans: employee contributions,” in November 2013. The amendments create an option with regard to accounting for defined benefit plans in which employees (or third parties) take part through mandatory contributions. The amendments apply retroactively to financial years beginning on or after 1 February 2015. The amendments were endorsed by the EU in January 2015. First-time application did not have a material impact on the Group’s financial, earnings and liquidity position.

- Amendments to IFRS 10, IFRS 12 and IAS 28, “Applying the consolidation exception”: In December 2014, the IASB adopted amendments to IFRS 10, IFRS 12 and IAS 28. These amendments clarify application of the consolidation exception when the parent company meets the definition of an investment entity. They explicitly confirm that the exception from the requirement to prepare consolidated financial statements applies to subsidiaries of an investment entity which are themselves parent companies. Subsidiaries which provide services relating to the investment activities of the parent company (investment-related services) are not to be consolidated if the subsidiary is itself an investment entity. The amendments also simplify application of the equity method for companies which are not themselves investment entities but which hold interests in associates which are investment entities. Investment entities which measure all of their subsidiaries at fair value nus take the disclosures for investment entities which are required in accordance with IFRS 12. The new version is to be applied for financial years beginning on or after 1 January 2016. The amendments were endorsed by the EU on 22 September 2016. First-time application had no impact on the consolidated financial statements since the company does not meet the definition of an investment entity.

- Amendments to IFRS 11, “Accounting for acquisitions of interests in joint operations”: The amendments to IFRS 11 contain guidelines with regard to accounting for the acquisition of interests in joint operations when the latter represent a business in terms of IFRS 3. In that case, all principles arising from IFRS 3 and other IFRSs with regard to accounting for business combinations are to be applied unless they conflict with the guidelines established in IFRS 11. The amendments apply to the acquisition of interests in existing joint operations and to the acquisition of interest in a joint operation on its formation unless the formation of the joint operation coincides with formation of the business. The new version is to apply to financial years beginning on or after 1 January 2016. The amendments were endorsed by the EU on 24 November 2015. First-time application had no impact on the consolidated financial statements.

- Various: “Improvements to International Financial Reporting Standards 2012,” “Improvements to International Financial Reporting Standards 2014”: The IASB published the “Annual Improvements to IFRSs 2010–2012 Cycle” on 12 December 2013 and the “Annual Improvements to IFRSs 2012–2014 Cycle” on 25 September 2014. The annual improvement process enables the IASB to make improvements to the IFRSs which are less urgent, but nevertheless necessary. The annual improvement project 2010–2012 made minor changes to the following Standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 24. These changes take effect for reporting periods beginning on or after 1 February 2015. The changes to IFRS 2 and IFRS 3 are to be applied to transactions which take place on or after 1 July 2014. The changes were endorsed by the EU in January 2015. The annual improvement project

2012–2014 includes changes to the following Standards: IFRS 5, IFRS 7, IAS 19 and IAS 34, and is applicable to financial years beginning on or after 1 January 2016. The changes were endorsed by the EU on 15 December 2015. The application of the new and revised Standards will not have a material impact on the consolidated financial statements.

The following standards and interpretations, which have been published but are not yet mandatory, have not been applied early:

- Amendments to IFRS 2, "Classification and measurement of share-based payment transactions": The amendments concern the accounting for vesting conditions in connection with the measurement of cash-settled share-based payments, the classification of share-based payments with net settlements for withheld taxes and the accounting for changes in the classification of payments from "cash-settled" to "equity-settled." Subject to endorsement by the EU, these amendments are to be applied to payments which are made or modified in financial years beginning on or after 1 January 2018. Earlier application is allowed. As things stand, first-time application will have no impact on the consolidated financial statements.

- IFRS 9, "Financial instruments": IFRS 9, "Financial instruments," contain rules for recognition, measurement and derecognition, as well as hedge accounting. The IASB published the final version of the Standard on 24 July 2014, in the course of completion of the various phases of its comprehensive financial instruments project. As a result, the accounting rules for financial instruments formerly established in IAS 39, "Financial instruments: recognition and measurement," have been completely replaced by the accounting rules established in IFRS 9. The published version of IFRS 9 replaces all previous versions. The key requirements of the final version of IFRS 9 can be summarized as follows:

  - The requirements of the previous standard, IAS 39, "Financial instruments: recognition and measurement," with regard to scope of application, recognition and derecognition are largely unchanged in IFRS 9.

  - However, IFRS 9 provides for a new model for classifying financial assets which is not present in IAS 39.

  - Subsequent measurement of financial assets is to be performed in the future using three categories with different standards of measurement and different rules for the recognition of changes in value. Financial assets are to be categorized depending on the contractual cash flows arising from the instrument as well as the business model in which the instrument is held. These categories are generally mandatory. However, options are available to the entity in a few cases.

  - On the other hand, IFRS 9 largely adopts the existing rules for financial liabilities. The only major change concerns financial liabilities in the fair value option, for which changes in fair value due to changes in the entity's own credit risk are to be recognized in other comprehensive income.

  - IFRS 9 provides for a three-stage model for determining the amount of losses which are to be recognized in the future, as well as the calculation of interest revenues. According to this model, losses which are expected at the time the instrument is acquired are to be recognized in the amount of the present value of the expected loss over the next 12 months (Stage 1). If there is a significant risk in the default risk, the loss allowance is to be increased up to the amount of the expected loss over the entirety of the remaining term (Stage 2). If there is objective indication of impairment, interest revenue is calculated based on the net book value of the asset (book value minus the loss allowance; Stage 3).

- In addition to extensive transitional rules, IFRS 9 also involves extensive disclosure requirements in connection with the transition and with routine application. Changes relative to IFRS 7, "Financial instruments: disclosures," arise above all in connection with the rules for impairments.

The new Standard is to be applied for financial years beginning on or after 1 January 2018. The Standard was endorsed by the EU on 22 November 2016. A reliable estimation as to the impact of the application of IFRS 9 cannot be made until a detailed analysis is performed, which has yet to be completed.

- Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture": The amendments address a conflict between the rules of IAS 28, "Investments in associated and joint ventures," and IFRS 10, "Consolidated financial statements." They clarify that, for transactions with an associate or joint venture, the degree to which revenue is recognized depends on whether the assets sold or contributed represent a business in accordance with IFRS 3. On 17 December 2015, the IASB resolved to postpone the initial application of these amendments indefinitely. The amendments have yet to be endorsed by the EU. As things stand, the first-time application of these amendments will have no impact on the consolidated financial statements.

- IFRS 15, "Revenue from contracts with customers": IFRS 15 prescribes when and in what amount IFRS reporters are recognized to recognize revenues. It also requires them to provide users of financial statements with more relevant and informative disclosures than was the case before. IFRS 15 generally applicable to all contracts with customers, with the exception of the following contracts:

  - leases falling within the scope of IAS 17, "Leases";

  - financial instruments and other contractual rights or duties falling within the scope of IFRS 9, "Financial instruments," IFRS 10, "Consolidated financial statements," IFRS 11, "Joint arrangements," IAS 27, "Separate financial statements," or IAS 28, "Investments in associates and joint ventures";

  - insurance contracts falling within the scope of IFRS 4, "Insurance contracts"; and

  - non-monetary exchanges between entities in the same lines of business with the purpose of facilitating sales to customer or potential customers.

In contrast to the rules currently in effect, the new Standard provides for a single principle-based five-step model which is to be applied to all contracts with customers. In accordance with this five-step model, the first step is to identify the contract with the customer (Step 1). In Step 2, the performance obligations in the contract are to be identified. The next step (Step 3) is to determine the transaction price, for which explicit rules are established concerning the treatment of variable consideration, financing components, payments to the customer and exchanges. Once the transaction price is determined, the transaction price is allocated to the individual performance obligations based on the stand-alone sale prices of the individual performance obligations (Step 4). Finally (Step 5), revenues are recognized insofar as the performance obligation is satisfied by the entity. This depends on the transfer of control over the good or service to the customer. Upon the conclusion of a contract, it must be ascertained in accordance with IFRS 15 whether the revenues resulting from the contract are to be recognized on a particular date or over time. To this end, it is first necessary to clarify based on certain criteria whether control over the performance obligation will be transferred over time. If that is not the case, the revenues are to be recognized on the date at which control passes to the customer. Indications of such passage of control include the transfer of legal title, the passage of material risks and rewards and formal acceptance. If, on the other hand, control is transferred over time, revenues may only be recognized for the period in question insofar as the progress of performance can be reliably measured using input- or output-based methods. In addition to general revenue recognition principles, the Standard also includes detailed implementation guidelines concerning subjects like sales with right of return, customer options for additional goods or services, principal-agent relationships and bill-and-hold arrangements. The Standard also includes new guidelines concerning the costs of obtaining and fulfilling a contract, as well as guidelines concerning the question as to when such costs are to be capitalized. Costs which do not meet the specified criteria are to be recognized as expenses when they accrue. Finally, the Standard includes new comprehensive rules with regard to the disclosure of revenues in IFRS financial statements. In particular, qualitative and quantitative disclosures are required concerning each of the following:

- contracts with customers;
- significant judgments and changes in those judgments made in applying the revenue rules to those contracts;
- any assets resulting from the capitalization of expenses for obtaining and fulfilling a contract with a customer.

The new Standard is to be applied for financial years beginning on or after 1 January 2018. The Standard was endorsed by the EU on 22 September 2016. A reliable estimation as to the impact of the application of IFRS 15 cannot be made until a detailed analysis is performed, which has yet to be completed.

- Amendments to IFRS 15, “Clarifications to IFRS 15”: The amendments include clarifications concerning various rules of IFRS 15 and simplifications with regard to transition to the new Standard. In addition to the clarifications, the amended Standard contains two additional simplifications in order to reduce complexity and diminish the cost of transitioning to the new Standard. These simplifications relate to options for the disclosure of contracts which either closed at the start of the earliest period presented in the financial statements or which were modified prior to the start of the earliest period presented. Subject to implementation into EU law, the amendments are to be applied for the first time on 1 January 2018.

- IFRS 16, “Leases”: This new standard will result in fundamental accounting changes, particularly for the lessee. The most serious change is that it will no longer be possible in the future to classify leases as operating leases, and therefore as pending transactions; rather, their disclosure in the financial statements will be mandatory. Accordingly, the previous distinction between finance and operating leases will no longer apply for the lessee. In the future, lessees will generally be required to recognize a right-of-use asset and a lease liability for all leases within the scope of the Standard. The asset is depreciated over the term of the lease in accordance with the rules for non-financial assets and the liability is recognized in accordance with the rules for financial instruments. The new Standard is applicable to financial years beginning on or after 1 January 2019. Earlier application of the Standard is possible insofar as IFRS 15, "Revenue from contracts with customers," is also applied. The Standard has yet to be endorsed by the EU. A reliable estimation as to the impact of the application of IFRS 16 cannot be made until a detailed analysis is performed, which has yet to be completed.

- Amendments to IAS 7, "Disclosure Initiative": The purpose of the amendments is to improve the disclosure of changes in the entity's liabilities. Under the amendments, an entity is required to disclose changes in financial liabilities for which payments are shown in the cash flow statement under cash flow from financing activity. Associated financial assets are also to be included in the disclosures (e.g. assets arising from hedging transactions). The amendments require the disclosure of changes with effect on cash flow, changes arising from the acquisition or sale of businesses, the effect of changes in exchange rates, changes in fair value and other changes. The IASB recommends presenting the changes in the form of a reconciliation between the opening and closing balances in the balance sheet, but allows for the possibility of other forms of presentation. Subject to implementation into EU law, the amendments are to be applied for the first time in the first reporting period of financial years beginning on or after 1 January 2017, although earlier application is permissible. As things currently stand, the first-time application of these amendments will have no impact on the consolidated financial statements.

- Amendments to IAS 12, "Recognition of deferred tax assets for unrealized losses": The amendments clarify the recognition of deferred tax assets for unrealized losses in debt instruments measured at fair value. Subject to implementation into EU law, the amendments are to be applied for the first time in the first reporting period of financial years beginning or after 1 January 2017, although earlier application is permissible. The company is presently assessing the potential impact of these amendments on the consolidated financial statements. The company does not currently expect them to have a material impact.

