

OUR
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SAFETY

ANNUAL REPORT 2021

NABALTEC GROUP

KEY FIGURES

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

in EUR million	2021 (IFRS)	2020 (IFRS)	Change
Revenues			
Total revenues	187.0	159.6	17.2%
thereof			
Functional Fillers	130.6	114.2	14.4%
Specialty Alumina	56.4	45.4	24.2%
Foreign share (%)	75.5	75.1	
Earnings			
EBITDA	37.3	23.6	58.1%
EBIT ¹	24.6	-15.9	
Consolidated result after taxes	16.3	-19.7	
Earnings per share (EUR)	1.85	-2.23	
Financial position			
Cash flow from operating activities	33.2	24.3	36.6%
Cash flow from investing activities	-6.7	-10.3	-35.0%
Assets, equity and liabilities			
Total assets	220.7	198.6	11.1%
Equity	96.5	76.8	25.7%
Non-current assets	122.5	128.1	-4.4%
Current assets	98.2	70.5	39.3%
Employees ² (number of persons)	481	490	-1.8%

¹ thereof non-recurring effects in the amount of EUR -1.3 million (previous year: EUR -25.3 million)

² on the reporting date 31 December, including trainees

NABALTEC AG

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 and aluminum oxide on an industrial scale through its product segments, "Functional Fillers" and "Specialty Alumina." The markets for Nabaltec products are rather robust in the mid- and long-term, although the geopolitical situation since February 2022 makes it significantly more difficult to make reliable estimates for the future.

REVENUES IN EUR MILLION

2017	168.6
2018	176.7
2019	179.0
2020	159.6
2021	187.0

EBIT IN EUR MILLION

2017	18.3
2018	18.5
2019	18.6
2020	-15.9
2021	24.6

OPERATING CASH FLOW IN EUR MILLION

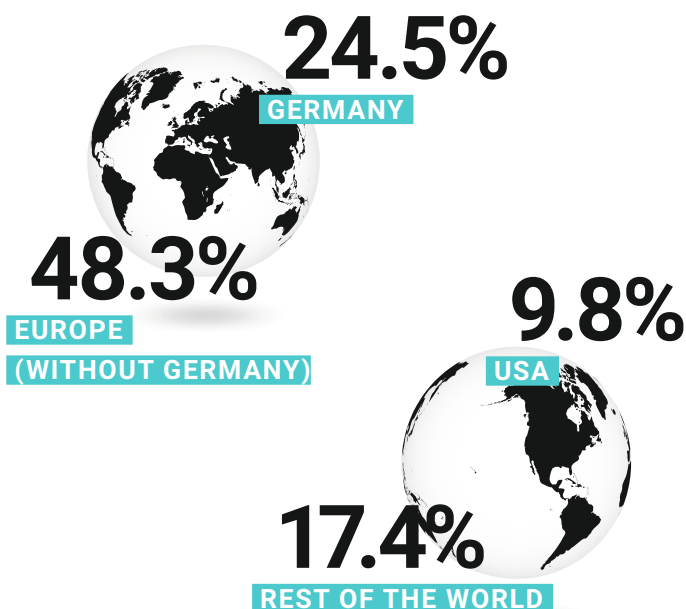
2017	25.9
2018	16.1
2019	22.4
2020	24.3
2021	33.2

SUSTAINABLE PRACTICES

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 creates outstanding prospects for growth for Nabaltec's various specialty chemical products and is the basis for the company's many years of growing financial success.

Beyond economic aspects, however, Nabaltec also attaches particular importance to ecological and social responsibility. Over the years, a certified environmental management system, an occupational health and safety management system and an energy management system have been introduced.

REVENUE SHARES 2021



PRODUCT SEGMENTS

FUNCTIONAL FILLERS

In the product segment "Functional Fillers," Nabaltec produces highly specialized aluminum hydroxide-based products for a wide variety of applications, and is among the leading manufacturers in the world in this area. In addition to current market trends, the development of eco-friendly flame retardant fillers and functional additives is driven above all by the specific requirements of its customers – an example is the relatively young market segment battery for applications in electromobility. Nabaltec assesses itself as one of the world's leading manufacturers of coating materials for separator films based on boehmite.

EUR **130.6** MILLION
REVENUES

EUR **26.0** MILLION
EBITDA

EUR **17.0** MILLION
EBIT

SPECIALTY ALUMINA

In the product segment "Specialty Alumina," Nabaltec manufactures innovative materials for a wide variety of industries and applications based on aluminum oxide. The company is constantly investing in optimizing its production facilities, in innovative technologies and in improving production processes in order to enable the company to consistently supply tailor-made qualities which meet customers' needs.

EUR **56.4** MILLION
REVENUES

EUR **11.3** MILLION
EBITDA

EUR **8.0** MILLION
EBIT

SUSTAINABLE PRACTICES

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 creates outstanding prospects for growth for Nabaltec's various specialty chemical products and is the basis for the company's many years of growing financial success.

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EMPLOYEES

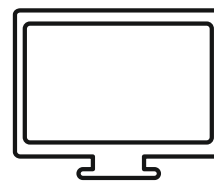
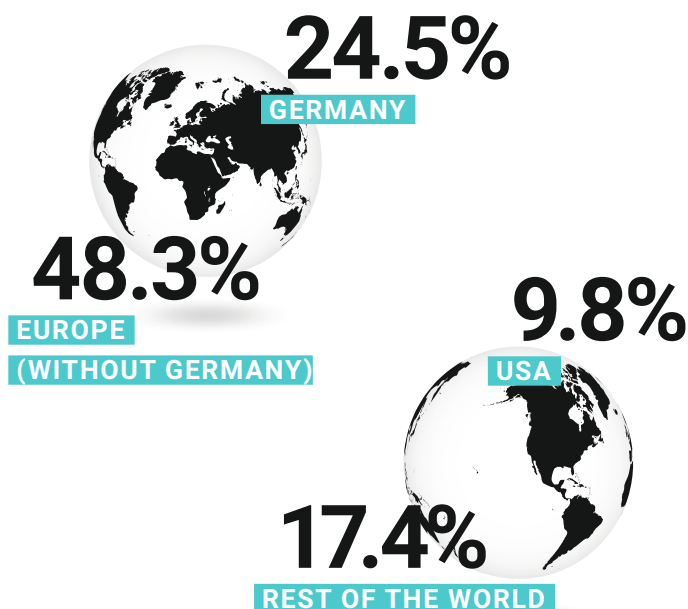
Sustainable employee development is important to Nabaltec AG in order to be prepared for future personnel challenges and in order to position itself as an attractive employer. As a family-friendly company which has been recognized multiple times, Nabaltec is committed to promoting young talent and values work/life balance.



INNOVATIONS

Nabaltec AG is regularly awarded national and international prizes and distinctions for innovation. 2021, for example, the company received once again and for the third time in a row the "Axia Best Managed Companies Award" for outstandingly managed mid-sized companies, due in part to its highly innovative practices.

REVENUE SHARES 2021



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NABALTEC AG ON THE INTERNET

www.nabaltec.de/en

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FOREWORD

OF THE CEO

*Ladies and Gentlemen,
Dear Shareholders and Business Partners,*

In 2021 growth was driven by strong performance in both product segments and in nearly all product ranges and regions

The year Nabaltec AG just completed, 2021, was the best year in the company's history. Revenues climbed by 17.2%, to EUR 187.0 million, and EBIT improved to EUR 24.6 million, with a margin of 13.1%. Our growth was broad-based and solid, driven by strong performance in both product segments and in nearly all product ranges and regions.

Stable growth in sales and revenues up by over 50% in the boehmite range. Share of Group revenues rises to around 13%

A particular highlight in 2021 was once again the growth in the boehmite product range. Since the target industry for this range, lithium ion batteries for electric vehicles, is still dominated by Asian manufacturers, demand continues to come almost entirely from Asia. After stable growth in 2021, with both sales and revenues up by over 50%, boehmite now accounts for around 13% of consolidated revenues, with a significantly above-average margin. But we see strong potential for an additional market as manufacturers open separator film production sites in Europe. We are seeing clear signs that a significant European market for our boehmites will develop in the next three to five years. Once that happens, we plan to take advantage of the opportunity to supply manufacturers in our home market. As a result, we have made a clear decision about our plans for the future: we will significantly expand boehmite production capacity at the Schwandorf site once again so that we will be in a position to meet higher demand due to growth in the electric vehicle market. To this end, we will be investing a sum in the mid-double-digit EUR millions, with a goal of more than doubling our annual production output, from 10,000 to 25,000 tons. The new capacity is set to go online in the second half of 2023.

Boehmite is a highly sensitive factor for many of our Asian customers, as a key component of separator film coating in lithium ion batteries, due to its associated function as an eco-friendly thermal stabilizer. Responding to the global supply chain problems and the inconsistent availability of various upstream products, some customers ordered more than they needed in the fourth quarter of 2021, particularly boehmite, in order to build up their inventories. As a result of our customers moving up these purchases, we may not see any growth in sales volume in the first half of 2022. But this will only be a temporary effect.



*The Management Board of Nabaltec AG from left to right:
Günther Spitzer, Johannes Heckmann (CEO), Dr. Alexander Risch*

In no small part because of these moved-up purchases, we were once again able to exceed our forecast for 2021, which had already been raised twice over the course of the year. In light of the uncertain environment, we were highly cautious at the start of 2021 and our estimates were therefore conservative. At the start of 2021, we estimated that our revenue growth would fall in a range from 6% to 9%, with an EBIT margin ranging from 8% to 10%. The strong growth we posted in 2021, with revenues finishing the year up 17.2% with an EBIT margin of 13.1%, could not have been reliably predicted in this environment, but at the same time underscores our outstanding market position. As a result, we are all the more proud of the work performed by our team in meeting this sharply higher demand, which ultimately resulted in record-high revenues and earnings. On behalf of my colleagues in the Management Board, I would like to extend our warmest thanks to all of our employees for this incredible accomplishment and for their endless hard work in an environment which poses additional challenges for each and every one of us, as a result of the pandemic.