- IFRIC 22, "Foreign currency transactions and advance consideration": IFRIC 22 addresses a question concerning the application of IAS 21, "The effects of changes in foreign exchange rates." It clarifies the point in time for which the exchange rate is to be determined for the translation of foreign-currency transactions that include the receipt or payment of advance consideration. It states that the exchange rate for the underlying asset, income or expense depends on the date on which the asset or liability resulting from the advance payment is first recognized. The Interpretation is to be applied for the first time in the first reporting period beginning on or after 1 January 2018. Earlier application is permissible. The EU has yet to endorse this Interpretation. The Group currently does not expect this Interpretation to have a material impact on the consolidated financial statements.

- Various: Improvements to the International Financial Reporting Standards (2014-2016): These involved amendments to three IFRSs. In IFRS 12, it was clarified that the disclosures in accordance with IFRS 12 generally apply also to investments in subsidiaries, joint ventures and associated companies which are classified as "held for sale" in terms of IFRS 5; an exception to this rule are disclosures in accordance with IFRS 12. B10–B16 (Financial information). In IAS 28, it was clarified that the option for measurement of an investment in an associated company or joint venture held by a venture capital firm or another qualifying entity may be exercised differently depending on the investment. In addition, the short-term exceptions for first-time IFRS users in Appendix E of IFRS 1 (IFRS 1. E3–E7) were stricken. Subject to implementation in EU law, the amendments to IFRS 12 are first to be applied in the first reporting period of financial years beginning on or after 1 January 2017 and the amendments to IFRS 1 and IAS 28 are first to be applied in the first reporting period of financial years beginning or after 1 January 2018. The company does not expect these amendments to have a material impact on the consolidated financial statements.

The following standards and amendments were/are not applied due to lack of relevance for Nabaltec AG:

- IFRS 2 "Share-based payment"
- IFRS 4 "Insurance contracts"
- IFRS 6 "Exploration for and evaluation of mineral resources"
- IFRS 11 "Joint arrangements"
- IAS 11 "Construction contracts"
- IAS 26 "Accounting and reporting by retirement benefit plans"
- IAS 28 "Investments in associates and joint ventures"
- IAS 29 "Financial reporting in hyperinflationary economies"
- IAS 41 "Agriculture"

2.3 SUBSIDIARIES AND CONSOLIDATED COMPANIES

The consolidated financial statements include the financial statements of the parent company and the company it controls, including structured entities (its subsidiaries), insofar as they are material for presentation of the financial, earnings and liquidity position. The company obtains control when it:

- can exercise power over the investee;
- is exposed to variable returns from its investment; and
- has the ability to affect those returns through its power over the investee.

The composition of the Group is evident from the table below:

NUMBER OF COMPANIES

	2016	2015
Nabaltec AG and fully consolidated subsidiary		
Domestic	1	1
Foreign	1	1
Unconsolidated subsidiaries		
Foreign	1	0

The following subsidiaries were included in the consolidated financial statements of Nabaltec AG:

SUBSIDIARIES

			Share of capital and voting rights	
Name of the subsidiary	Main Businesses	Registered office	12/31/2016 in %	12/31/2015 in %
Nashtec LLC	Production of aluminum hydroxides	Corpus Christi, USA	51.00	51.00

The Management Board of Nabaltec AG has checked whether Nabaltec AG has actual control over Nashtec LLC. This assessment took into account e.g. the majority interest and the other contractual arrangements with Allied Alumina LLC for the management and supervision of Nashtec LLC. The Management Board concluded that, even in light of Sherwin Alumina LLC's Chapter 11 bankruptcy procedure, Nabaltec AG still has adequate means to influence the operations of Nashtec LLC. Consequently, Nabaltec AG can exercise control over Nashtec LLC.

The following subsidiary was not included in the consolidated financial statements of Nabaltec AG but was instead recognized at cost since it is not material for presentation of the financial, liquidity and earnings position.

SUBSIDIARIES

Name of subsidiary	Main Businesses	Registered office	Share of capital and voting rights 12/31/2016 in %	12/31/2015 in %
Nabaltec Asia Pacific K.K.	Marketing and sales	Tokyo, Japan	100.00	0.00

All individual financial statements of the consolidated companies, which are prepared in accordance with national law, were reconciled to IFRS and adapted to the Group's accounting policies.

The reporting dates of all companies included in the consolidated financial statements are 31 December.

Subsidiaries are included in the consolidated financial statements from the time at which the company obtains control over the subsidiary until the time the company ceases to exercise control. The results of subsidiaries which are acquired or sold over the course of the year are recognized in the consolidated income statement and other comprehensive income from the actual date of acquisition or through the actual disposal date.

Details concerning the Group's subsidiary, in which substantial non-controlling interests exist, are presented below:

NASHTEC LLC

in TEUR	12/31/2016	12/31/2015
Nashtec LLC		
Current assets	3,017	5,104
Non-current assets	20,445	19,006
Current liabilities	22,318	22,890
Non-current liabilities	0	0
Shareholders' equity attributable to shareholders in the parent company	583	622
Non-controlling interests	562	598

NASHTEC LLC

in TEUR	2016	2015
Revenues	11,660	15,398
Expenses	–11,783	–13,902
Annual result	**–123**	**1,496**
Annual result attributable to shareholders in the parent company	–63	763
Annual result attributable to non-controlling interests	–60	733
Total net income	**–123**	**1,496**
Other comprehensive income attributable to shareholders in the parent company	24	38
Other comprehensive income attributable to non-controlling interests	24	35
Total other comprehensive income	**48**	**73**
Comprehensive income attributable to shareholders in the parent company	–39	801
Comprehensive income attributable to non-controlling interests	–36	768
Comprehensive income	**–75**	**1,569**
Dividends paid to non-controlling shareholders	**—**	**—**
Net cash flow from operating activity	2,313	2,446
Net cash flow from investment activity	–2,087	–1,348
Net cash flow from financing activity	–639	–1,161
Total net cash flow	**–413**	**–63**

There were no associated companies, joint ventures and cooperative activities in the reporting year.

2.4 CONSOLIDATION METHODS

Capital consolidation for the subsidiary was performed in accordance with IAS 27 (2008), “Consolidated and separate financial statements,” in conjunction with IFRS 3 R, “Business combinations,” by netting out the book value of the investment with the subsidiary’s remeasured capital at the time of the acquisition (remeasurement method). The cost of acquisition is equal to the fair value of the assets paid, the equity instruments issued and the liabilities incurred and assumed on the transaction date (the date of exchange), plus the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities in connection with a business combination are measured upon initial consolidation at their fair value as of the acquisition date, regardless of the amount of non-controlling interests. The amount by which the cost of acquisition exceeds the Group’s share in the net assets of the subsidiary, measured at fair value, is recognized as goodwill. If the cost of acquisition is lower than the net assets of the acquired subsidiary, measured at fair value, the difference is recognized immediately in the consolidated statement of comprehensive income, following additional review.

The impact of all material intra-Group transactions is eliminated by netting out income and expenses and accounts receivable and payable between Group companies. Interim results from intra-Group sales of assets which have yet to be resold to third parties are eliminated. The tax deferrals required in accordance with IAS 12 are performed on temporary differences arising from consolidation measures.

The results of subsidiaries which are acquired or sold over the course of the year are included in the consolidated statement of comprehensive income from the time the Group begins to exercise control until the time that such control ceases.

The share of consolidated shareholders' equity and consolidated net income which is attributable to non-controlling interests is disclosed separately from the shares attributable to the parent company. Insofar as the capital accounts of non-controlling interests show a negative balance, they are recognized as a negative item in shareholders' equity and consolidated profit and loss.

2.5 CURRENCY TRANSLATION

The consolidated financial statements are prepared in Euros, the Group's functional and reporting currency.

Foreign-currency monetary items (liquid funds, accounts receivable, accounts payable) in the individual financial statements of consolidated companies which are prepared in the local currency are measured at the closing rate. Exchange differences are recognized in profit and loss. Non-monetary items denominated in foreign currency are recognized at the historical rates.

The translation of the financial statements of the consolidated company, which are prepared in a foreign currency, is performed based on the functional currency concept in accordance with IAS 21, "The effects of changes in foreign exchange rates," using the modified closing rate method. Since the subsidiary essentially operates independently in financial, economic and organizational terms, the functional currency is identical to the company's national currency.

Accordingly, assets and liabilities are translated at the closing rate, shareholders' equity at the historical rate and income and expenses at the average rate for the year. Differences arising from currency translation are not recognized in profit and loss and are instead recognized separately in shareholders' equity under "other changes in shareholders' equity with no effect on profit and loss."

Currency differences relative to currency translation in the year before are recognized in shareholders' equity under "other changes in equity with no effect on profit and loss."

Initial historical costs and depreciation of fixed assets are translated at the exchange rate in effect on the last reporting date, while depreciation and all other transactions during the year are translated at the average exchange rate for the year. The translation of the foreign subsidiary's fixed assets results in translation differences which are presented in separate columns in the statement of fixed assets.

3. USE OF ASSUMPTIONS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions which affect the measurement of assets and liabilities, the disclosure of contingent assets and liabilities as of the reporting date and the recognition of income and expenses.

These assumptions and estimates relate primarily to the following:

- determining the useful lives of property, plant and equipment and intangible assets: the useful lives of fixed assets are based on management's estimates. The Group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each year. However, there were no changes to estimated useful lives during the current year.

- The option in accordance with IFRS 1.16, in conjunction with IFRS 1.18, for measurement of land and buildings at fair value in the IFRS opening balance sheet was exercised. The remeasurement of land and buildings on 1 January 2007 was performed with due regard for outside expert opinions.

- Pensions and other post-employment employee benefits: pension plans are measured based on actuarial calculations. Actuarial measurement is performed based on assumptions with regard to discount rates, expected income from plan assets, future increases in wages and salaries, mortality and future pension increases. Such estimates are subject to considerable uncertainty in view of the long-term nature of these plans. Provisions for pensions and similar obligations amounted to EUR 38,076 thousand on 31 December 2016 (year before: EUR 27,951 thousand). Further details are presented in Section 6.9, "Other current and non-current provisions."

- Provisions for environmental damage and waste disposal: these provisions are formed if it is likely that funds will have to be spent in the future for the performance of environmental clean-up and waste disposal measures, if a sufficiently reliable estimate of the costs can be made and if the measures are not expected to generate future benefits. The estimation of future costs involves a great deal of uncertainty, particularly legal uncertainty relating to laws and regulations, as well as uncertainty concerning actual circumstances in the various countries and locations. In particular, the estimation of costs is based on earlier experiences in similar cases, conclusions from expert opinions obtained by the Group, current expenses and recent developments with an impact on costs. Changes in these estimates may affect the future earnings of the entity. As of 31 December 2016, the book value of recognized provisions was EUR 0 thousand (year before: EUR 0 thousand).

- Measurement of other provisions: provisions are measured using management's best estimate of the amount necessary to settle the current obligation as of the reporting date. As of 31 December 2016, the book value of recognized other provisions was EUR 162 thousand (year before: EUR 154 thousand). We refer to the explanations in Section 6.9, "Other current and non-current provisions," for further statements and information.

- Recognition of deferred tax assets: in assessing the realizability of deferred taxes, the Management Board ascertains the likelihood that all deferred tax assets will be realized. The ability to realize deferred tax assets is ultimately contingent upon whether sufficient taxable income is earned in the periods in which temporary differences are deductible. If that is not the case, the deferred tax assets are not used and are therefore not recognized. Deferred tax assets as of 31 December 2016 (prior to netting out with deferred tax liabilities) amounted to EUR 9,437 thousand (year before: EUR 7,382 thousand).

- Impairment of non-financial assets: impairment tests of other intangible assets and property, plant and equipment are generally based on the estimated future discounted net cash flows which are to be expected from continued use of the asset and from disposal of the asset at the end of its useful life. Factors such as diminished revenues, resulting in lower net cash flows, as well as changes in discounting factors, may result in impairment or a write-up, if permissible.