*Forecast for 2021
exceeded*

I would also like to thank my longtime colleague on the Management Board, Dr. Michael Klimes, who chose not to extend his contract after it expired on 31 December 2021. Dr. Klimes contributed heavily to the successful development of Nabaltec AG over his many years with the company. But at the same time, I am looking forward to working with Dr. Alexander Risch. In Dr. Risch, we were able to find an experienced mineralogist for our Management Board team who will help Nabaltec AG continue to grow and develop its innovative solutions.

*Dr. Alexander Risch
was recruited as
new COO into the
Management Board*

We would like our shareholders to share in our success in 2021, and at the Annual General Meeting in June 2022, we will be proposing a EUR 2.2 million dividend payout.

Robust demand in target markets but increased volatility noticeable

We remain to see ourselves well positioned for 2022. Both product segments, “Functional Fillers” and “Specialty Alumina,” are currently experiencing robust demand. Geopolitical risks, global supply chain problems and the ongoing pandemic are weighing on the market environment and lead to an increase in volatility. Nevertheless, we expect revenues to continue to grow. One factor in this growth will be price effects: back in 2021, we announced to the market that we will have to adjust our prices in all product ranges, and this announcement was received with considerable understanding. We ourselves have had to contend with certain price increases on the procurement side, which barely affected us at all in 2021 thanks to our forward-looking procurement strategy. Our operations in the US market also have clear potential, although results in this area have been well below expectations measured by historical data. At the same time, we have the capacity to post noticeable growth in the US as the market gradually develops, and we are seeing indications of an improvement, as well as the first signs of growth. Since development of this market is taking longer than originally expected, we have been very conservative in making projections for our US operations, although we would love to be pleasantly surprised. On the whole, we expect revenue growth in a range from 10% to 12% for Nabaltec Group in 2022, with an EBIT margin ranging from 10% to 12%.

Forecast 2022 with revenue growth from 10% to 12% and an EBIT margin from 10% to 12%

I very much look forward to continuing with you on this exciting journey, with a diverse array of opportunities in new markets like electric vehicles, as well as in established markets like the cable and construction industry, where we are a growing supplier of eco-friendly flame retardants, and I thank you for your trust.

Schwandorf, March 2022

Yours,



JOHANNES HECKMANN
CEO

REPORT

OF THE SUPERVISORY BOARD

*Ladies and Gentlemen,
Dear Shareholders,*

The market's recovery in 2021 was much stronger than had been expected at the start of the year. Due to this highly positive development, the company was able to exceed its forecast for Financial Year 2021, which was revised higher in October for the second time in 2021. In doing so, the company was able to demonstrate once again that it is well-prepared for crises, as well as its ability to master difficult environments and take full advantage of market opportunities as they arise.

Nabaltec has once again demonstrated that it is well-prepared for emerging crises and consistently exploits market opportunities as they arise

But despite the company's strong performance in 2021, Nabaltec's markets remain volatile in the business environment which has been shaped by the coronavirus pandemic. The company's focus on innovation and high-growth future markets, such as the boehmite segment and electric vehicles, is of key importance for future growth. Nabaltec aims to play a key role in these markets in the long run.

COLLABORATION BETWEEN THE SUPERVISORY AND MANAGEMENT BOARDS

The Supervisory Board duly performed its assigned tasks in Financial Year 2021 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. The Supervisory Board 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 internally 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 2021 were decided positively.

All transactions requiring approval in Financial Year 2021 were decided positively

In the Supervisory Board's estimation, all three of its current 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.

The Supervisory Board once again opted not to form committees in the past financial year. With three members, the Supervisory Board is 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 2021 reporting year.

The Supervisory Board once again performed a self-assessment of its activities in the past year (efficiency check) and has reached a positive conclusion. The focuses of this self-assessment were above all on procedures and the timely and adequate provision of information.

The Supervisory Board had four meetings in 2021 in which all members were present

MEETINGS OF THE SUPERVISORY BOARD AND FOCUS OF DELIBERATIONS

Four regular ordinary meetings of the Supervisory Board were held in the reporting year, on 20 April, on 16 June, following the virtual Annual General Meeting, on 29 September and on 14 December. The meetings on 16 June 2021 and 14 December 2021 were held in-person, while the meetings on 20 April 2021 and 29 September 2021 were held as virtual meetings (video conference). All members were present at all meetings in 2021. No additional meetings took place in 2022 prior to the Supervisory Board meeting on 7 April 2022 (held as an in-person meeting), in which the Board votes on adoption of the financial statements. The members of the Supervisory Board also deliberated in writing and by telephone. On nine occasions in 2021, resolutions were adopted by the Supervisory Board outside of Supervisory Board meetings.

The following issues were the subject of particularly intensive consideration in Financial Year 2021:

- the 2020 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- planning for 2022 and mid-term planning through 2024;
- investment and financing planning for the period from 2022 through 2024;
- measures in connection with the coronavirus pandemic (i.a. lifting the pay cut, conduct of the 2021 Annual General Meeting in virtual form);
- changes in the Management Board (the appointment of Dr. Alexander Risch);
- refinancing in 2022 by issuing a new loan against borrower's note with a volume of up to EUR 90.0 million.

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 2021.



*The Supervisory Board of Nabaltec AG from left to right:
Prof. Dr.-Ing. Jürgen G. Heinrich, Gerhard Witzany (Chairman of the Supervisory Board), Dr. Dieter J. Braun*

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 competition situation, the development of sales, revenues and earnings and the degree to which projections were met in monthly and quarterly reports. The impact of the coronavirus pandemic and the response to it were routinely discussed. To this end, the Chairman of the Supervisory Board maintained a close and routine exchange of information and thoughts with the Management Board.

The Supervisory Board was notified in detail of market trends, the risk and competition situation, as well as the development of sales, revenues and earnings

AUDIT OF THE 2021 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, prepared in accordance with the German Commercial Code, as well as the consolidated financial statements, prepared based on the IFRS (International Financial Reporting Standards), pursuant to § 315e of the German Commercial Code, as well as the consolidated management report, each for 31 December 2021, 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 16 June 2021. The focus of the audit for Financial Year 2021 was set on impairment tests for assets (IFRS consolidated financial statements), as well as financial assets (individual financial statements in accordance with the German Commercial Code) in connection with US operations.

The annual financial statements for Nabaltec AG and Group for 31 December 2021 have been reviewed and approved by the Supervisory Board

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 reports were the subject of intensive consideration at the session on 7 April 2022. 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 adopts the findings of the auditor Deloitte GmbH. The Supervisory Board has furthermore declared that it has no objections to the audit's findings. The Supervisory Board therefore approved the annual financial statements prepared by the Management Board for Nabaltec AG and Nabaltec Group for 31 December 2021. The annual financial statements of Nabaltec AG for 2021 are therefore adopted.

PERSONNEL CHANGES IN THE MANAGEMENT BOARD

Dr. Michael Klimes, who has served on Nabaltec AG's three-member Management Board as COO since 2017, has chosen not to extend his contract, which expired on 31 December 2021. The term of long-serving Management Board member Mr. Johannes Heckmann was extended by five more years, through 24 August 2026, and that of Management Board member Mr. Günther Spitzer (CFO) was also extended by five years, through 31 December 2026. In addition, Dr. Alexander Risch was appointed to the company's Management Board effective 1 October 2021, with his term set to expire on 30 September 2025. Dr. Alexander Risch will serve on the Management Board as Chief Operating Officer (COO).

The Supervisory Board heard of Dr. Michael Klimes' decision with great regret. Dr. Michael Klimes successfully performed his tasks with expertise and commitment, and we would like to thank him expressly for his consistently excellent work and for our trust-based relationship.

THANK YOU

The Supervisory Board would like to thank the Management Board and all the employees for their extraordinary achievements and successful work in the past year, which was shaped by many challenges as a result of the COVID-19 pandemic.

Schwandorf, 7 April 2022



GERHARD WITZANY
Chairman of the Supervisory Board

NABALTEC SHARE

THE STOCK MARKET 2021

ISIN/WKN: DE000A0KPPR7/A0K PPR

SINCE 24 NOVEMBER 2006, NABALTEC SHARE HAS BEEN LISTED IN THE FRANKFURT STOCK EXCHANGE, WHERE IT IS TRADED IN THE SCALE MARKET SEGMENT.



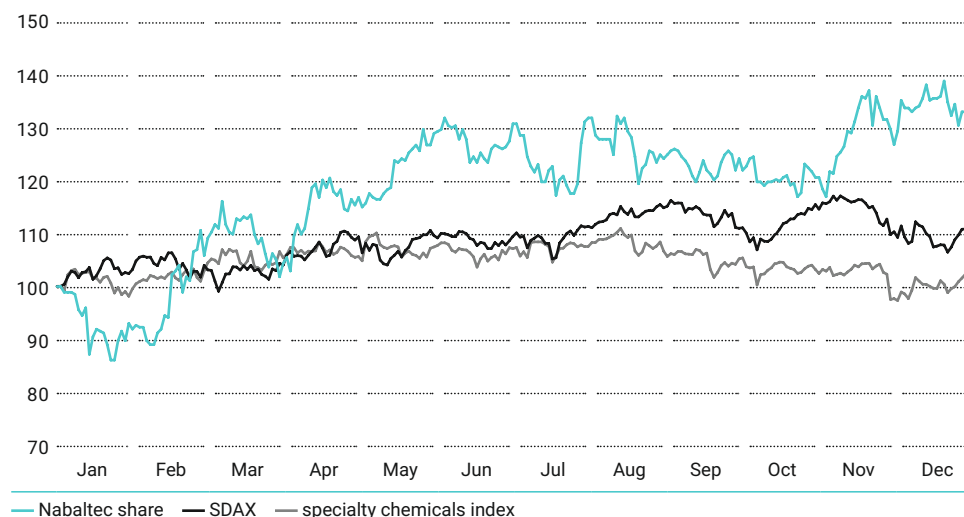
SHARE PERFORMANCE

Nabaltec share climbed steadily over the course of 2021 and finished the year up 31%. From a low of EUR 23.40 in January 2021, the share reached a high for the year of EUR 37.80 in mid-December, which was higher than the high of EUR 37.00 in 2019, before the outbreak of the coronavirus pandemic. With this performance, Nabaltec share outpaced both the SDAX, which was up by around 11%, and the specialty chemicals index, which gained around 3% on the year.

*2021 high of
EUR 37.80; Nabaltec
share was up 31%
year on year*

The average price for the year for Nabaltec share was EUR 32.27 in 2021, exceeding both last year's average and the average of EUR 31.50 posted in 2019, before the outbreak of the coronavirus pandemic, and a year with excellent performance. With a closing price of EUR 35.50 on 31 December 2021, Nabaltec AG's market capitalization is now EUR 312.4 million, up from EUR 238.48 million on 31 December 2020.

PERFORMANCE OF NABALTEC SHARE 2021 (XETRA, INDEXED)



KEY DATA FOR NABALTEC SHARE (XETRA)

	2021	2020
Number of shares	8,800,000	8,800,000
Market capitalization (cutoff date, in EUR million)	312.4	238.48
Average price (in EUR)	32.27	23.42
High (in EUR)	37.80	37.70
Low (in EUR)	23.40	17.15
Closing price (cutoff date, in EUR)	35.50	27.10
Average daily turnover (in shares)	3,059	3,797
Earnings per share (in EUR)	1.85	-2.23

TRADING VOLUME

Daily average trading volume of 3,059 shares in 2021

Nabaltec share's average Xetra daily trading volume in 2021 was 3,059 shares, as trading volume remained at a high level. In the previous year, daily average trading volume was 3,797 shares. A total of about 0.78 million shares were traded on Xetra in the reporting year, representing around 20% of the free float shares. Since it was first listed, the liquidity of Nabaltec share has been reinforced by a voluntary commitment from a designated sponsor. This function is currently performed by Baader Bank AG and Hauck Aufhäuser Lampe Privatbank AG.

EARNINGS PER SHARE

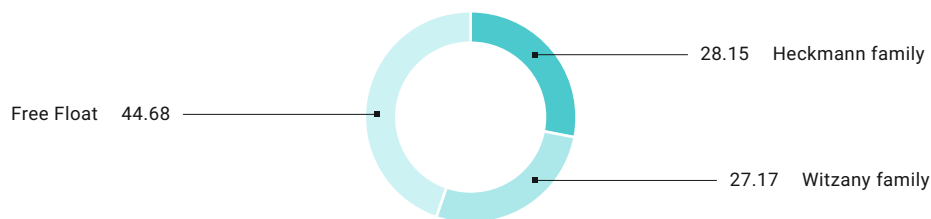
Earnings per share of EUR 1.85 in 2021

Earnings per share (EPS) came to EUR 1.85 in 2021, compared to EUR -2.23 the year before.

SHAREHOLDER STRUCTURE

The majority of Nabaltec's 8,800,000 shares continue to be held by the Heckmann and Witzany families. As of the reporting date, the Heckmann family held 28.15% of the company's capital stock and the Witzany family held 27.17%. The remaining 44.68% are in free float.

SHAREHOLDER STRUCTURE (IN %)



ANALYST RECOMMENDATIONS

Hauck Aufhäuser Lampe Privatbank AG has long been analyzing Nabaltec share with research reports, and published eight studies and updates on Nabaltec share last year. Hauck Aufhäuser Lampe Privatbank AG issued a "buy" recommendation in each of its analyses. Its price target was gradually raised over the course of the year, from EUR 32.00 at first to EUR 43.00 in its final study of the year, on 22 December 2021. On 9 March 2022, this price target was reduced slightly to EUR 42.00.

Analyst price targets at EUR 42.00 (Hauck Aufhäuser Lampe Privatbank) and EUR 39.00 (Baader Bank)

Baader Bank AG also issues routine reports on Nabaltec AG, publishing ten studies on the share in 2021. At the start of 2021, it rated Nabaltec a "buy" with a price target of EUR 31.00. The price target was raised to EUR 38.00 on 11 May 2021, and this new price target was confirmed in all subsequent studies through the end of 2021. On 2 February 2022, after the reporting date, Baader Bank AG published a new study in which it raised its price target to EUR 39.00 and changed its recommendation from "buy" to "add." This rating was confirmed on 8 March 2022.

Analyst assessments of Nabaltec share can be found online in the Investor Relations/Share section of www.nabaltec.de/en.

CAPITAL MARKET COMMUNICATIONS

Since its IPO in the Frankfurt Stock Exchange in 2006, Nabaltec AG has continually kept its investors 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. Nabaltec AG's participation in the Scale market segment of the Frankfurt Stock Exchange also involves stricter transparency requirements.

Nabaltec's reporting has continually exceeded the prescribed minimum standards since its IPO

Nabaltec AG continued its intensive investor relations activities in Financial Year 2021. It took part in several investor and analyst events with participants from Germany and abroad, held virtually in 2021 for the most part, including the German Spring Conference in May 2021, the Baader Investment Conference in September 2021 and the German Equity Forum in November 2021.

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.

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

BASIC DATA FOR NABALTEC SHARE

ISIN (International Security Identification Number)	DE000A0KPPR7
Stock symbol	NTG
Stock exchanges	Frankfurt (Open Market), over-the-counter in Berlin, Dusseldorf, Hamburg, Munich, Stuttgart
Sector	Industrial
Industry group	Products & Services
Index membership (31 December 2021)	Scale All Share, Scale 30, DAXsector All Chemicals, DAXsubsector All Chemicals, Specialty

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**DESCRIPTION
OF THE BUSINESS ENTERPRISE**

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FINANCIAL REPORT

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**REPORT ON OUTLOOK,
OPPORTUNITIES AND RISKS**

CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2021

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE GROUP'S BUSINESS MODEL

*Environmentally
friendly and highly
specialized products*

BUSINESS OPERATIONS

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials. The company belongs to the world's leading suppliers of functional fillers and specialty alumina on the basis of aluminum hydroxide (ATH) and aluminum oxide. Annual production capacity registers around 265,000 tons.

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. as separator coating in lithium ion batteries, as an all-natural barrier layer in foil or as white pigments in paint;
- ceramic raw materials applied in the refractory industry, in technical ceramics and 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. This combination of critical properties is the basis for excellent growth prospects. The main drivers are the globally increased environmental consciousness, comprehensive international and national regulations and the industry's self-imposed obligation to use more eco-friendly products. Flame protection within the plastics and cable & wire industry will continue to grow dynamically in the years to come, which is supported by market research results. In order to benefit from this development disproportionately high, production capacities for environmentally friendly, flame-retardant fillers were specifically expanded in the "Functional Fillers" product segment. Today, Nabaltec is one of the world's leading suppliers in this area. Nabaltec's still new battery market segment for electrical mobility applications serves a market which will post strong growth in the coming years. Nabaltec sees itself as one of the world's leading manufacturers of boehmite-based coating material.

In the “Specialty Alumina” product segment as well, Nabaltec products have excellent long-term growth potential thanks to a wide range of applications and relevant target markets, particularly for reactive aluminum oxides, due to stricter quality requirements in the refractory industry.

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. This proximity to our clients is fundamental for the concerted development of our products with a focus on market needs and applications.

CORPORATE STRUCTURE

Nabaltec, based in Schwandorf, Germany, was formed in 1994 and, in 1995, acquired the specialty alumina division of VAW aluminium AG. In September 2006, the company was converted into a German joint stock corporation (Aktiengesellschaft). Nabaltec shares have been listed in the Open Market division of the Frankfurt stock exchange since November 2006 and have consistently been traded in high-quality segments of the exchange, including the Scale segment as of March 2017.

Nabaltec share listed since 2006 in the Open Market division of the Frankfurt Stock Exchange

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 and the capital increase in 2017. This market access, maintained by transparent and reliable communications at all times, secures Nabaltec a balanced and largely independent means of financing.

Nabaltec holds a 100% interest in Nashtec LLC (USA) and Naprotec LLC (USA) through Nabaltec USA Corporation, which was formed in 2018. In addition to administrative functions such as accounting for all US companies, sales activities for Nabaltec Group in North America will also be concentrated in Nabaltec USA Corporation.

Naprotec LLC and Nashtec LLC bundled in Nabaltec USA Corporation

Nabaltec acquired all shares in Nashtec LLC in March 2017; until then, Nabaltec AG had held 51% of shares in the company. The shares were acquired with the goal of continuing to operate Nashtec LLC based on a stand-alone solution after Nashtec was forced to temporarily suspend production of fine hydroxides due to the insolvency of its supplier, Sherwin Alumina LLC. Nashtec LLC resumed production at the end of 2018.