- Shares in a controlled company: the Group is invested in a joint venture with a direct ownership interest of 51.00% (year before: 51.00%). Given the totality of the legal and economic circumstances, Nabaltec AG has the power to govern the company's financial and operating policies so as to obtain benefits from its activities. Accordingly, the controlled company is included in the consolidated financial statements as a fully consolidated subsidiary.

Actual results in future periods may deviate from estimates. If better information becomes available, changes are made with effect on profit and loss.

4. MAJOR ACCOUNTING POLICIES

4.1 REVENUE REALIZATION

Revenues from the sale of goods are recognized in accordance with the criteria established in IAS 18 in cases where risks and opportunities have been transferred entirely to the buyer, a price has been agreed upon or can be determined, and it can be expected that the price will be paid.

Revenues are diminished by cost of sales and discounts.

4.2 REALIZATION OF EXPENSES

Expenses are recognized on an accrual basis. Operating expenses are recognized in profit and loss at the time of their accrual, or at the time the service is utilized.

4.3 RESEARCH AND DEVELOPMENT COSTS

Nabaltec AG invests part of its financial resources in research and development performances. In addition to internal development activities relating to the individual optimization of purchased software, this particularly includes research and development activities for the improvement of existing products and processes and the development of new products and processes.

Research costs are recognized as expenses in the period in which they accrued. The Group only recognizes development costs in connection with individual projects as intangible assets if it can demonstrate the technical feasibility that the asset will be completed so that it will be available for internal use or sale, as well as its intention to complete the asset and use or sell it. The Group must also show that the asset will generate a future economic benefit, the availability of resources to complete the asset and the ability to reliably determine the expenses attributable to the asset during its development.

Following the first-time recognition of development costs, the cost model is applied, i.e. the asset is recognized at cost less accrued depreciation and impairment costs. Costs include directly attributable personnel expenses and other direct costs, as well as a reasonable share of overhead costs. The capitalized amounts are depreciated over the useful life of the asset once it is commissioned.

Capitalized development costs are tested for impairment once a year if the asset has yet to be used or if there are indications of impairment over the course of the year.

Nabaltec AG generally capitalizes all material development costs which accrue in the development phase of internally developed software. These costs are depreciated over the expected useful life of the software beginning with initial use.

Since the Group's development projects are often subject to official approval procedures and other unpredictable events, the requirements for the capitalization of costs accruing prior to approval are generally not met, or the amount of such costs in the brief period between the research/approval and market launch is immaterial.

No development costs were capitalized as of 31 December 2016 (year before: EUR 0 thousand).

4.4 INTANGIBLE ASSETS

Purchased intangible assets are recognized at cost less straight-line depreciation. Depreciation of intangible assets is generally performed in straight-line fashion over the useful life of the asset.

The depreciation term is as follows:

- IT software — 4 to 5 years

The residual values of assets, useful lives and depreciation methods are examined at the end of each year and adapted if necessary.

Intangible assets with an indefinite useful life do not exist.

Reference is made to Section 4.3, "Research and development costs," for the capitalization of development costs as self-created intangible assets.

4.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at cost less depreciation, in accordance with the expected useful life of the asset. The cost includes a reasonable share of attributable overhead costs in addition to direct costs.

Depreciation on property, plant and equipment is performed using the straight-line method.

The depreciation terms are as follows:

- Production and office buildings — 20 to 50 years
- Technical equipment and machinery — 5 to 22 years
- Fixtures, fittings and equipment — 3 to 20 years

The residual values of assets, useful lives and depreciation methods are examined at the end of each year and adapted if necessary.

4.6 BORROWING COSTS

Borrowing costs directly associated with the acquisition, construction or production of qualified assets (i.e. assets which take a substantial period of time to get ready for use or sale) are included in the cost of the asset until such time as the asset is ready for its intended use or sale. See Section 6.2, “Property, plant and equipment.”

Income earned from the temporary investment of specifically borrowed funds is subtracted from capitalizable borrowing costs until those funds are spent on qualified assets.

All other borrowing costs are recognized with effect on profit and loss in the period in which they accrue.

4.7 GOVERNMENT GRANTS

Government grants are deducted from the cost of the relevant asset (IAS 20.24). They are reversed over the useful life of the asset in the form of reduced depreciation. See Section 6.10, “Current and non-current accounts payable.”

4.8 LEASES: THE GROUP AS LESSEE

The determination as to whether an agreement is or contains a lease is made based on the economic content of the agreement and requires an assessment as to whether performance of the contractual agreement is contingent upon the use of a specific asset or assets and whether the agreement grants a right to use the asset.

Finance leases in which all risks and opportunities associated with ownership of the transferred essentially pass to the Group at the start of the lease are recognized at the fair value of the leased object or the present value of minimum lease payments, whichever is lower. Lease payments are broken down into two components, the finance charge and amortization of the outstanding liability, so that the residual book value of the lease liability accrues interest at a constant rate. The finance charge is immediately recognized as an expense. If it is not adequately certain that ownership will pass to the Group once the term of the lease expires, capitalized lease objects are fully depreciated over the term of the lease or their useful life, whichever is shorter. No finance lease liabilities existed as of 31 December 2016 and 31 December 2015.

Leases in which beneficial ownership cannot be attributed to the Group are classified as operating leases. Operating lease expenses are recognized in the consolidated income statement in straight-line fashion over the term of the lease. Future expenses of this nature are reported in Section 7.1, under “Other Financial Liabilities.”

In sale-and-lease-back transactions which establish an operating lease, the realization of income from the sale depends on the relationship of the sale price to fair value. If the sale price is equal to the fair value of the asset, the income is recognized immediately. In case of sale-and-lease-back transactions which result in a finance lease, the entire income is generally deferred and amortized over the term of the lease.

4.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The capitalized book value of intangible assets with a limited useful life and property, plant and equipment is checked for impairment based on the expected future cash flows arising from use of the asset (discounted at a rate commensurate with the risk) and based on the net sale price of the asset (impairment test) if certain events or market developments indicate an adjustment of the estimated useful life of the asset, or that the value of the asset has decreased. In addition, intangible assets which are not yet ready for use are tested for impairment annually. If the net book value of the asset is higher than the recoverable amount (the higher of the asset's value in use and net realizable value), a write-down is performed. The determination of expected future cash flows takes into account current and expected future income as well as technological, economic and general developments and developments in the specific field of business. If the reason for an earlier write-down no longer applies, a write-up to the amortized cost of the asset is performed, to the extent permissible.

4.10 FINANCIAL ASSETS

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

Upon initial recognition, financial assets are measured at fair value. For financial assets which are not measured at fair value through profit and loss, the measurement includes transaction costs which are directly attributable to acquisition of the asset.

The Group classifies its financial assets upon initial recognition and reviews this classification at the end of each year, to the extent reasonable and permissible. As of the reporting date, the Group has not classified any financial assets as "held-to-maturity investments" or "available-for-sale financial assets."

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the Group entered into an obligation to buy or sell the asset or liability. Regular way purchases and sales are purchases or sales of financial assets which call for the assets to be delivered within a period defined by market rules or conventions.

Financial assets measured at fair value through profit or loss

The category of financial assets at fair value through profit and loss includes financial assets which are held for trading and financial assets that are designated on initial recognition as financial assets measured at fair value through profit and loss. No such designation was made by the Group in the reporting period.

Financial assets are classified as "held for trading" if they were acquired for the purpose of selling them in the near future. Derivatives are also classified as "held for trading," with the exception of derivatives which are financial guarantee contracts or which are designated and effective hedging instruments. Income and losses from financial assets which are held for trading are recognized through profit and loss.

At the time when the Group first becomes a counterparty to a contract, it ascertains whether embedded derivatives are to be recognized separately from the host contract. A reassessment is only performed if the terms of the contract are substantially modified, resulting in a significant change to the cash flows which would otherwise have been generated by 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. They particularly consist of trade receivables, other assets and cash and cash equivalents.

Following initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less impairment. Income and losses are recognized in profit and loss, upon derecognition of the loans and receivables, upon impairment and in the course of amortization.

Derecognition of financial assets

A financial asset is derecognized when the company loses its ability to dispose over contractual rights to the cash flows comprising the financial asset.

If the Group transfers its contractual rights to the cash flows generated by an asset but neither transfers nor retains substantially all of the risks and rewards associated with ownership of the asset, so that the Group retains its ability to dispose over the transferred asset, the Group continues to recognize the transferred asset to the extent that it has a continuing involvement in the asset.

4.11 IMPAIRMENT OF FINANCIAL ASSETS

On each reporting date, a test is performed to determine whether financial assets or groups of financial assets are impaired. An impairment loss is recognized immediately in profit and loss.

Trade receivables are recognized at amortized cost less reasonable allowances. Allowances on accounts receivable are performed based on the probability of default.

Other financial assets and accounts receivable are recognized at amortized cost. Allowances are performed on a case-by-case basis if doubts exist as to the recoverability of other assets.

4.12 INVENTORIES

Inventories are measured at cost or at net realizable value, whichever is lower.

Raw materials and supplies are recognized upon addition at cost plus ancillary costs less price reductions. Costs are determined using the weighted average method.

Finished goods and work in process are capitalized at their production cost. Production costs include directly attributable production costs as well as a share of attributable fixed and variable overhead production costs. The share of overhead costs is determined based on normal employment. Cost of sales, cost of general administration and borrowing costs are not capitalized.

Finished goods are combined into measurement units as part of a group valuation.

On the reporting date, inventories are written down to account for risks arising from extended storage or diminished realizability, taking into account their net realizable value.

4.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet include cash on hand, bank balances and short-term deposits within original terms to maturity of less than three months. The same definition is used for the purposes of consolidated cash flow statement. Measurement is performed at amortized cost.

4.14 TAXES

Actual taxes on income

Actual tax liabilities and refund claims for the current and all earlier periods are recognized in the amount of the expected payment to or refund from the tax authority. This amount is calculated based on the tax rates and laws in effect as of the reporting date.

Deferred taxes

Deferred tax assets and liabilities are recognized for all temporary differences between tax and IFRS measurement and for consolidation measures with effect on profit and loss using the balance sheet method in accordance with IAS 12, “Income taxes.” Pursuant to IAS 12.34, deferred tax assets for loss carry-forwards or temporary differences may only be recognized to the degree that it is likely that future taxable income will be earned so as to enable deduction of these loss carry-forwards.

Deferred taxes are calculated based on the tax rates in effect at the time of realization, based on the current legal situation. Changes in tax rates are taken into account insofar as they can be expected with adequate certainty.

Deferred tax assets and liabilities were netted out where possible.

4.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING INSTRUMENTS

The Group uses derivative financial instruments to hedge against interest rate and currency risks arising from operations. Financial instruments are measured at fair value as of the reporting date. Changes in value are recognized at profit and loss unless the requirements for hedge accounting are met. Changes in the market value of derivative financial instruments subject to hedge accounting are recognized either in profit and loss (fair value hedge) or as a component of shareholders’ equity (cash flow hedge). Hedge accounting was applied in these two financial years for cash flow hedges relating to interest rate and currency risks.

Derivative financial instruments which are not designated as hedging instruments are classified as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Derivative financial instruments are measured at fair value. Changes in the fair value of these derivative financial instruments are recognized in profit and loss.

4.16 SHAREHOLDERS’ EQUITY

Shareholder contributions and payments into the capital reserve are recognized, less transaction costs directly associated with the acquisition of shareholders’ equity, and with due regard for a possible tax effect.

4.17 OTHER PROVISIONS

Pursuant to IAS 37, “Provisions, contingent liabilities and contingent assets,” provisions are recognized insofar as a present obligation towards third parties arises from a past event which is likely to result in a future payment and which can be reliably estimated. This means that the probability of occurrence must be higher than 50%. Provisions are recognized for identifiable risks and contingent liabilities in their probable amount and recourse claims are not taken into account. Non-current other provisions are discounted. The settlement amount includes cost increases as of the reporting date.

Provisions were made for existing service anniversary bonus obligations established by works agreements using the same calculation assumptions as for pension reserves and pension-like liabilities. Service anniversary bonus obligations are calculated using the projected unit credit method.

4.18 PENSION RESERVES

Pension reserves are calculated using the projected unit credit method in accordance with IAS 19. This method takes into account known pensions and vested rights as of the reporting date as well as expected future increases in pensions and salaries, based on a careful assessment of the relevant factors. The calculation is based on an actuarial opinion with biometric assumptions.

The (net) interest component is determined at the start of the period by multiplying (net) pension obligations, i.e. pension liabilities less plan assets, by the discount rate for measurement of the pension obligation. As a result, the interest expense resulting from the compounding of the obligation is netted out with the expected income from plan assets, with the result to be recognized as profit and loss. Expected income from plan assets is assumed to be in the amount of the discount rate.

Like other actuarial gains and losses, deviations between the actual return on plan assets and/or the actual discount rate as of the reporting date and the expected discount rate (= the expected return on plan assets) are recognized in other comprehensive income as a remeasurement component.

The discount rate for (net) pension obligations is determined based on the yields of high-quality fixed-interest corporate bonds.

The service time component (service cost), which is to be recognized as profit and loss, includes both current service costs and past service costs arising from changes in the plan.

4.19 FINANCIAL LIABILITIES

Financial liabilities in terms of IAS 39 are classified as “financial liabilities at fair value through profit and loss” or “other liabilities.”

The Group classifies its financial liabilities upon initial recognition and reviews that classification at the end of each year, to the extent reasonable and permissible.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are measured at fair value upon initial recognition. Income and losses due to changes in fair value are immediately recognized as profit and loss. This category includes derivative financial instruments with negative market values (held for trading). Income and losses from financial liabilities measured at fair value are recognized as profit and loss.

Interest-bearing loans and bonds

Loans and bonds are measured at fair value upon initial recognition less directly associated transaction costs. They are not designated as financial liabilities at fair value through profit and loss.

Following initial recognition, interest-bearing loans and bonds are measured at amortized cost using the effective interest method. Differences between the historical cost and the repayment amount are recognized as profit and loss in accordance with the effective interest method.

Financial liabilities, all of which are classified as other liabilities, are measured upon initial recognition at the fair value of the consideration received less associated transaction costs. Following initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized once the obligation which forms the basis for the liability has been settled or terminated or has expired.

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 REVENUES

For the breakdown of revenues into product segments, reference is made to the segment reporting and the associated notes in Section 7.7, “Segment reporting.”

5.2 OWN WORK CAPITALIZED

Own work in the amount of EUR 716 thousand (year before: EUR 450 thousand) was capitalized in Financial Year 2016 for various technical equipment and machinery, including capitalized interest in the amount of EUR 273 thousand (year before: EUR 172 thousand).

5.3 OTHER OPERATING INCOME

Other operating income is comprised as follows:

OTHER OPERATING INCOME

in TEUR	2016	2015
Currency gains	1,026	1,628
Other	213	156
Payments in kind	209	174
Analysis Center services	160	198
Rent and lease payments	156	14
Siding and track work	155	11
Insurance indemnities	84	251
Government grants	66	80
Warehouse and scrap sales	35	64
Supply of industrial water	30	156
HR services	26	63
Income from the disposal of property, plant and equipment	11	3
Income from the reversal of provisions	0	2
Total	**2,171**	**2,800**

Government grants relate to expense subsidies. The requirements associated with these grants have been met in full and no other uncertainties exist.

5.4 COST OF MATERIALS

Cost of materials is comprised as follows:

COST OF MATERIALS

in TEUR	2016	2015
Cost of raw materials, supplies and purchased goods	80,296	79,401
Cost of purchased services	651	870
Total	**80,947**	**80,271**

5.5 PERSONNEL EXPENSES

Personnel expenses are comprised as follows:

PERSONNEL EXPENSES

in TEUR	2016	2015
Wages and salaries	23,730	22,114
Social security contributions	3,985	3,913
Expenses for pension obligations	3,773	579
Other pension expenses	191	185
Total	**31,679**	**26,791**

Expenses for pension obligations meet the criteria for a defined benefit plan in terms of IAS 19.

Other pension expenses consist of employer subsidies to employee pension plans meeting the criteria of a defined contribution plan in terms of IAS 19.

The company's share of statutory pension insurance contributions, in the amount of EUR 1,752 thousand (year before: EUR 1,654 thousand), are included in social security contributions, which are paid monthly.

5.6 EMPLOYEES

The average number of employees in the Group has changed as follows:

EMPLOYEES

	2016	2015
Industrial workers	234	226
Employees	163	157
Minimally employed workers	5	5
Total	**402**	**388**

In addition, an average of 48 trainees were employed during the year (year before: 46).

5.7 DEPRECIATION

Depreciation of fixed assets is evident from the Statement of Fixed Assets.

If there are indications of impairment, the company performs an impairment test for intangible assets and property, plant and equipment, in which the book value of the cash-generating units are compared against the realizable value. The realizable value of each cash-generating unit was determined by calculating the net sale value and using the value in use method with the help of the discounted cash flow method. These discounted cash flows are based on three-year forecasts using management-approved projections. The cash flow forecasts take into account past experience and management's best estimate of the company's future development.

Impairment tests did not indicate a need to write down assets in Financial Year 2016.

5.8 OTHER OPERATING EXPENSES

Other operating expenses are comprised as follows:

OTHER OPERATING EXPENSES

in TEUR	2016	2015
Freight	11,059	10,578
Outside services not attributable to the production process	6,239	5,523
Sales commissions	3,219	2,976
Other administrative costs	943	833
Legal and consulting expenses	870	872
Other	805	475
Minimum lease payments	693	539
Insurance	630	689
Currency losses	462	415
Ancillary personnel expenses	430	423
Travel expenses	419	524
Advertising expenses	295	328
Other taxes	112	51
Losses from the disposal of fixed assets	25	84
Impairments of accounts receivable	5	29
Total	**26,206**	**24,339**

5.9 RESEARCH AND DEVELOPMENT

All research and development costs for the year, in the amount of EUR 2,948 thousand (year before: EUR 2,706 thousand), were recognized as expenses.

5.10 INTEREST AND SIMILAR INCOME

Interest and similar income is shown in the following table:

INTEREST AND SIMILAR INCOME

in TEUR	2016	2015
Income from plan assets (pension liability insurance)	113	119
Income from interest rate swaps	98	88
Interest income from bank balances	52	46
Total	**263**	**253**

5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are shown in the following table:

INTEREST AND SIMILAR EXPENSES

in TEUR	2016	2015
Interest expenses to banks	1,427	1,944
Interest expenses from interest rate swaps	886	768
Interest expenses from provisions	725	685
Interest expenses for the loan from Sherwin Alumina	250	211
Interest expenses from compounding	43	316
Total	**3,331**	**3,924**

5.12 TAXES ON INCOME

Taxes on income break down as follows:

INCOME TAXES

in TEUR	2016	2015
Actual taxes:		
Tax expense for current year	3,237	2,557
Tax expense for prior years	8	–11
Deferred taxes:		
Accrual and reversal of temporary differences	–1,584	93
Thereof recognized in other comprehensive income	2,217	769
Total	**3,878**	**3,408**

Taxes on income for Financial Year 2016 consist of current trade and corporate income tax, as well as US withholding tax for 2016.

Deferred taxes are calculated based on the tax rates in effect or expected at the time of realization, taking into account tax rules in effect or adopted as of the reporting date. The calculation of deferred taxes in Germany was based on a tax rate of 29.13% (year before: 28.08%). This number is comprised of the 15% corporate income tax rate, which remains in effect, the unchanged 5.5% solidarity mark-up and the average Group trade tax rate of 13.30% (year before: 12.25%). Taxes for the foreign company were calculated using the applicable national tax rates (34%, unchanged from the year before).

The effects of taxes in other comprehensive income, recognized as part of consolidated shareholders' equity, break down as follows for each component:

	BEFORE TAXES		DEFERRED TAXES		AFTER TAXES	
in TEUR	2016	2015	2016	2015	2016	2015
Foreign currency translation	428	1,054	0	0	428	1,054
Net income from hedge accounting	–928	–781	299	240	–629	–541
Actuarial gains and losses	–6,137	–1,883	1,918	529	–4,219	–1,354
Total	**–6,637**	**–1,610**	**2,217**	**769**	**–4,420**	**–841**

The table below shows the tax reconciliation of the expected tax expense in each year with the actual tax expense recognized in the consolidated income statement:

RECONCILIATION

	2016	2015
Tax rate	29.13%	28.08%
in TEUR		
Earnings before taxes (EBT)	9,162	10,850
Expected tax expense	2,669	3,047
Deviations		
1. Utilization of formerly unrecognized interest carry-forwards	0	–9
2. Addition to interest carry-forward	15	0
3. Different foreign tax rate	–3	45
4. Adjustments to actual taxes from prior years	48	–11
5. Remeasurement of loss carry-forward	815	0
6. Changes in tax rates	41	0
7. Non-deductible expenses	153	145
8. Tax effects of consolidation measures	143	152
9. Other	–3	39
Tax expense recognized in the consolidated income statement	3,878	3,408

Deferred tax assets and liabilities are as follows:

	CONSOLIDATED BALANCE SHEET		CONSOLIDATED INCOME STATEMENT	
in TEUR	12/31/2016	12/31/2015	2016	2015
Deferred tax assets				
Other assets	509	454	55	36
Pension reserves	7,058	4,441	2,617	544
Other provisions	205	139	66	–3
Loss carry-forward	702	1,657	–955	19
Other	963	691	272	–124
Gross total, deferred tax assets	9,437	7,382	2,055	472
Unrecognized deferred tax assets	0	0	0	0
Net total, deferred tax assets	9,437	7,382	2,055	472
Deferred tax liabilities				
Fixed assets	8,196	7,867	–329	–408
Inventories	419	423	4	–80
Other	707	561	–146	–77
Total deferred tax liabilities	9,322	8,851	–471	–565
	115	–1,469	1,584	–93

The deferred tax asset in the form of the loss carry-forward is attributable in its entirety to Nashtec LLC. Under US law, the latter is not considered to be an independent tax subject for federal and state taxes. In general, the share of the tax loss carry-forwards in the US which are attributable to Nabaltec AG, as shareholder, in the amount of EUR 2,065 thousand (year before: EUR 4,873 thousand), can be carried back two years and carried forward up to 20 years for the purposes of federal tax:

in TEUR	2016	2015
Expiration date within		
1 year	0	0
2 – 5 years	0	0
6 – 10 years	0	0
11 – 20 years	2,065	4,873

Deferred tax assets and liabilities in the US are netted out with deferred tax assets in connection with loss carry-forwards. Due to advantageous tax write-off rules, tax loss carry-forwards in the US are much higher than actual losses. As of 31 December 2016, deferred tax assets in the amount of EUR 0 thousand (year before: EUR 0 thousand) were recognized in Germany in connection with loss and interest carry-forwards.

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 INTANGIBLE ASSETS

With regard to the change in intangible assets, reference is made to the Statement of Fixed Assets.

Intangible assets largely consist of IT software and proprietary rights.

No intangible assets had been transferred by way of security as of 31 December 2016, as was the case in the prior year as well.

Material obligations to acquire intangible assets did not exist.

6.2 PROPERTY, PLANT AND EQUIPMENT

The change in property, plant and equipment is shown in the Statement of Fixed Assets.

Assets in the amount of EUR 0 thousand (year before: EUR 36,958 thousand) serve as collateral for bank loans.

Land charges of Nabaltec AG in the amount of EUR 0 thousand (year before: EUR 5,600 thousand) served as collateral for bank loans as of 31 December 2016.

A total of EUR 273 thousand in borrowing costs were capitalized in Financial Year 2016 (year before: EUR 172 thousand) for the long-term manufacture of various technical equipment, buildings and operating equipment. The average capitalization rate used for the calculation of capitalizable borrowing costs was 3.20% (year before: 4.00%).

6.3 FINANCIAL ASSETS

Financial assets relate to the Group's 100% interest in Nabaltec Asia Pacific K.K. The subsidiary has not been fully consolidated for materiality reasons. In the absence of an active market, the shares are measured at cost.

6.4 INVENTORIES

Inventories are comprised as follows:

INVENTORIES

in TEUR	12/31/2016	12/31/2015
Raw materials and supplies	17,864	16,778
Work in process	32	226
Finished goods and merchandise	12,986	13,777
Total	**30,882**	**30,781**

Inventories in the amount of EUR 0 thousand (year before: EUR 30,781 thousand) serve as collateral for accounts payable to banks.