In addition, Naprotec LLC was formed as a production company in 2018 in Chattanooga, USA, and its shares are also held by Nabaltec USA Corporation, paving the way for construction of a production facility for milled hydroxides. Nabaltec has therefore significantly expanded its product portfolio in the US for non-halogenated flame retardant applications. The facility went online in the first half of 2020.

In order to strengthen its operations in the Southeast Asian market, Nabaltec established a wholly-owned subsidiary in 2016, Nabaltec Asia Pacific K.K., based in Tokyo, Japan, which will market and distribute Nabaltec’s entire portfolio of products.

Nabaltec (Shanghai) Trading Co., Ltd., based in Shanghai, China, was formed in October 2018. This company is a wholly-owned subsidiary of Nabaltec and maintains an in-country warehouse, allowing it to offer shorter delivery times and invoicing in the national currency.

Nabaltec Asia Pacific K.K. is not included in Nabaltec’s consolidated financial statements, since it is not material for Nabaltec’s financial, earnings and liquidity position.

Nabaltec does not currently have any other participations or subsidiaries.

Reflecting the characteristics of the target and buyers' markets, Nabaltec's operations are divided into two product segments, each in turn comprised of market segments.

PRODUCT SEGMENTS "FUNCTIONAL FILLERS" AND "SPECIALTY ALUMINA"

Market segments:

- Wire & Cable
- Resins & Dispersions
- Rubber & Elastomers
- Battery
- Adsorbents & Catalysts
- Refractory
- Technical Ceramics
- Polishing
- Others

1.2 OBJECTIVES AND STRATEGIES

For the further development of the company and the Group, Nabaltec AG has set the following objectives and core strategic areas:

1. GLOBAL GROWTH STRATEGY IN TARGET MARKETS WITH A FOCUS ON SUSTAINED DOUBLE-DIGIT EBIT MARGINS

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 Frost & Sullivan and Roskill. In order to benefit from this trend disproportionately high, we have specifically expanded our production capacity for aluminum hydroxide both at the Schwandorf site and in the US. Electric mobility is also gaining importance. With our boehmite, we can make an important contribution towards industrial safety in the production of lithium ion batteries. As a result, we are expanding production capacity in this area as well and will continue to do so in the future. Today, Nabaltec is already one of the world's leading suppliers in this area.

Stricter quality requirements in the refractory industry have resulted in steady growth in reactive aluminum oxides. Accordingly, we have expanded our capacity in this product range as well.

Nabaltec has for many years been a leading supplier of its own ready-to-press aluminum oxide-based ceramic bodies for highly specialized applications, due to amongst others the state-of-the-art production facility in Schwandorf.

2. STRATEGIC ALIGNMENT TOWARDS GROWTH MARKETS

Environmentally friendly products and processing solutions are globally advancing forward. This trend is supported in part by voluntary industry initiatives, as well as by the requirements of laws and standards. With an export share of 75.5%, Nabaltec already profits from these worldwide trends. By adopting a deliberate global growth strategy and expanding our capacity in high-added-value products, we are pursuing the goal of posting double-digit EBIT margins on a sustained basis.

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

Through continuous exchange with customers, Nabaltec optimizes its own products and processes and aligns them with customer-specific requirements. Product improvements and up-scaling take place in close consultation with customers. Particularly customers in the electric mobility sector pose new challenges which require us to continually adapt our processes in order to keep pace with the dynamic changes in this market. In addition, Nabaltec pursues a global release and provision policy for equivalent products from different locations for customers worldwide. This approach serves to further improve customer benefits while simultaneously optimizing internal processes.

Product and process development are continually optimized

Nabaltec continuously invests in internal research and development departments, the analysis center, its own testing facility and a pilot plant. Nabaltec has also been collaborating with various research institutions for years, as well as taking part in research consortia. Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection. Both aspects represent key competitive factors. Nabaltec has taken extensive measures in order to reduce energy consumption, operate with virtually no waste water and minimize emissions.

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 boehmite for alternative energy storage and electric mobility;
- through focused development of existing products with a view towards improving performance, which is generally designed to meet specific customer requirements. The GRANALOX® product family is an example of this;
- through further development of existing products for entirely new applications, such as thermally conductive plastics.

Thanks to our own testing facility at the Schwandorf site, Nabaltec is optimally equipped to transition newly developed products from its laboratories and testing centers into sample production of up to several hundred tons. As a result, the pilot plant can serve as the basis for industrial product launches in addition to its role in process development.

5. STRATEGIC EXPANSION AND EXTENSION OF BOEHMITE PRODUCTION CAPACITY

In order to meet and consistently follow the sharply increasing growth in the market for lithium ion batteries, which is financially significant for Nabaltec, production capacity was increased from 7,000 to 10,000 tons per year in 2021. In a further step, capacity is to be expanded to 25,000 tons per year within the next two years.

6. 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 the specialty chemicals sector 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.

7. SECURING FUTURE INVESTMENTS THROUGH A STRONG FINANCING BASE

In order to take full advantage of market potential relating to both product segments, further investments are necessary. This investment activity, along with possession of the necessary know-how, are 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 a balanced mix of equity and debt.

1.3 CONTROLLING

Target agreement process defines responsibilities

Nabaltec has implemented a company-wide incentive scheme, assigning responsibilities and defining specific objectives for even for the smallest units of the company. Comprehensive earnings, cost and performance forecasts facilitate analysis for achievement of the company's objectives. Comparisons of estimates against results 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.

"Microsoft Dynamics 365 Business Central" ERP software is used in all commercial departments. All cost accounting at Nabaltec, including earnings statements, are presented based on the "macs Complete" controlling software. Revenues, EBIT and EBIT margin are the key control parameters which are used as a basis for business decisions in the Group. Performance indicators which are derived from these figures, such as return on equity and ROCE, are also used.

1.4 BASICS OF THE REMUNERATION SYSTEM FOR CORPORATE OFFICERS

The remuneration of the Management Board and Supervisory Board members is explained in greater detail in the Consolidated Notes (Section 7.4).

THE MANAGEMENT BOARD

Variable remuneration system for members of the Management Board

The Management Board agreements were revised in the 2021 financial year by the Supervisory Board. The remuneration of 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.

The assessment basis for the variable compensation is calculated as follows: The Management Board Chairman receives a profit share equal to 4%, and each other member receives 2%, 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 EUR 4.2 million. 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. The Management Board Chairman also receives a pension upon retirement amounting to up to 67%, and all other Management Board members receive in the range of a minimum of 28% up to a maximum of 50% of their last fixed gross salary, and surviving spouses are entitled to up to 75% of the pension as a widow's pension for the Management Board Chairman and up to 60% for all other Management Board members.

Management Board members are covered by a D&O insurance policy with an insured sum of EUR 25.0 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. Insurance premiums are paid by the company.

THE SUPERVISORY BOARD

Remuneration of Supervisory Board members was last revised by resolution of the shareholders at the general meeting of 27 June 2017. Remuneration is comprised of a fixed salary in the amount of EUR 10,000.00 a year and a fee of EUR 1,500.00 per meeting of the Supervisory Board, with the Chairman of the Supervisory Board receiving one and a half times the sums mentioned above. 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 company D&O insurance policy with an insured sum of up to EUR 25.0 million, and with no deductible for the insured Supervisory Board members. The insured sum was raised from EUR 20.0 million to EUR 25.0 million effective 1 January 2020 by shareholder resolution of 27 June 2019. Insurance premiums are paid by the company.

In the interest of the company, members of the Supervisory Board are covered by a company D&O insurance

1.5 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec's overall strategy. A key element of the research and development strategy is close collaboration and joint development efforts with customers. In all product segments, 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. Research and development expenses accounted for 2.2% of revenues in 2021.

R&D activities play a key role in the company

Close collaboration with customers is a common thread for all functional areas and processes. Application-oriented sales allow us to identify specific customer requirements at an early stage and incorporate them immediately into development work for application engineering, process development and production. This is true both for the optimization of established products and for the development of new products.

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.

Nabaltec works intensively with universities and institutions to examine relevant trends. Three public-funded industrial collective research projects were worked on by Nabaltec employees in 2021, working through project committees. The research partners include several institutes of the Fraunhofer-Gesellschaft, the RWTH in Aachen, the Papiertechnische Stiftung PTS in Heidenau and the University of Bayreuth.

*International awards
and distinctions 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 has been recognized as one of the 100 most innovative mid-sized German companies eleven times and has received awards for innovativeness in multiple areas.

In addition to the effort to work out new ideas for products, processes and applications and to start corresponding new developments, Nabaltec's research and development activities are primarily aimed at further developing and refining existing products and processes.

As part of the strategy development process, interdisciplinary teams comprised of employees from development, sales, plant and process development, depending on the market segment and application, analyze market data in light of identified trends. This ensures that new applications, processes and products are implemented in a timely manner, in conformance with the strategy.

*R&D activities
remain marked
in particular by
challenges relating
to electric mobility*

Research and development in the 2021 reporting year was once again marked in particular by challenges relating to electric mobility. Separator film for lithium ion batteries with ceramic coating had unchanged very high growth rates in 2021. Nabaltec's boehmite products have been further optimized in order to meet the growing demand and stricter quality requirements, and key developments have been achieved in the course of production. At the same time, key fundamental developments have been continued in order to meet the requirements of the next generation of separator film, with higher energy density resulting in higher storage capacity. The separator film which will be required for this purpose will have to be equipped with even thinner coating. For this purpose, the first pilot production batches were sampled for Nabaltec's most important customers.

In addition, the application performance of existing boehmite products for coating electrodes (e.g. cathode edge coating) was demonstrated.