The impairment of inventories, which is recognized as an expense, amounted to EUR 115 thousand (year before: EUR 249 thousand).

6.5 TRADE RECEIVABLES

Trade receivables are as follows:

TRADE RECEIVABLES

in TEUR	12/31/2016	12/31/2015
Gross trade receivables	3,259	5,365
Individual allowances	–168	–162
Total	**3,091**	**5,203**

All trade receivables are not interest-bearing and have a residual term of less than one year.

We refer to Section 7.2, "Disclosures for financial instruments," with regard to the development of the allowance account and the age structure of accounts receivable.

6.6 OTHER ASSETS

Other assets are comprised of other financial assets and other non-financial assets as follows:

OTHER ASSETS

in TEUR	12/31/2016	12/31/2015
Accounts receivable from factoring	3,451	2,873
Other	628	594
Other financial assets	**4,079**	**3,467**

OTHER NON-FINANCIAL ASSETS

in TEUR	12/31/2016	12/31/2015
VAT receivable	1,320	2,911
Accrued assets	130	150
Other non-financial assets	**1,450**	**3,061**
Total	**5,529**	**6,528**

The accounts receivable from factoring recognized as of 31 December 2016, in the amount of EUR 3,451 thousand (year before: EUR 2,873 thousand), consist primarily of withheld purchase prices in connection with factoring arrangements.

Other assets have a residual term of less than one year.

6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised as follows as of the reporting date:

CASH AND CASH EQUIVALENTS

in TEUR	12/31/2016	12/31/2015
Bank balances	36,181	42,269
Cash on hand	2	3
Total	**36,183**	**42,272**

Bank balances earn interest at variable interest rates for sight deposits. Short-term deposits are made for a variety of terms, ranging from one day to three months depending on the Group's needs. They earn interest in each case at the rates in effect for short-term deposits.

For the purposes of the consolidated cash flow statement, there are no differences in cash and cash equivalents as of 31 December 2016.

Cash and cash equivalents are not subject to any restrictions on disposal.

6.8 SHAREHOLDERS' EQUITY

The changes in Nabaltec AG's shareholders' equity are shown in the Statement of Consolidated Shareholders' Equity.

Subscribed capital

Fully paid-in capital (capital stock) amounted to EUR 8,000 thousand on the reporting date (year before: EUR 8,000 thousand) and consists of 8,000,000 bearer shares, with each share representing EUR 1.00 of the capital stock. Each share confers one vote.

Authorized capital

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to raise the capital stock through 31 May 2021 once or multiple times by up to EUR 4,000 thousand by issuing up to 4,000,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions, with the stipulation that the number of shares is to be increased in the same proportion as the capital stock. The Management Board may decide to exclude subscription rights with the approval of the Supervisory Board (Authorized Capital 2016/I).

Conditional capital

The capital stock was conditionally raised by up to EUR 4,000 thousand by resolution of the shareholders of 30 June 2016 (Conditional Capital 2016/I). The conditional capital serves exclusively to provide shares to holders of warrants and convertible bonds issued by the company based on the authorization of the shareholders of 30 June 2016.

Capital reserve

As of 31 December 2016, the capital reserve amounted to EUR 29,764 thousand (year before: EUR 29,764 thousand). The capital reserve resulted largely from the issuance of 2,000,000 shares at a price of EUR 15.50 per share, with each share representing EUR 1.00 of the capital stock, so that a premium of EUR 14.50 was charged per share, for a total of EUR 29,000 thousand.

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to issue convertible bonds and/or warrants made out to the bearer with a total value of up to EUR 150,000 thousand and with a term of no more than 15 years ("Convertible Bonds and/or Warrants") through 31 May 2021 once or multiple times and to provide holders of convertible bonds with conversion rights for up to 4,000,000 bearer shares in the company as specified in the Terms of Warrants and Convertible Bonds (Terms of Bonds) which are to be defined by the Management Board with the approval of the Supervisory Board.

Earnings reserves

As of 31 December 2016, earnings reserves amounted to EUR 9,711 thousand (year before: EUR 9,711 thousand). These earnings reserves represent the effect of first-time application of the IFRS.

The Management Board will propose a dividend payout in the amount of EUR 0.15 per share for Financial Year 2016.

We refer to the consolidated statement of changes in equity regarding changes in earnings carry-forwards.

Other changes in equity with no effect on profit and loss

Differences arising from currency translation, changes in the market value of derivative financial instruments for which hedge accounting is used, actuarial gains and losses from pension reserves and from corresponding deferred taxes are recognized separately in shareholders' equity under "other changes in equity with no effect on profit and loss." As of 31 December 2016, other changes in equity with no effect on profit and loss amounted to EUR –13,471 thousand (year before: EUR –9,026 thousand).

Non-controlling shareholders

As of 31 December 2016, non-controlling shareholders held shares in the capital of Nashtec LLC in the amount of EUR 562 thousand (year before: EUR 598 thousand).

6.9 OTHER CURRENT AND NON-CURRENT PROVISIONS

The development of other provisions is shown in the tables below:

FINANCIAL YEAR 2016

in TEUR	1/1/2016	Transfer	Use	Reversal	12/31/2016
Provisions for personnel expenses	887	270	69	0	1,088
Provisions for environmental damage and waste disposal	0	0	0	0	0
Other provisions	154	159	151	0	162
Total	**1,041**	**429**	**220**	**0**	**1,250**

FINANCIAL YEAR 2015

in TEUR	1/1/2015	Transfer	Use	Reversal	12/31/2015
Provisions for personnel expenses	844	128	83	2	887
Provisions for environmental damage and waste disposal	0	0	0	0	0
Other provisions	145	153	144	0	154
Total	**989**	**281**	**227**	**2**	**1,041**

Pension reserves

The Group has launched defined benefit pension plans which provide for a portion of the Group's employees in the period after retirement. These are final salary pension plans for Management Board members and employees based on the pension rules. The pension plans are in effect for employees who joined the company prior to 1 May 1995 and who are employed for an unlimited term. As a result, there can be no additions to the group of pension beneficiaries. Pension liability insurance premiums are paid for a portion of the plans. Because of how the plans are structured, the employer is exposed to actuarial risks, of which the most significant are interest rate risk and longevity risk. The average age of the persons covered by the pension plans is in a range between 60 and 65 years. Pension obligations are calculated based on a retirement age of 63.

The tables below show the composition of the pension expenses recognized in the consolidated income statement as well as amounts recognized in the consolidated balance sheet for the individual pension plans:

PENSION EXPENSES

in TEUR	2016	2015
Current service cost	591	579
Past service cost	3,182	0
Net interest expense	665	627
Pension expenses	**4,438**	**1,206**
Actual income from plan assets	57	47

New pension commitments were issued in 2016 in connection with the change in the structure of the Management Board as of 1 January 2017. This resulted in a past service cost in 2016 which was recognized as profit and loss in the year the plan was modified.

The net interest expense is comprised of the interest expense, in the amount of EUR 705 thousand (year before: EUR 665 thousand), less expected income from plan assets in the amount of EUR 39 thousand (year before: EUR 38 thousand). The interest share of the funds transferred to pension reserves and income from plan assets are recognized in net interest income. Actuarial gains and losses are recognized in other comprehensive income and have developed as follows:

DEVELOPMENT OF ACTUARIAL GAINS AND LOSSES

in TEUR	
Actuarial losses on 1 January 2015	–10,524
Losses from changes in biometric and financial assumptions	–543
Experience losses	–1,349
Income from plan assets	9
Actuarial losses on 31 December 2015	**–12,407**
Losses from changes in biometric and financial assumptions	–6,348
Experience gains	194
Income from plan assets	17
Actuarial gains and losses on 31 December 2016	**–18,544**

Changes in the present value of defined benefit obligations are as follows:

DEFINED BENEFIT OBLIGATION

in TEUR	
Defined benefit obligations on 1 January 2015	26,764
Interest expense	665
Current service cost	579
Benefits paid	–333
Actuarial gains/losses	1,892
Defined benefit obligations on 31 December 2015	**29,567**
Interest expense	705
Current service cost	591
Past service cost	3,182
Benefits paid	–378
Actuarial gains/losses	6,155
Defined benefit obligations on 31 December 2016	**39,822**

Of the EUR 39,822 thousand in defined benefit obligations as of 31 December 2016 (year before: EUR 29,567 thousand), a sum in the amount of EUR 13,170 thousand (year before: EUR 10,669 thousand) is covered by pension liability insurance with a premium reserve of EUR 1,746 thousand (year before: EUR 1,616 thousand).

Pension payments in the amount of approximately EUR 713 thousand are expected in Financial Year 2017 and EUR 727 thousand in Financial Year 2018.

Changes in the fair value of plan assets are as follows:

FAIR VALUE OF PLAN ASSETS

in TEUR	
Fair value of plan assets on 1 January 2015	1,489
Employer contributions	80
Expected returns	39
Actuarial gains/losses	8
Fair value of plan assets on 31 December 2015	**1,616**
Employer contributions	73
Expected returns	39
Actuarial gains/losses	18
Fair value of plan assets on 31 December 2016	**1,746**

Plan assets consist of the asset value of a pension liability insurance policy, which is to be treated as part of plan assets pursuant to IAS 19.7 (b). The Group expects contributions to plan assets to total EUR 36 thousand in Financial Year 2017.

The recognized value of pension reserves can be reconciled as follows with the present value of the defined benefit liability:

in TEUR	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Fair value of plan assets	1,746	1,616	1,489	1,369	1,219
Present value of defined benefit liability	39,822	29,567	26,764	20,289	19,053
Pension reserves	38,076	27,951	25,275	18,920	17,834

The basic assumptions for the calculation of post-employment pension obligations are shown below:

in %	2016	2015
Discount rate	1.50	2.40
Salary trend	2.75	2.75
Pension trend	2.00	2.00
Fluctuation	1.00	1.00

Post-employment mortality among 65-year-old retirees in accordance with Heubeck's 2005 G benchmark tables

The following would be the effects on the pension liability if the actuarial assumptions change:

PENSION LIABILITY

in TEUR	+ 25 BP	– 25 BP
Discount rate	37,897	41,887
Salary trend	40,222	39,430
Pension trend	41,262	38,453

The sensitivity analysis above is based on a scenario where one assumption changes while all the others remain constant. In reality, however, it is not unlikely for changes in multiple assumptions to be correlated.

The methods and types of assumptions used for the sensitivity analysis have not changed since the previous period.

6.10 CURRENT AND NON-CURRENT ACCOUNTS PAYABLE

BOOK VALUES

in TEUR		Book value	thereof term < 1 year	thereof term: 1 – 5 years	thereof term: > 5 years
Accounts payable to banks	12/31/2016	72,569	1,224	32,433	38,912
	12/31/2015	83,548	12,234	32,416	38,898
Trade payables	12/31/2016	14,526	14,526	–	–
	12/31/2015	12,278	12,278	–	–
Accounts payable from income taxes	12/31/2016	1,112	1,112	–	–
	12/31/2015	1,565	1,565	–	–
Other accounts payable	12/31/2016	16,389	16,389	–	–
	12/31/2015	15,938	15,938	–	–
Total	**12/31/2016**	**104,596**	**33,251**	**32,433**	**38,912**
	12/31/2015	**113,329**	**42,015**	**32,416**	**38,898**

Accounts payable to banks

Accounts payable to banks consist of long-term loans against borrower's note obtained at typical market interest rates. The book value is equal to the market value.

Nabaltec AG's loan contracts are subject to covenants which are measured by leverage coverage ratios such as equity ratio. If the covenants are breached, the lender has the option of raising the interest margins or it may exercise its right of extraordinary termination. None of the covenants in effect as of 31 December 2016 were breached in the 2016 reporting year.

Trade payables

Trade payables have a residual term of up to 90 days.

The book values of trade payables are equal to their fair value.

Accounts payable from income taxes

This includes outstanding tax payments in Germany resulting from corporate income tax, solidarity mark-up and trade tax for the financial year just ended and the prior year.