Another key aspect of electric mobility is managing the heat generated by battery systems. Given the demand for significantly faster charging times and, in particular, due to the plans for a dense network of rapid charging stations, the issue of thermally conductive materials is becoming increasingly important. These long-term developments of Nabaltec culminated in 2020 in the launch of a product family designed for thermal conductivity, consisting of the APYRAL[®] HC, NABALOX[®] HC and ACTILOX[®] HC product groups. Aluminum hydroxide-based APYRAL[®] HC products allow very high filler loads and thermal conductivity with very low abrasion. APYRAL[®] HC has been manufactured at the Chattanooga site since 2021 by Naprotec in the US. Commercial supply in the area of thermal management, which was launched in 2020, showed the hoped-for customer interest in 2021.

Mineral-based flame retardants continue to ensure growth for Nabaltec's innovative and eco-friendly products. In addition to the issues of flue gas development and flue gas toxicity, the stricter fire safety requirements in connection with the new EU Construction Products Regulation have become increasingly important. The new rules require plastic components with a high share of aluminum hydroxide, which must be highly processable as well. In 2021, APYRAL[®] 40 (EX) CDO, a complementary product to APYRAL[®] 40 CD with further improved processing behavior during compounding, was presented.

Mineral-based flame retardants continue to ensure growth for Nabaltec's innovative and eco-friendly products

For years, we have been seeing a trend in the refractory industry towards increased use of highly reactive aluminum oxides. As a result, Nabaltec's development activities in the refractory industry have been heavily oriented towards expanding its know-how with regard to reactive alumina.

Collaboration with customers in connection with the GRANALOX[®] product family, which has traditionally been highly individualized, was characterized by a geographical extension of the customer base to Asian users in 2021 as well.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

Economic performance in 2021 remained impacted by the occurrence of the coronavirus pandemic

Economic development in 2021 remained affected by the consequences of the coronavirus pandemic and the attempts to contain it. Although waves of infection are becoming less synchronized internationally and the economic impact varies across countries – for example, as countries with high vaccination rates now tolerate higher incidences and containment measures are correspondingly lower – the coronavirus pandemic is still clearly influencing events. In the advanced economies in particular, this effect was reflected in the second half of 2021 in a recent tangible weakening of economic activity, after the second quarter of 2021 had still been characterized by an easing of pandemic-related restrictions and a recovery in economic activity had meanwhile set in. The International Monetary Fund (IMF) expects the global economy to grow by 5.9% in 2021 as a whole, while the Kiel Institute for the World Economy (IfW) has a slightly lower forecast of 5.7%. In particular, the supply bottlenecks caused by the containment measures and the increased energy prices continue to be of significance for overall economic development.

The recovery of the German economy was slowed down in the course of the year by the resurgence of infections

On the whole, IfW expects Germany's GDP to grow by 2.6% in 2021. The recovery of the German economy was again slowed down in the course of the year by the resurgence of infections. Overall, the dent in the recovery process caused by the pandemic will probably be greater than the IfW had assumed at the time in its fall forecast. However, the setback will be nowhere near as severe as in the previous winter.

According to the Federal Ministry for Economic Affairs and Energy (BMWi), the situation in the industrial sector has stabilized with a cautiously optimistic outlook. According to the Federal Ministry of Economics and Technology, production in the manufacturing sector remained almost constant in November compared to the previous month, falling slightly by 0.2%. Industrial output increased slightly (+0.2%), while construction output decreased by 0.8%. New orders also rose again in the manufacturing sector in November 2021 compared to the previous month.

2.1.2 INDUSTRY SITUATION

The chemical industry in Germany was able to make significant gains again in 2021, registering production growth of 4.5%. Revenues increased by 15.5% to EUR 220.0 billion. The number of employees increased slightly by around 2,000 (+0.5%) to 466,500.

The long-term trend of growing demand for non-halogenated flame retardant fillers remains intact

The long-term trend of growing demand for non-halogenated flame retardant fillers, and aluminum hydroxide in particular, remains intact. Independent market forecasts call for annual global demand growth of 4.2% through 2025 (ATH-based, source: Frost & Sullivan, 2019). 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. The long-term outlook for boehmite is also excellent, in the estimation of Nabaltec, with a wide variety of applications, above all in electric vehicles. We expect European production of lithium ion batteries to ramp up significantly in the next one to two years. As a result, the potential for boehmite in Europe will be gradually increased, alongside the Asian market.

In the "Specialty Alumina" product segment, the refractory market is shaped by demand from the steel industry. The trend towards high-quality refractory products and wear-resistant ceramics is continuing. Market experts estimate that the market for refractory products and technical ceramics will grow at a rate of 2.6% per year through 2025 (source: Roskill, 2019).

2.2 COURSE OF BUSINESS

In the course of 2021, Nabaltec's business development increasingly gained momentum. In the fourth quarter, the sound development was once again underlined on a sustained basis. With consolidated revenues of EUR 187.0 million for 2021 as a whole, Nabaltec achieved a 17.2% increase in revenues compared to the previous year (EUR 159.6 million), which had been strongly affected by the impact of the coronavirus pandemic. At the same time, Nabaltec was thus able to exceed the previous record year of 2019, in which revenues had amounted to EUR 179.0 million, by 4.5%. Revenues in the "Functional Fillers" product segment came to EUR 130.6 million, compared to EUR 114.2 million in the previous year (up 14.4%), while revenues in the "Specialty Alumina" product segment were EUR 56.4 million, compared to EUR 45.4 million in the previous year (up 24.2%).

With consolidated revenues of EUR 187.0 million, Nabaltec exceeded the previous year as well as the previous record year of 2019

Especially in boehmite sales, Nabaltec was able to grow at an even faster pace in recent months, as customers have recently been buying heavily in stock and building up inventories. The great uncertainty regarding supply bottlenecks in many areas seems to play a role here. However, this will probably also result in the momentum slowing down again somewhat in the further course of 2022. Overall, the market remains correspondingly difficult to predict.

In the "Specialty Alumina" product segment, the recovery in the steel industry and the construction sector were the main drivers. In the past Financial Year 2021, volume effects were particularly noticeable here.

An operating profit (EBIT) of EUR 24.6 million resulted in 2021 with an EBIT margin (EBIT as a percentage of total performance) of 13.1%. EBIT contained a special negative effect of EUR 1.3 million from the first quarter of 2021, which was attributable to the exorbitant increase in energy prices due to the winter of the century in Texas, USA, in mid-February 2021. Adjusted for nonrecurring effects from an impairment loss on property, plant and equipment at Nashtec, as well as inventory write-downs and non-recurring expenses due to the discontinuation of the mullite product range with a total impact on earnings of EUR 25.3 million, EBIT for the previous year was EUR 9.4 million. The adjusted EBIT margin (as a percentage of total operating performance) amounted to 6.0%.

EBIT amounted to EUR 24.6 million; EBIT margin of 13.1%

EBITDA had been EUR 23.6 million in Financial Year 2020 and improved by 58.1% to EUR 37.3 million in Financial Year 2021.

The forecast, which was raised twice in the course of the year, was exceeded

Due to the very sound business development, Nabaltec raised the forecast twice in the course of 2021, most recently on 28 October 2021. Nabaltec originally expected revenue growth in the range of 6% to 9% and an EBIT margin of 8% to 10%. The forecast was concretized in October 2021 with revenue growth in a range of 13% to 15% and an EBIT margin of 11% to 12%. This forecast was also exceeded once again with the 2021 results.

2.3 SITUATION

2.3.1 EARNINGS POSITION

Nabaltec Group earned EUR 187.0 million in revenues in Financial Year 2021, compared to EUR 159.6 million in the previous year (up 17.2%). The main revenue drivers were the continuing solid performance of the boehmite product range and the growth achieved across almost all product ranges.

Per quarter, revenues in 2021 exceeded those of the previous year

In each quarter, Nabaltec outperformed the corresponding period of the previous year, which was further impacted by the effects of the coronavirus pandemic. Revenues came to EUR 46.0 million in the first quarter, compared to EUR 45.4 million in the same quarter of last year (up 1.3%). Revenues in the second quarter of 2021 amounted to EUR 47.9 million after EUR 36.4 million in the same period from the previous year. This represents a 31.6% increase in revenue compared to the second quarter of 2020, which was heavily impacted by the effects of the coronavirus pandemic. In the third quarter, Nabaltec exceeded the previous year's quarter by 25.9% and increased revenues to EUR 46.7 million, compared to EUR 37.1 million in the same period of the previous year. In the fourth quarter, revenues were EUR 46.4 million, compared to EUR 40.7 million in the fourth quarter of the previous year. This corresponds to an increase of 14.0%.

Revenues in the "Functional Fillers" product segment at EUR 130.6 million; boehmite product range with revenue growth of 51.3%

Nabaltec attained revenues in the "Functional Fillers" product segment of EUR 130.6 million in Financial Year 2021, compared to EUR 114.2 million in the previous year (up 14.4%). The solid revenue development was attributable to volume growth across all product ranges and the continued very sound development of the boehmite product range. In 2021 as a whole, boehmite revenues increased by 51.3% to EUR 24.2 million, compared to EUR 16.0 million in the same period from the previous year. The share in the company revenues is now around 13% (previous year: 10%).