Other accounts payable

Current accounts payable consist of the following financial and non-financial obligations:

OTHER LIABILITIES

in TEUR	12/31/2016	12/31/2015
Loans from minority shareholders	9,780	9,414
Negative market values from interest rate swaps	3,130	2,476
Other	541	641
Financial statements and auditing	193	182
Negative market values from currency futures	175	0
Professional association	173	207
Investment grants	0	853
Other current financial accounts payable	**13,992**	**13,773**

in TEUR	12/31/2016	12/31/2015
Bonuses and other performance-based compensation	1,051	941
Outstanding vacation claims	762	711
Amounts owed to the tax office	306	258
Other excise duties	159	160
Social expenses owed	66	47
Inventor compensation	38	33
Demographic Contribution II	15	15
Other current non-financial accounts payable	**2,397**	**2,165**
Other current accounts payable (total)	**16,389**	**15,938**

Amounts owed for bonuses and performance-based compensation accrue depending on the degree to which the targets are met. Amounts owed for outstanding vacation claims depend on the individual employees.

Amounts owed to the tax office consist primarily of wage and church tax for the financial year just closed which has yet to be paid as of the reporting date.

Due to the short-term nature of these obligations, the book values of the other current accounts payable are approximately equal to their fair value.

Other accounts payable in the amount of EUR 0 thousand (year before: EUR 853 thousand), for which there are as yet no corresponding investments, relate to an investment grant in the amount of EUR 4,150 thousand from the government of the Upper Palatinate for existing and future investments, which has already been paid out. These amounts consist entirely of other financial accounts payable. The book value is largely consistent with the fair value. EUR 853 thousand of the investment grants received by the Group was subtracted from the cost of non-current assets in the financial year (year before: EUR 1,679 thousand).

7. OTHER DISCLOSURES

7.1 OTHER FINANCIAL LIABILITIES

Liabilities arising from operating leases with the Group as lessee

The Group has financial liabilities arising from rental and lease agreements. As of the reporting date, 31 December 2016, no lease agreements existed for various technical equipment and machinery within the context of a sale-and-lease-back transaction. The residual terms of all contracts are largely between 1 and 5 years.

A total of EUR 693 thousand (year before: EUR 539 thousand) in expenses arising from rental and operating lease agreements were recognized in the current year.

Total future minimum lease payments in connection with rental and operating lease contracts have the following maturities:

in TEUR	12/31/2016	12/31/2015
Minimum lease payments within 1 year	651	471
Minimum lease payments, 1–5 years	992	462
Minimum lease payments, over 5 years	0	113
Total	1,643	**1,046**

Contingent liabilities and guarantees

No material contingent liabilities, guarantees or other material litigation existed as of the reporting dates for which provisions have not yet been set aside. As of 31 December 2016, there were a total of EUR 4,423 thousand in obligations (year before: EUR 5,971 thousand) arising from investment orders.

An investment plan was prepared on 9 November 2016 for the realization of a stand-alone solution for the US subsidiary Nashtec LLC. Nabaltec AG has committed to making funds available to implement the investment plan. The amount of the financial obligations will be as high as EUR 13,258 thousand (USD 14,000 thousand) and will extend through 31 December 2017. It is to be expected that these financial obligations will materialize in their full amount.

7.2 DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

Book value, measurement and fair value by measurement category

The table below shows the book values and fair values of all financial instruments recognized in the consolidated financial statements:

in TEUR	Measurement category pursuant to IAS 39	BOOK VALUE 2016	BOOK VALUE 2015	FAIR VALUE 2016	FAIR VALUE 2015
Financial assets					
Shares in affiliated companies	AC	78	0	0	0
Trade receivables	LaR	3,091	5,203	3,091	5,203
Other assets and accounts receivable					
Other non-derivative accounts receivable and financial assets	LaR	4,079	3,467	4,079	3,467
Positive market values of currency derivatives (with hedging)	–	0	0	0	0
Cash and cash equivalents	LaR	36,183	42,272	36,183	42,272
Financial liabilities					
Financial liabilities measured at cost					
Accounts payable to banks	FLaC	72,569	83,548	72,569	83,548
Trade payables	FLaC	14,526	12,278	14,526	12,278
Other financial liabilities					
Other non-derivative financial liabilities	FLaC	10,687	11,297	10,687	11,297
Negative market values of interest rate derivatives (without hedging)	HfT/FVtPL	0	98	0	98
Negative market values of interest rate derivatives (designated in effective cash flow hedges)	–	3,130	2,378	3,130	2,378
Negative market values of currency derivatives (with hedging)	–	175	0	175	0

The following abbreviations are used for the measurement categories pursuant to IAS 39:

ABBREVIATIONS

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

The fair value of derivative financial instruments and loans was determined by discounting expected future cash flows using typical market interest rates. The fair value of other financial assets was calculated using typical market interest rates.

Cash and cash equivalents, trade receivables and other accounts receivable have a residual term of less than one year. As a result, their book value as of the reporting date approximates their fair value.

Shares in affiliated companies relate to shares in the subsidiary Nabaltec Asia Pacific K.K., which is not fully consolidated for reasons of materiality.

Net income by measurement category

Income and expenses from financial instruments are presented below using the measurement categories in IAS 39:

MEASUREMENT CATEGORY PURSUANT TO IAS 39

			From subsequent measurement			
in TEUR		From interest	At Fair Value	Currency translation	Impairment	Net income 2016
Acquisition Costs	AC	–	–	–3	–	–3
Loans and Receivables	LaR	52	–	129	–5	176
Held for Trading	HfT	–92	98	–	–	6
Other Liabilities	FLaC	–1,720	-	438	–	–1,282
Total 2016		**–1,760**	**98**	**564**	**–5**	**–1,103**

MEASUREMENT CATEGORY PURSUANT TO IAS 39

			From subsequent measurement			
in TEUR		From interest	At Fair Value	Currency translation	Impairment	Net income 2015
Acquisition Costs	AC	–	–	–	–	–
Loans and Receivables	LaR	46	–	407	–29	424
Held for Trading	HfT	–97	88	–	–	–9
Other Liabilities	FLaC	–2,471	–	806	–	–1,665
Total 2015		**–2,522**	**88**	**1,213**	**–29**	**–1,250**

In the Group's income statement, interest income and expenses from financial instruments are recognized under "interest and similar income" and "interest and similar expenses." Interest income from financial assets in the "loans and receivables" measurement category largely consists of interest income from current account balances and short-term deposits. Interest expenses from financial liabilities in the "other liabilities" measurement category largely consist of interest expenses for accounts payable to banks.

The total interest expense for the loan against borrower's note, calculated using the effective interest method, was EUR 1,303 thousand (year before: EUR 1,615 thousand).

The subsequent measurement of derivative financial instruments in the “held for trading” measurement category incorporates interest effects. These effects are recognized under interest and similar income and expenses. On the other hand, effects from the subsequent measurement of interest rate derivatives which are designated as effective cash flow hedges are recognized under shareholders’ equity with no effect on profit and loss. The recognition of ineffective hedges with an effect on profit and loss was not necessary.

Currency translation income and expenses for financial assets in the “acquisition costs,” “loan and receivables” and “other liabilities” measurement categories result from shares in companies which are not fully consolidated, trade payables and receivables and accounts payable to banks which are denominated in foreign currency. They are recognized under “other operating income” and “other operating expenses.”

Impairments largely consist of transfers to and reversals of individual allowances on trade receivables. These amounts are recognized under “other operating income” and “other operating expenses.”

Fair value hierarchy

On 1 January 2009, a hierarchy of various fair values was introduced for financial assets and liabilities measured at fair value with effect on profit and loss specifying the significance of the input data used for measurement. This hierarchy is as follows:

Level 1: At the first level of the fair value hierarchy, fair value is determined based on publicly quoted market prices, since the best possible objective indication of the fair value of a financial asset or liability can be observed in an active market.

Level 2: If an active market does not exist for a financial instrument, companies determine fair value using valuation models. Valuation models include use of the discounted cash flow method, option price models, comparing the instrument to the present fair value of another, largely identical, financial instrument, and examining recent transactions between well-informed, independent and willing business partners. Fair value is estimated based on the results of a valuation method which uses market data to the greatest possible extent, and is based as little as possible on company-specific data.

Level 3: The valuation models used on this level are, in part, not based on parameters and assumptions which are observable in the market.

The financial instruments which are measured by the Group at fair value have been assigned to the following levels of the hierarchy:

12/31/2016

in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	3,130	0	3,130
Negative market values of currency derivatives	0	175	0	175

12/31/2015

in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	2,476	0	2,476
Negative market values of currency derivatives	0	0	0	0

No assets or liabilities were reclassified between the measurement levels in Financial Year 2016.

Fair value is determined in each case based on the mark-to-market valuation of the participating banks.

Hedging transactions

Interest rate swaps are executed to hedge against fluctuations in future cash flows for loans with variable rates of interest resulting from changes in market interest rates. In addition, a US dollar currency derivative was entered into in Financial Year 2016 to hedge against foreign exchange risks arising from sales transactions. Designated and effective cash flow hedges are recognized in accordance with the hedge accounting rules in IAS 39. Accordingly, risks arising from fluctuations in interest and exchange rates are deliberately managed with a view to reducing volatility.

At the commencement of the hedge, both the hedging transaction and the Group's risk management goals and strategies with regard to the hedge are formally defined and documented. The documentation is to include a definition of the hedging instrument and the hedged item, as well as the type of risk and a description of how the Group will measure the effectiveness of the hedging instrument in compensating for risks arising from changes in cash flow associated with the hedged item. Hedging transactions are continually examined to ascertain whether they actually were highly effective for the entirety for the reporting period for which the hedging transaction was defined.

Among the requirements imposed by IAS 39 within the framework of hedge accounting is the requirement that designated hedges must be effective. To meet this requirement, changes in the fair value of the hedging instrument must fall within a range of 80% to 125% of the opposite changes in the fair value of the hedged item, both prospectively and retrospectively. The effective portion of a hedge, i.e. that which falls within the above range, is recognized in shareholders' equity with no effect on profit and loss, while the ineffective portion is immediately recognized as profit and loss in the consolidated statement of comprehensive income.

As of 31 December 2016, the Group recognized interest rate derivatives in the amount of EUR –3,130 thousand (year before: EUR –2,378 thousand) and currency derivatives in the amount of EUR –175 thousand (year before: EUR 0 thousand) as hedging instruments as part of a cash flow hedge. Realization of the fair value of the interest rate and currency derivative, with no effect on profit and loss, resulted in changes in value in Financial Year 2016 of EUR –752 thousand (year before: EUR 430 thousand) and EUR –175 thousand (year before: EUR –1,211 thousand) respectively, the full amount of which was recognized in shareholders' equity. The cash flow hedges are designed to hedge cash flows in the form of routine interest payments, in the case of the interest rate derivatives, and routine US dollar payments, in the case of the currency derivative.

An interest rate derivative with effect on profit and loss, which was recognized on 31 December 2015 with a negative market value of EUR –98 thousand, was reversed as planned in Financial Year 2016, resulting in income of EUR 98 thousand.

There were no major changes relative to the year before to the risk positions for the risks presented below.

Default risk

Default risks arise primarily from trade receivables. Factoring transactions are used in order to minimize default risks. Under these contractual arrangements, the risk that the debtor will be unable to pay is transferred to the counterparty, with the exception of a security deposit. As a result, the relevant amounts are derecognized in their entirety and are no longer recognized as trade receivables. The exceptions are trade receivable which are not accepted by the factor, e.g. because a credit limit has been exceeded. Trade receivables are also insured through credit default swaps.

The amounts recognized in the balance sheet have been adjusted by the allowance for unrecoverable claims, which was estimated by management based on past experience and the current economic environment. Individual allowances are made whenever an indication exists that accounts receivable are uncollectible. These indications are based on intensive contacts within the framework of receivables management.

The default risk in the event of counterparty default in connection with the Group's assets, such as trade receivables, cash and cash equivalents and other assets, is no higher than the book value of the relevant instruments.

There is no major concentration of default risks within the Group, as these risks are spread out over a large number of counterparties and customers. As in the previous year, there were no restrictions on ownership or disposal.

The table below shows the change in allowances on trade receivables:

in TEUR	2016	2015
1/1/	163	134
Transfers	5	29
Reversals	0	0
12/31/	168	163

The age structure of trade receivables is as follows:

in TEUR	Book value	Neither overdue nor impaired	Overdue but not impaired < 3 months	3 – 6 months	6 – 12 months	> 12 months
12/31/2016	3,091	3,091	0	0	0	0
12/31/2015	5,203	5,203	0	0	0	0

As far as trade receivables are concerned which are neither overdue nor written down, there was no indication as of the reporting date that the debtors will be unable to meet their payment obligations.

No trade receivables were overdue or impaired due to modified conditions.

No other financial assets were impaired. No overdue claims existed in that regard as of the reporting date.

Liquidity risk

The Group routinely monitors the risk of a liquidity shortage, taking into account e.g. the terms to maturity of financial assets and liabilities as well as expected cash flows from business activities. The Group's goal is to use bank overdrafts and loans to continually meet liquidity requirements while at the same time ensuring utmost flexibility.

The table below shows the contractually stipulated (undiscounted) cash flows in connection with financial liabilities. It includes all financial liabilities held as of the reporting date for which payments had been contractually stipulated. Estimates of future new obligations were not included. Amounts denominated in foreign currencies were translated using the exchange rate as of the reporting date. Variable interest payments on financial instruments were determined based on the fixed interest rates in effect most recently prior to the reporting date. Financial liabilities which are payable at any time are assigned to the earliest maturity category.

CASH OUTFLOWS undiscounted

in TEUR		Total	thereof term < 1 year	thereof term: 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2016	81,051	3,150	38,576	39,325
	12/31/2015	94,136	14,344	39,419	40,373
Trade payables	12/31/2016	14,526	14,526	–	–
	12/31/2015	12,278	12,278	–	–
Other financial liabilities	12/31/2016	13,992	13,992	–	–
	12/31/2015	13,773	13,773	–	–
Total (financial liabilities)	**12/31/2016**	**109,569**	**31,668**	**38,576**	**39,325**
	12/31/2015	**120,187**	**40,395**	**39,419**	**40,373**

Foreign exchange risk

The Group's foreign exchange risks result from its operations. While the individual Group companies operate predominantly with their respective functional currencies, they are exposed to foreign exchange risks in connection with expected payments outside of their functional currency.

In accordance with IFRS 7, foreign exchange risks are presented using sensitivity analyses, which show the effects on pre-tax earnings (due to changes in the measurement of financial assets and liabilities with effect on profit and loss) and possibly shareholders' equity of the Euro going up or down in value relative to all other foreign currencies. These analyses focus on financial instruments which are denominated in a currency other than the local functional currency, and which are monetary in nature. Accordingly, differences arising from the translation of foreign statements into the Group currency, Euros, due to changes in exchange rates are not recognized, in accordance with the requirements of IFRS 7. In contrast to the year before, shareholders' equity as of the reporting date was affected by changes in the fair value of currency derivatives intended to hedge future cash flows.

	Rate change in %	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity* in TEUR
2016			
USD	+10	471	852
USD	–10	–471	–1,430
2015			
USD	+10	497	0
USD	–10	–497	0

* *Not including the impact on pre-tax earnings*

Interest rate risk

The Group's exposure to the risk of fluctuations in market interest rates results primarily from financial accounts payable to banks carrying variable interest rates. The Group's interest expenses are managed through a combination of fixed-interest and variable-interest debt. Interest rate swaps are used to hedge against interest rate risks arising from positions carrying long-term variable interest rates, in which the difference between fixed-interest and variable-interest cash flows is exchanged with the counterparty at defined intervals based on a predefined notional amount.

Interest rate risks are modelled in accordance with the requirements of IFRS 7 using sensitivity analyses, which show the effects of hypothetical changes in market interest rates on current interest payments, income and expenses as follows in the context of pre-tax earnings and possibly shareholders' equity (from the subsequent measurement of interest rate derivatives designated as effective cash flow hedges):

	Increase/ decrease in basis points	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity* in TEUR
2016			
Europe	+10	–3	302
USA	+10	–19	0
Europe	–10	3	–309
USA	–10	19	0
2015			
Europe	+10	–16	353
USA	+10	–20	1
Europe	–10	16	–271
USA	–10	20	–1

** Not including the impact on pre-tax earnings*

7.3 ADDITIONAL DISCLOSURES CONCERNING CAPITAL MANAGEMENT

Nabaltec AG employs a solid capital management scheme in order to enable the Group to remain on track for growth and to ensure its ability to meet its payment obligations. A particular goal is to maintain an enduring balance between equity and debt.

Nabaltec AG's shareholders' equity and debt items recognized in connection with capital management as of 31 December 2016 and 2015 are shown below:

	12/31/2016 in TEUR	12/31/2015 in TEUR	Change in %
Shareholders' equity	**57,765**	**58,102**	**–0.58**
as % of total capital	41.23	38.46	7.20
Non-current financial debt	71,345	71,314	0.04
Current financial debt	11,004	21,648	–49.17
Debt*	**82,349**	**92,962**	**–11.42**
as % of total capital	58.77	61.54	–4.50
Total capital for capital management purposes	**140,114**	**151,064**	**–7.25**

** The company defines debt as accounts payable to banks and accounts payable to a minority shareholder.*

Equity decreased by EUR 337 thousand last year, to EUR 57,765 thousand, largely due to an increase in actuarial losses by EUR 3,344 thousand.

Debt decreased by EUR 10,613 thousand last year, to EUR 82,349 thousand, largely due to the amortization of long-term bank loans.

Together, these effects resulted in an increase in the equity ratio (shareholders' equity as a percentage of total capital) to 41.23%, up from 38.46% in the year before. The ratio of debt to capital for capital management purposes decreased from 61.54% on 31 December 2015 to 58.77% on 31 December 2016.

In the future, the Group will endeavor to steadily optimize its financial management, together with continuously monitoring and managing its equity ratio.

The object of this financial management is to improve the solvency of Nabaltec AG relative to its business partners and optimize capital costs.

Nabaltec AG is not subject to any capital adequacy requirements in accordance with its Articles of Association. For covenants arising from loan contracts, reference is made to Section 6.10, "Current and non-current accounts payable."

7.4 TRANSACTIONS WITH RELATED PARTIES

Persons and companies are considered to be related parties in terms of IAS 24, "Related party disclosures," if one of the parties has the ability, directly or indirectly, to control or exercise a significant influence over the other party, or if one of the parties is engaged in joint management of the company.

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

- members of the Management Board (see Section 7.8, "Corporate officers") and their family members;
- members of the Supervisory Board (see Section 7.8, "Corporate officers") and their family members;
- companies which are directly or indirectly controlled by members of the Management Board or Supervisory Board.

The members of the Management Board received short-term remuneration in the amount of EUR 1,568 thousand in Financial Year 2016 (year before: EUR 1,547 thousand). An additional EUR 8 thousand was transferred to provisions for service anniversaries (year before: EUR 2 thousand). In addition, a total of EUR 416 thousand was spent on post-employment benefits (year before: EUR 379 thousand).

The members of the Supervisory Board received a total of EUR 49 thousand in remuneration in Financial Year 2016 (year before: EUR 49 thousand).

The following accounts receivable and payable existed on 31 December 2016 and 2015 vis-a-vis related parties:

	Accounts receivables		Accounts payables	
in TEUR	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
Companies controlled by Supervisory Board members	0	0	0	0
Companies controlled by Management Board members	12	18	0	0

Allowances for doubtful accounts with related parties were performed on 31 December 2016 in the amount of EUR 8 thousand (year before: EUR 8 thousand).

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In addition to Management and Supervisory Board compensation, the following transactions with related parties were recognized in Financial Years 2016 and 2015:

in TEUR	Deliveries and services performed and other income 2016	Deliveries and services performed and other income 2015	Deliveries and services received and other expenses 2016	Deliveries and services received and other expenses 2015
Companies controlled by Supervisory Board members	0	0	5	20
Companies controlled by Management Board members	26	63	30	49

Transactions with companies controlled by Management Board members relate to human resources services and other services (income in the amount of EUR 26 thousand, year before: EUR 63 thousand), investment planning (services in the amount of EUR 19 thousand, year before: EUR 33 thousand), as well as other services (expenses in the amount of EUR 11 thousand, year before: EUR 16 thousand). Transactions with companies controlled by Supervisory Board members and related persons also resulted from the payment of a royalty (fees of EUR 5 thousand, year before: EUR 20 thousand).

7.5 EARNINGS PER SHARE

The number of outstanding shares changed as follows over the Financial Year:

NUMBER OF SHARES

	2016	2015
Outstanding common shares as of 1/1/	8,000,000	8,000,000
No transactions took place in these two years		
Outstanding common shares as of 12/31/	8,000,000	8,000,000
Average undiluted number of outstanding common shares	**8,000,000**	**8,000,000**

To calculate undiluted earnings per share, the earnings attributable to holders of common shares in the company are divided by the weighted average number of common shares in circulation during the year.

In accordance with IAS 33, “Earnings per share,” the calculation of diluted earnings per share must also take into account the effects of potential common shares. Dilutive effects on the earnings of Nabaltec AG do not exist. Accordingly, the undiluted earnings per share is equal to the diluted earnings per share for Financial Years 2016 and 2015.

Earnings per share are therefore as follows:

EARNINGS PER SHARE

	2016	2015
Consolidated after-tax earnings – shareholders in the parent company (TEUR)	5,344	6,709
Average undiluted number of outstanding common shares	8,000,000	8,000,000
Earnings per share (EUR)	0.67	0.84

We also refer to the statements in Section 6.8, “Shareholders’ equity.”

7.6 CASH FLOW STATEMENT

The cash flow statement shows the origin and use of cash flows. A distinction is made between cash flow from operating activity and cash flow from investment and financing activity in accordance with IAS 7, "Statement of Cash Flows."

The item presented in Section 6.7, "cash and cash equivalents," is included in the funds presented in the cash flow statement.

Deviations between the additions cited in the Statement of Fixed Assets and payments made for investments in property, plant and equipment result from outstanding amounts owed for asset acquisitions as of the reporting date, and from the netting out of investment subsidies with additions to fixed assets as reported in the Statement of Fixed Assets.

Interest paid and received and taxes on income are directly evident from the consolidated cash flow statement.

7.7 SEGMENT REPORTING

The operating segments conform to the Group's business segments. The Group's risks and internal organizational and reporting structures are largely determined by the products which are manufactured in the various segments.

Business segments

Nabaltec is divided into two divisions, "Functional Fillers" and "Technical Ceramics." Each segment represents a strategic business unit with distinct products and markets.

The "Functional Fillers" division primarily manufactures and distributes non-halogenated flame-retardant fillers for the plastics and cable industry, as well as additives.

In the "Technical Ceramics" division, ceramic materials and ceramic bodies are manufactured and distributed for a wide range of applications in technical ceramics and in the refractory industry.

The "Others" column consists of assets and liabilities which are not attributable to any individual segment.

Transfer prices between the business segments are generally determined based on typical market conditions in accordance with the arm's length principle. Segment revenues, expenses and earnings include transfers between business units which are eliminated over the course of consolidation. No transactions between the business segments took place in the 2016 and 2015 Financial Years.

FINANCIAL YEAR ENDING ON 12/31/2016

in TEUR	Functional Fillers	Technical Ceramics	Other	Nabaltec Group
Revenues				
Revenues from non-Group customers	109,123	50,092	–	159,215
Segment earnings				
EBITDA	17,316	5,593	–	22,909
EBIT	9,630	2,600	–	12,230
Assets and liabilities				
Segment assets	118,213	47,176	37,309	202,698
Segment liabilities	14,915	7,471	122,547	144,933
Other segment data				
Investments				
– Property, plant and equipment	13,603	5,128	–	18,731
– Intangible assets	50	103	–	153
– Financial assets	55	23	–	78
Depreciation				
– Property, plant and equipment	7,596	2,929	–	10,525
– Intangible assets	90	64	–	154

FINANCIAL YEAR ENDING ON 12/31/2015

in TEUR	Functional Fillers	Technical Ceramics	Other	Nabaltec Group
Revenues				
Revenues from non-Group customers	102,275	49,071	–	151,346
Segment earnings				
EBITDA	17,832	6,859	–	24,691
EBIT	10,463	4,058	–	14,521
Assets and liabilities				
Segment assets	113,726	45,894	42,272	201,892
Segment liabilities	13,388	6,455	123,947	143,790
Other segment data				
Investments				
– Property, plant and equipment	9,159	3,667	–	12,826
– Intangible assets	133	78	–	211
– Financial assets	0	0	–	0
Depreciation				
– Property, plant and equipment	7,292	2,753	–	10,045
– Intangible assets	77	48	–	125

Regional data

Regions are defined as Germany, rest of Europe, USA and rest of world.