Revenue growth in the "Specialty Alumina" product segment up 24.2%

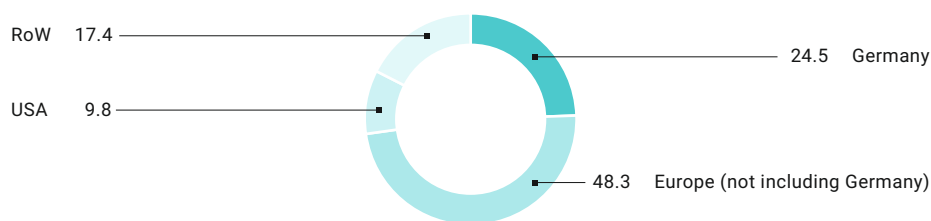
In the "Specialty Alumina" product segment, revenues in 2021 amounted to EUR 56.4 million, compared to EUR 45.4 million in the previous year (up 24.2%). In particular, the stronger momentum in the steel and refractory industries favored the surge in demand.

REVENUES BY PRODUCT SEGMENT, 2021 (IN EUR MILLION)

Functional Fillers	130.6
Specialty Alumina	56.4
Total	187.0

■ 2021 ■ 2020

REVENUES BY REGION, 2021 (IN %)



Over the year as a whole, the export share increased minimally, remaining at a very high level of 75.5% (previous year: 75.1%). Nabaltec recorded growth in all regions in 2021.

Export ratio with 75.5% at a very high level

Orders received amounted over the year as a whole to EUR 263.0 million, compared to EUR 163.6 million in the previous year. This high figure reflects the fact that customers, particularly from the "Specialty Alumina" product segment, already placed far-reaching orders in 2021 for 2022 and that the momentum in order intake will therefore weaken in the first months of 2022. Nabaltec ended the year 2021 with EUR 115.9 million in orders on hand, compared to EUR 39.9 million in the year before.

Nabaltec Group's total performance was EUR 187.2 million in 2021, compared to EUR 155.7 million in the previous year. The main reason for this development was the significant improvement in revenue compared to the previous year. A significant reduction in inventories of work in progress and finished goods in 2020 contrasted with only minor changes in inventories in the reporting year.

Total performance in the year 2021 at EUR 187.2 million

Other operating income increased to EUR 2.7 million (previous year: EUR 2.6 million) and includes currency gains (EUR 1.4 million) as well as other income from deliveries and services to third parties.

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

	2021	2020
Cost of materials	47.1	48.2
Personnel expenses	18.6	20.6
Other operating expenses	15.8	17.8

The depreciation ratio (depreciation as a percentage of total performance) was 6.8% in 2021, compared to 25.3% the year before. Depreciation amounted to EUR 12.7 million compared to EUR 39.4 million in 2020. The previous year included write-downs arising from non-recurring effects in the amount of EUR 24.1 million, in connection with the impairment of Nashtec's property, plant and equipment and the write-down of equipment which is no longer needed following closure of the mullite production facility at the Schwandorf site. Not including this extraordinary write-down, the depreciation ratio would be 9.8% in 2020.

Optimized product mix leads to improved cost of materials ratio

The cost of materials ratio (cost of materials as a percentage of total performance) decreased to 47.1% (2020: 48.2%). The improvement resulted, among other things, from an optimized product mix. In addition, non-recurring effects had a negative impact on the cost of materials in the previous year.

The gross profit margin (as a percentage of total performance) increased from 53.4% in the previous year to 54.4% in 2021. In absolute terms, gross profit in 2021 came to EUR 101.8 million, compared to EUR 83.2 million the year before.

The personnel expense ratio (personnel expenses as a percentage of total performance) decreased from 20.6% in the previous year to 18.6% in 2021. The number of Group employees decreased from 490 on 31 December 2020 to 481 on 31 December 2021.

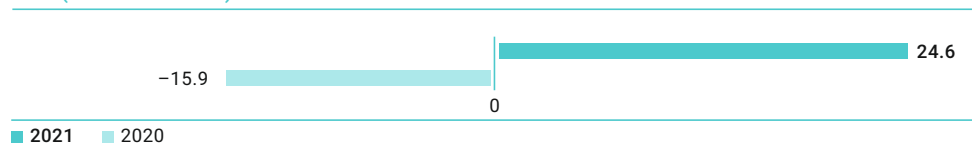
Other operating expenses increased from EUR 27.7 million to EUR 29.6 million, mainly due to higher freight costs as a result of higher sales volumes and price increases for freight rates. Costs for business trips and trade fairs remained well below the usual level due to the Corona situation, as in the previous year, and are expected to rise again from Financial Year 2022. The cost ratio, measured as a percentage of total output, decreased from 17.8% in the previous year to 15.8%.

EBITDA 2021 at EUR 37.3 million, compared to EUR 23.6 million in the previous year

Earnings before interest, taxes, depreciation and amortization (EBITDA) were EUR 37.3 million, compared to EUR 23.6 million in 2020 (up 58.1%). The EBITDA margin (as a percentage of total performance) reached 19.9% in 2021.

Operating income (EBIT) was EUR 24.6 million in 2021, compared to EUR -15.9 million in the previous year. The EBIT margin (as a percentage of total operating performance) was 13.1% in 2021.

EBIT (IN EUR MILLION)



Earnings before taxes (EBT) amounted to EUR 22.8 million in 2021 (previous year: EUR -17.8 million). This includes EUR -1.8 million in net financial income. In the previous year, net financial income amounted to EUR -2.0 million.

Tax expenses came to EUR 6.5 million in Financial Year 2021 after EUR 1.8 million in the previous year.

Consolidated earnings came to EUR 16.3 million in the financial year just closed, compared to EUR –19.7 million the year before. This results in earnings per share of EUR 1.85 for Financial Year 2021.

Earnings per share was EUR 1.85

Segment Report: Developments in the product segments

FUNCTIONAL FILLERS (IN EUR MILLION)

	2021	2020
Revenue	130.6	114.2
EBITDA	26.0	18.3
EBIT	16.6	-17.3
Investments	5.1	7.0

Revenues in the “Functional Fillers” product segment increased by 14.4% in 2021 to EUR 130.6 million. Based on reduced revenues in the previous year, due to the coronavirus pandemic, all product ranges within the segment registered growth in 2021. Particularly noteworthy is the very sound development of the boehmite product range, with revenue growth of 51.3% over the previous year. Sales volumes of products ex Naprotec, USA, fell significantly short of expectations. Here, the market launch phase is taking much longer than planned, partly due to Corona. In the long term, it remains apparent that the fundamental market drivers for the products of the “Functional Fillers” segment are still intact. Non-halogenated flame-retardant fillers remain on the rise worldwide due to their eco-friendly nature.

Within the “Functional Fillers” product segment, the boehmite product range continued to develop exceptionally well

REVENUES IN THE “FUNCTIONAL FILLERS” PRODUCT SEGMENT BY QUARTER (IN EUR MILLION)



EBITDA increased from EUR 18.3 million in 2020 to EUR 26.0 million in the reporting year.

“Functional Fillers” product segment was the focus of investments in 2021

With about 76% of total investments, the “Functional Fillers” product segment was again the focus of investments in 2021 within the Nabaltec Group. Capital expenditures were made primarily for the expansion of capacities in the boehmite product range, for the further optimization of production processes, and for replacement investments at the Schwandorf site.

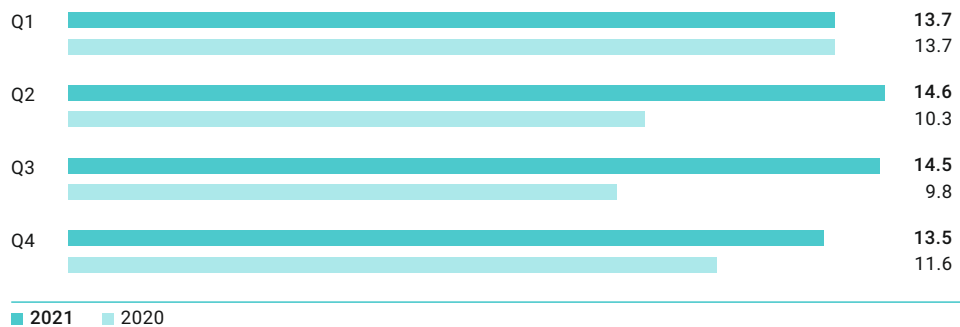
SPECIALTY ALUMINA (IN EUR MILLION)

	2021	2020
Revenue	56.4	45.4
EBITDA	11.3	5.3
EBIT	8.0	1.5
Investments	1.6	3.3

Revenues in the “Specialty Alumina” product segment increased to EUR 56.4 million

Revenues in the “Specialty Alumina” product segment increased by 24.2% in the reporting year, from EUR 45.4 million to EUR 56.4 million. This development was due in particular to the recovery in the steel industry and high demand for value-added specialty alumina.

REVENUES OF THE “SPECIALTY ALUMINA” PRODUCT SEGMENT BY QUARTER (IN EUR MILLION)



EBITDA in the “Specialty Alumina” product segment was EUR 11.3 million in the financial year just closed, compared to EUR 5.3 million in the previous year.

Around 24% of total investments went into the “Specialty Alumina” product segment, primarily into expanding capacity for high value-added products and optimizing production processes.

2.3.2 LIQUIDITY 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 subsidiaries are integrated into the Group’s liquidity management system.

Fluctuations in exchange rates are neutralized in most cases

Nabaltec counters fluctuations in the USD/EUR exchange rate by using exchange rate hedging instruments when such a course is indicated due to the volatility of the markets or the scope of the foreign exchange transactions.

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 sought growth and the investments made is secured by means of existing loans and through operating cash flow.

Nabaltec’s loans against borrower’s notes are subject to covenants tied to Group “leverage coverage ratios” and the Group equity ratio. None of the covenants in effect as of 31 December 2021 were breached in the 2021 reporting year.

The first tranche of the 2015 loan against borrower’s note, in the amount of EUR 31.0 million, was repaid as agreed in April 2020. The payment was made by taking out a bilateral loan with a volume of EUR 20.0 million, paid out in April 2020. The second tranche of the 2015 bonded loan of EUR 39.0 million and the bilateral loan of EUR 20.0 million are due for repayment as scheduled in April 2022 (for information on refinancing, please refer to the report on events after the close of the year).

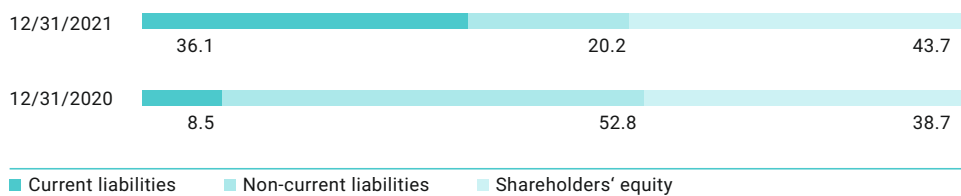
2.3.2.1 CAPITAL STRUCTURE

Nabaltec’s capital stock is EUR 8.8 million. Consolidated shareholders’ equity increased to EUR 96.5 million as of 31 December 2021, compared to EUR 76.8 million in the previous year, due in particular to the solid consolidated results. The equity ratio was 43.7% on 31 December 2021. This represents a very strong capital base by industry standards.

Equity ratio
of 43.7%

Non-current liabilities amounted to EUR 44.6 million on 31 December 2021, compared to EUR 104.8 million at the end of 2020. Current liabilities increased from EUR 16.9 million on 31 December 2020 to EUR 79.6 million. The reason for this is a reclassification from non-current to current liabilities to banks due to the maturity of the second tranche from the bonded loan and a bilateral loan in April 2022.

LIABILITIES STRUCTURE (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 made
EUR 6.7 million in
investments in 2021*

Nabaltec Group made EUR 6.7 million in investments last year, compared to EUR 10.3 million the year before. In 2021, the focus of investment was on the Schwandorf site. The funds were used in particular for technical equipment and machinery to expand capacity, for infrastructure measures and process optimization, and for replacement investments.

For 2022, Nabaltec is planning investments primarily for boehmite capacity expansion, for the expansion of process optimization and infrastructure, as well as for digitalization.

2.3.2.3 CASH FLOW

Nabaltec Group's operating cash flow increased from EUR 24.3 million in 2020 to EUR 33.2 million in 2021, largely due to the solid earnings performance. The previous year's operating cash flow benefited strongly from a reduction in working capital.

Spending on investments decreased from EUR 10.3 million in the year before to EUR 6.7 million. A focus of investment was increasing production capacity for boehmite and reactive alumina at the Schwandorf site.

*No dividend
payout took
place in 2021*

Cash flow from financing activity was EUR -1.4 million in 2021, compared to EUR -14.6 million in the previous year. In the previous year, cash flow from financing activities included the repayment of the bonded loan and a dividend payment. No dividend payment was made in Financial Year 2021. Interest paid in the reporting year amounted to EUR 1.4 million.

*Free cash flow
at EUR 26.4 million*

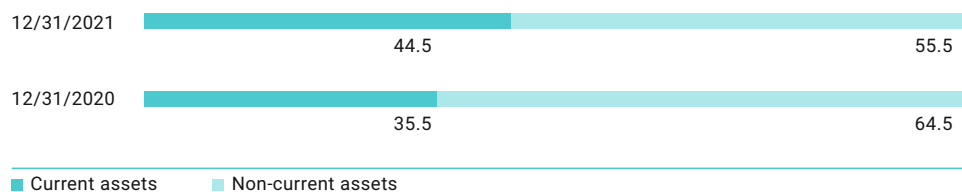
Nabaltec's free cash flow was EUR 26.4 million in 2021, compared to EUR 14.0 million in 2020.

Nabaltec Group's total funds, consisting of the sum of cash and cash equivalents, amounted to EUR 52.2 million on 31 December 2021, compared to EUR 26.4 million on the reporting date of the year before.

2.3.2.4 FINANCIAL POSITION

Total assets increased from EUR 198.6 million to EUR 220.7 million compared to 31 December 2020. This is primarily attributable to current assets due to the increase in cash and cash equivalents.

ASSET STRUCTURE (IN %)



As part of assets, property, plant and equipment decreased from EUR 123.9 million in 2020 to EUR 119.9 million in 2021. Total non-current assets fell, dropping to EUR 122.5 million on 31 December 2021 from EUR 128.1 million on 31 December 2020. Non-current assets accounted for 55.5% of total assets as of 31 December 2021, while current assets amounted to 44.5% of total assets.

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

The success of Nabaltec's operations is based on a long-term growth strategy. The Group is managed in such a way as to ensure profitable and capital-efficient growth. Therefore, significant importance is ascribed to revenue growth, EBIT and EBIT margin as performance indicators. Accordingly, the focus is on continually monitoring and optimizing these three major financial performance indicators, which also represent the basis for operational decisions and serve as the basis for forecasting as well.

Revenue growth, EBIT and EBIT margin are used as key performance indicators

Nabaltec also uses the following financial performance indicators for long-term management purposes. This internal controlling and management system enables management to pursue value-based management.

Other ratios used by Nabaltec:

RETURN ON SALES AND CAPITAL (IN %)

	2021	2020
Return on equity	16.9	-25.7
Return on capital employed (ROCE)	16.6	-10.2

Return on equity, consisting of the ratio of consolidated net income to shareholders' equity, amounted to 16.9% in the reporting year, compared to -25.7% in the year before.

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 16.6%, compared to -10.2% in the previous year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Trainee ratio of 8.7% in 2021, well above the industry average

At the end of 2021, Nabaltec Group had a total of 481 employees (31 December 2020: 490), of whom 465 work in Germany (31 December 2020: 474). This figure also includes 42 trainees (31 December 2020: 54). Nabaltec sets a high value on good training. In 2021 as well, the trainee rate represented a remarkably large share of the workforce, 8.7%. This rate again exceeded the industry average significantly in 2021. Nabaltec's trainees are regularly among the best of their class. Training positions are currently available (m/f/d) for industrial clerks, digitization management clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists, as well as for chemicals production workers.

Nabaltec offers its employees prospects and opportunities for advancement within the company in order to promote identification with the company by these means as well, and to encourage hard work and commitment. Nabaltec is a family-friendly company which has been recognized multiple times. Nabaltec supports its employees in all life situations, offering individual arrangements to improve work/life balance. The company also offers numerous programs designed to maintain and improve employee health within the framework of health management. In this context, Nabaltec has received silver-standard "Healthy Company" certification for the second time from the health insurance provider AOK Bayern in recognition of its strong commitment to corporate health management.

Customer relations

In recent years, Nabaltec has been able to continually strengthen its market position and develop it in certain areas.

Nashtec LLC's customer supply in the US continued to stabilize during 2021. In addition to supplying the US market, the company was also able to make an export contribution to supplying customers within the Nabaltec Group. With the commissioning of the production site in Chattanooga, USA, and the expansion of the activities of the sales subsidiary in Shanghai, China, Nabaltec has realized essential steps for even closer cooperation with customers worldwide. Small progress was made in the market launch of Naprotec LLC's products after delays caused by the pandemic during the year.

Distribution subsidiary in Shanghai significantly expanded sales in the reporting year

Nabaltec's distribution subsidiary in Shanghai successfully further expanded its operations and revenues in the reporting year. In light of the highly strained logistics situation in 2021, particular attention was paid to the stocking and thus flexible delivery options of Nabaltec (Shanghai) Trading Co., Ltd.

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, as well as the German Ceramics Society (DKG) and Verband der Deutschen Feuerfest-Industrie e.V., the German Refractory Industry Association.

In the US and China, Nabaltec is involved in pinfa North America and pinfa China. Nabaltec is a member of the American Ceramic Society (ACerS) and plans to expand its association activities in this region in order to cover other major markets. Through these activities, Nabaltec is able to identify major trends in the primary markets, “flame retardants” and “ceramics,” at a very early stage and on a global scale, allowing Nabaltec to respond early on.

Through its involvement in various associations, Nabaltec has full access to key markets and can react to trends in the main sales markets at an early stage

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 2021, successful surveillance audits for the existing management systems based on ISO 9001 and ISO 14001 were performed at the Schwandorf site. The existing occupational health and safety management system in accordance with ISO 45001 (formerly BS OHSAS 18001) was successfully recertified as part of a repeat audit.

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. The energy management system was successfully updated in 2021 in the course of a surveillance audit.

Nabaltec introduced a certified energy management system in 2010

The accreditation of Nabaltec’s analysis center in accordance with the ISO/IEC 17025 standard was confirmed and updated in a 2021 surveillance audit.

A surveillance audit was also successfully performed in 2021 for US subsidiary Nashtec LLC’s quality management system in accordance with the ISO 9001 standard.

In the course of introducing a quality management system in accordance with ISO 9001 at the American subsidiary Naprotec LLC, the Stage I audit was successfully carried out in November 2021.

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. They are used in diesel particulate filters and catalyzers and play an important role in reducing particulate matter and soot. Other product families are found in plastics. Here, they mainly replace flame retardants containing bromine. This makes products safer and easier to recycle. In this respect, it is of central importance that research and development, production as well as up- and downstream logistics to be as environmentally friendly as possible. The conservation of natural resources is a central concern for Nabaltec and a prerequisite for social acceptance of the company. Nabaltec actively accepts responsibility for the environment: a commitment that extends well beyond its own site.