FINANCIAL YEAR ENDING ON 12/31/2016

in TEUR	Germany	Rest of Europe	USA	Rest of World	Total
Revenues					
Revenues from non-Group customers	42,437	78,332	20,226	18,220	159,215
Other segment data					
Segment assets	179,554	–	23,144	–	202,698
Investments					
– Property, plant and equipment	16,348	–	2,383	–	18,731
– Intangible assets	153	–	–	–	153
– Financial assets	–	–	–	78	78

FINANCIAL YEAR ENDING ON 12/31/2015

in TEUR	Germany	Rest of Europe	USA	Rest of World	Total
Revenues					
Revenues from non-Group customers	41,888	73,204	19,708	16,546	151,346
Other segment data					
Segment assets	178,264	–	23,628	–	201,892
Investments					
– Property, plant and equipment	11,192	–	1,634	–	12,826
– Intangible assets	211	–	–	–	211
– Financial assets	–	–	–	0	0

More than 10% of total revenues in Financial Year were earned from a single customer. The revenues from this customer amounted to EUR 17,218 thousand and is included in the results for the “Functional Fillers” division. In Financial Year 2015 as well, more than 10% of revenues were earned from a single customer (EUR 16,229 thousand).

The Group’s non-current assets are located in Germany and the US. Non-current assets are defined as assets which are used in business operations and which are intended to remain in the company for more than 12 months. The allocation to the various regions is determined by the location of the respective assets.

7.8 CORPORATE OFFICERS

Management Board

- Mr. Johannes Heckmann (Technical affairs)
- Mr. Gerhard Witzany (Commercial affairs)

Supervisory Board

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

7.9 VOLUNTARY DECLARATIONS PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT ON THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Nabaltec AG have voluntarily issued the prescribed declaration for publicly traded companies in accordance with § 161 of the German Stock Corporation Act and has made this declaration available to its shareholders on the company's website. The declaration is posted on the company's website, "www.nabaltec.de," under "Investor Relations/Corporate Governance."

7.10 MAJOR EVENTS OCCURRING AFTER THE REPORTING DATE

Nabaltec AG has concluded an agreement under which it acquires 49% of shares in the Nashtec LLC joint venture, shares which are currently held by the parent company of Sherwin Alumina Company LLC, Allied Alumina LLC. Sherwin Alumina Company LLC filed for bankruptcy in January 2016 and subsequently discontinued operations and sold all of its major assets to Corpus Christi Alumina LLC as part of a liquidation plan in accordance with Chapter 11 of the US Bankruptcy Code, which was approved by a federal bankruptcy court on 17 February 2017.

Sherwin Alumina Company LLC was the raw materials supplier for Nashtec LLC and had certain claims based on loans which had been provided to Nashtec LLC. Nabaltec AG will now acquire these claims from Corpus Christi Alumina LLC. In addition, Nashtec LLC will acquire an adjoining property, including production buildings and technical equipment, from Corpus Christi Alumina LLC and Glencore Ltd., as well as existing stocks of aluminum hydroxide in order to ensure the supply of raw materials once the stand-alone solution is finalized.

The relevant contracts were signed on 17 March 2017 and take effect immediately.

This will allow Nabaltec AG to begin modifications to the production site in Corpus Christi, Texas and ensure the continuation of Nashtec LLC and its operations. Nabaltec AG anticipates a time frame through the end of 2017 for the realization of this stand-alone solution.

Nashtec LLC is expected to resume deliveries to US customers at the start of 2018. In the meantime, the American market will be supplied from Schwandorf. Because of Sherwin Alumina Company LLC's Chapter 11 bankruptcy procedure, Nabaltec AG has refrained from issuing a 2016 revenue and earnings forecast.

The composition of Nabaltec AG's Management Board changed on 1 January 2017. Mr. Gerhard Witzany, a member of the Nabaltec AG Management Board, resigned from the Nabaltec AG Management Board on 31 December 2016 by reason of old age. A third member was added and the two new Management Board members were appointed by the Supervisory Board to five-year terms on 1 January 2017. Alongside the Management Board Chairman and CEO, Johannes Heckmann, Günther Spitzer will be responsible for finance/controlling and commercial services/human resources, CFO, and Dr. Michael Klimes, as COO, will be responsible for production and sales, as well as development and application engineering.

7.11 FEES AND SERVICES OF THE AUDITOR IN ACCORDANCE WITH § 314 OF THE GERMAN COMMERCIAL CODE

The auditor's fee for the 2016 financial statements (including the 2016 consolidated financial statements) amounts to EUR 87 thousand. The auditor received a fee in the amount of EUR 12 thousand for other assurance services, a fee of EUR 45 thousand for tax advisory services and a fee of EUR 1 thousand for other services.

Schwandorf, 17 March 2017

Nabaltec AG
The Management Board

JOHANNES HECKMANN   GÜNTHER SPITZER   DR. MICHAEL KLIMES

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the Nabaltec AG, Schwandorf, – comprising the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity, the consolidated statement of changes in non-current assets and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (HGB) are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Puplic Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the 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 the group management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 the findings of our audit, the consolidated financial statements of the Nabaltec AG, Schwandorf, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Nuremberg, 20 March 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Kiefer) German Public Auditor	(Graeber) German Public Auditor

ANNUAL FINANCIAL STATEMENTS NABALTEC AG

FOR THE FINANCIAL YEAR 2016

OUR INVESTMENTS

EUR 17.2 MILLION

2016

EUR 12.8 MILLION

2015

BALANCE SHEET

AS OF 31 DECEMBER 2016

ASSETS

in TEUR	12/31/2016	12/31/2015
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	407	324
2. Advance payments	35	125
	442	**449**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	19,838	15,458
2. Technical equipment and machinery	49,163	50,012
3. Other fixtures, fittings and equipment	2,886	2,665
4. Advance payments as well as plant and machinery under construction	11,031	8,080
	82,918	**76,215**
III. Financial assets		
1. Shares in affiliated companies	240	163
2. Loans to affiliated companies	9,744	9,382
	9,984	**9,545**
	93,344	**86,209**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	15,290	14,018
2. Finished goods and purchased products	12,890	12,413
	28,180	**26,431**
II. Accounts receivable and other assets		
1. Trade receivables	3,091	5,202
2. Other assets	5,381	6,378
	8,472	**11,580**
III. Cash and cash equivalents	**34,633**	**40,369**
	71,285	**78,380**
C. Prepaid expenses	**66**	**81**
TOTAL ASSETS	**164,695**	**164,670**

EQUITY & LIABILITIES

in TEUR	12/31/2016	12/31/2015
A. Shareholders' equity		
I. Subscribed capital	8,000	8,000
II. Capital reserve	30,824	30,824
III. Accumulated profits	12,213	6,654
	51,037	**45,478**
B. Non-current assets investments grants	**4**	**5**
C. Provisions		
1. Retirement benefit obligation and similar provisions	21,435	18,535
2. Accrued taxes	1,112	1,565
3. Other provisions and accrued liabilities	5,016	4,415
	27,563	**24,515**
D. Accounts payable		
1. Payables to banks	72,724	82,830
2. Trade payables	12,330	9,772
3. Payables to affiliated companies	158	291
4. Other payables – thereof relating to taxes: EUR 306 thousand (PY: EUR 259 thousand) – thereof relating to social securities: EUR 31 thousand (PY: EUR 26 thousand)	879	1,779
	86,091	**94,672**
TOTAL EQUITY & LIABILITIES	**164,695**	**164,670**

INCOME STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

in TEUR	1/1/ – 12/31/2016		1/1/ – 12/31/2015*	
1. Revenues		159,791		152,007
2. Change in finished goods		1,078		869
3. Other capitalized own services		716		450
Total performance		**161,585**		**153,326**
4. Other operating income – thereof exchange rate differences: EUR 1,026 thousand (PY: EUR 1,628 thousand)		1,596		2,154
		163,181		**155,480**
5. Cost of materials:				
a) Cost of raw materials and supplies and purchased goods	85,327		84,814	
b) Cost of purchased services	652	85,979	870	85,684
Gross profit		**77,202**		**69,796**
6. Personnel expenses:				
a) Wages and salaries	23,471		21,930	
b) Social security and other pension costs – thereof for pension costs: EUR 2,493 thousand (PY: EUR 3,640 thousand)	6,437		7,509	
7. Amortization/Depreciation of intangible assets and property, plant and equipment	9,784		9,271	
8. Other operating expenses – thereof exchange rate differences: EUR 462 thousand (PY: EUR 415 thousand)	24,783	64,475	22,696	61,406
		12,727		**8,390**
9. Income from securities and loans (financial assets) – thereof from affiliated companies: EUR 319 thousand (PY: EUR 242 thousand)	319		242	
10. Interest and similar income	151		135	
11. Interest and similar expenses – thereof for compounding interest: EUR 782 thousand (PY: EUR 740 thousand)	3,081		3,330	
Financial result		**–2,611**		**–2,953**
12. Result from ordinary operating activities		**10,116**		**5,437**
13. Exceptional expenditures				
14. Exceptional result				
		10,116		**5,437**
15. Income taxes	3,245		2,547	
16. Other taxes	112	3,357	51	2,598
17. Net result for the year		**6,759**		**2,839**
18. Profit carried forward		5,454		3,815
19. Accumulated profit		**12,213**		**6,654**

**2015 adjusted in accordance with BilRUG*

APPROPRIATION OF DISTRIBUTABLE PROFIT

The Management Board proposes that the distributable profit of the 2016 financial year, amounting to EUR 12,213,279.78, will be used as follows:

An amount of EUR 1,200,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.15 per share on the 8,000,000 non par value shares entitled to dividend payments for the 2016 financial year. The remainder in the amount of EUR 11,013,279.78 will be carried forward.

Schwandorf, April 2017

The Management Board

JOHANNES HECKMANN GÜNTHER SPITZER DR. MICHAEL KLIMES

FINANCIAL CALENDAR

	2017
Interim Report 1/2017	30 May
Annual General Meeting	27 June
Interim Report 2/2017	29 August
Interim Report 3/2017	28 November

CONTACT

Heidi Wiendl-Schneller
Nabaltec AG
Alustraße 50 – 52
92421 Schwandorf
Germany

Phone: +49 9431 53-202
Fax: +49 9431 53-260
E-mail: InvestorRelations@nabaltec.de

Frank Ostermair
Better Orange IR & HV AG
Haidelweg 48
81241 Munich
Germany

Phone: +49 89 8896906-14
Fax: +49 89 8896906-66
E-mail: info@better-orange.de

IMPRINT

Publisher
Nabaltec AG
Alustraße 50 – 52
92421 Schwandorf
Germany

Phone: +49 9431 53-202
Fax: +49 9431 53-260
E-mail: info@nabaltec.de
Internet: www.nabaltec.de

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Statements relating to the future
This annual report contains statements relating to the future which are based on the Management Board’s current estimations and prognosis as well as on information currently available. These statements relating to the future are not to be understood as guarantees of the predicted future developments and results. The future developments and results are rather dependent on a number of risks and uncertainties and are based on assumptions which possibly may prove to be false. We do not accept any obligation to update these statements relating to the future.

Rounding
Due to computational reasons, rounding differences may appear in the percentages and figures in the tables, graphics and text of this report.

Nabaltec AG
Alustraße 50 – 52, 92421 Schwandorf, Germany
Phone: +49 9431 53-0, Fax: +49 9431 53-260
E-mail: info@nabaltec.de, www.nabaltec.de