Conservation of natural resources is a major concern for Nabaltec

Reduction of CO₂ emissions by obtaining thermal energy from the neighboring waste-to-energy plant in Schwandorf

Within the framework of recyclability, material is reintegrated into the production process in the Technical Ceramics area. In the Functional Fillers area, flushing material and other non-specific materials are reused internally as raw materials. This aids the sustainable use of raw materials. In addition, 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. By obtaining thermal energy from the neighboring waste-to-energy plant in the form of steam and electricity, Nabaltec is doing its part to reduce CO₂ emissions.

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.

The non-financial performance indicators mentioned above are not used for centralized management of the company or the Group.

3. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

3.1 OUTLOOK

Nabaltec foresees largely intact sales markets for its own products in 2022

OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

Nabaltec foresees largely intact sales markets for its products in 2022 as well, but with a continued uncertain market environment and increased volatility. Based on its existing market position and the reputation it has built up over many years, Nabaltec sees good future prospects for its key products. The forecast does not yet reflect the potential economic impact of the Russia-Ukraine conflict, which broke out at the end of February 2022, due to the dynamic development of the current situation, as neither the specific extent nor the duration of the impact can be reliably determined at present.

In its January 2022 forecast (before the outbreak of the Russia-Ukraine conflict), the IMF assumes global economic growth of 4.4% for 2022

ECONOMIC AND SECTOR CONDITIONS

In its January 2022 forecast update (before the outbreak of the Russia-Ukraine conflict), the IMF expected global growth to decline from 5.9% in 2021 to 4.4% in 2022. This slowdown is mainly attributable to the forecast downturns in the two largest economies, the US and China.

Due to persistently high energy prices as well as continuing supply bottlenecks, due in particular to the COVID-19 variant omicron and, as a result, renewed mobility restrictions in individual countries, inflation is expected to last longer than forecasted in the World Economic Outlook of October 2021. Global growth is also expected to slow to 3.8% by 2023. This forecast is based on the assumption that health impairments will decline to low levels in most countries by the end of 2022, provided vaccination rates improve globally and therapies are more effective.

In line with the global economy, the situation in Germany is currently also significantly impacted by ongoing supply bottlenecks and high energy prices, which has slowed down the recovery of the German economy. As in previous waves, the spread of infection in the winter of 2021/2022 has particularly inhibited activity in contact-intensive service industries and has, as a result, led to a decline in private consumer spending. A strong recovery and rising economic activity are expected as early as spring as the strain of the pandemic eases, especially because the supply bottlenecks burdening the industry are then expected to ease.

Persistent supply bottlenecks and high energy costs also slow economic recovery in Germany

For 2022, the IfW expects gross domestic product to increase by 4.0%, with inflation remaining high.

GDP GROWTH FORECAST OVER PRIOR YEAR (IN %)

	2022	2023
World	4.5	4.0
USA	4.4	2.9
Euro zone	3.5	3.1
Germany	4.0	3.5
France	2.9	2.9
Italy	3.2	2.6
United Kingdom	4.5	1.9
Japan	2.8	2.0
China	4.1	4.9
India	11.7	7.9

Source: IfW, Kieler Konjunkturberichte No. 85 „Weltwirtschaft im Winter 2021,“ 15 December 2021

The VCI (Verband der Chemischen Industrie e.V. – German Chemical Industry Association) expects production in the chemical industry to increase by 2.0% and revenues to grow by 5.0% to EUR 231 billion in 2022, and thus sees further positive development for the industry. According to the association, supply chain problems and the rapid rise in electricity and gas prices will be the main challenges facing the industry in 2022. However, the industry in general is not lacking in orders.

The long-term outlook in key target markets is largely positive, in Nabaltec’s view. In the short term as well, Nabaltec expects growth in almost all product ranges due to the continued solid demand.

Long-term outlook in key target markets is largely positive

OUTLOOK ON THE COURSE OF BUSINESS

The fourth quarter of 2021 ended with a renewed surge in sales, as a large number of customers increased their inventories in order to better counter the supply bottlenecks that currently still exist in many areas. At the start of 2022, momentum was slowed due to these anticipatory effects, particularly in the boehmite product range. In the majority of product ranges, demand remained stable at the beginning of the new financial year, with prices rising. Overall, uncertainties remain even in 2022 in connection with bottlenecks in logistics and various materials.

Demand was stable in the majority of product ranges at the start of 2022

In the US, Nabaltec expects a successive improvement of the business situation at Nashtec. The market launch of Naprotec's products has been further delayed due to the coronavirus pandemic. Originally expected revenue will not be realized until a later date due to delayed customer releases. The current situation means that the market is taking longer to develop.

In 2022 as well, fine hydroxides will continue to be the most important product range by far within the "Functional Fillers" product segment. The boehmite product range will continue to gain in importance due to the encouraging development in electromobility, although increased inventory build-up on the customer side at the end of 2021 may lead to shifts in the growth rates during the year. Products with high added value will continue to gain importance in the "Specialty Alumina" product segment.

EXPECTED EARNINGS, FINANCIAL AND LIQUIDITY POSITION

Nabaltec is expecting revenue growth in a range from 10% to 12% in 2022 and an EBIT margin in the range from 10% to 12%

Due to the economic and industry environment and the price increases realized at the start of the year, Nabaltec is expecting revenue growth in a range from 10% to 12% in 2022. On the earnings side, Nabaltec is expecting an EBIT margin in a range from 10% to 12%. The forecast is based on the assumption that, despite the current war in the Ukraine, the economy and the industries relevant to Nabaltec will develop positively. At the time the forecast was prepared at the beginning of March 2022, it was not yet clear how the increasing geopolitical risks and a potential dissemination of the Omicron variant will affect the course of business. If the Russia-Ukraine conflict escalates or expands accordingly and the associated negative economic distortions occur, negative effects on the earnings, liquidity and financial position cannot be ruled out.

Stringent political measures to curb the coronavirus pandemic, such as closure of some international borders and lockdowns, remain in effect. These measures may continue to affect Nabaltec's economic performance. If the consequences of the pandemic intensify in 2022, revenues and earnings may decline. At the time this report was prepared, Nabaltec's supply chains remained largely intact, with no critical disruptions in either procurement or sales.

NOTE WITH RESPECT TO UNCERTAINTIES IN THE OUTLOOK

The forward-looking statements and information described are based on current expectations and specific assumptions, particularly with regard to the further development of the Russia-Ukraine conflict and the associated economic effects. They therefore involve several risks and uncertainties. A large number of factors, a significant part of which are 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.

3.2 RISKS AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

For Nabaltec Group, the relevance of risk management is derived from its business activities and its worldwide operations in 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 in the long term, for its economic success in international markets and for its successful, sustainable further development.

Effective risk management is decisive to secure the company's prospects in the long term

Nabaltec is constantly working to develop the company's and the Group's risk management system. 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 discernable 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 at the management level. 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.

Implementation of a strategic planning system in order to take advantage of medium- and long-term opportunities and to identify risks

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.

SALES MARKET

The 2008/2009 international economic crisis and the coronavirus pandemic have shown that a shock in demand such as was seen then can have far-reaching consequences in Nabaltec'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 solid position 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.

Geopolitical risks, particularly the current Russia-Ukraine conflict, may have a negative impact on sales. The share of total revenues in the two countries is manageable at around 4%. Nevertheless, risks also exist for Nabaltec depending on the potential economic effects of the Russia-Ukraine conflict. As a result of the war, overall economic growth may decline and thus also have a negative impact on Nabaltec's sales situation. Likewise, negative effects on the sales market cannot be ruled out in the event of an increasing expansion of the Omicron variant.

PROCUREMENT MARKET

Supply of key energy sources is secured through long-term contracts

Nabaltec monitors its suppliers' economic situation very closely and deliberately builds up alternatives for all products. Nabaltec uses mid- and long-term supply agreements for its supply of raw materials. The supply of the most important energy sources for the production process, such as electricity, gas and steam, is largely secured by long-term contracts. In view of the Russia-Ukraine conflict, however, further increases in energy costs and possible supply bottlenecks (e.g., due to a boycott of Russian oil and gas imports) may have a negative impact on Nabaltec.

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 can counter this risk by passing on logistics costs to customers and by finding a balanced logistical mix. For example, Nabaltec has its own railway siding, which makes transport by rail very attractive.

Nabaltec will not be able to escape the sharp rise in prices on the procurement market in 2022, both for raw materials and for energy. The cost increases will take effect successively via medium- and long-term contracts.

FINANCIAL MARKET

When necessary, foreign exchange risks are strategically minimized using hedging instruments covering risks arising from US dollar exposure. In the case of medium-term financing, interest risks are hedged using swaps or loan agreements are concluded with fixed interest rates. Nabaltec Group has 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's loan agreements are subject in some cases to covenants which are tied to Group leverage coverage ratios as well as the Group's 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 2021 were not breached in the reporting year.

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

PERSONNEL

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 through 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.

Intensive continuing education and management training programs

TAXES

In the tax return for financial year 2020, the devaluation of Nashtec LLC was noted as a tax expense deductible in Germany. The tax field audit on this state of affairs is currently underway and there is a chance of collecting a previously unrecognized tax gain in the low single-digit millions in 2022.

PRODUCTION, PROCESSES AND IT

Nabaltec has an integrated quality management system with ISO 9001 accreditation that is implemented company-wide. Therefore, Nabaltec considers production-specific risks clear and manageable. For IT applications that are critical for the business, Nabaltec 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 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.

Production-specific risks are clear and manageable

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 largely 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 so as to set the stage for economic success.

*Statutory conditions
at the moment are
creating additional
market opportunities*

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.

As an intensive electricity user in international competition, Nabaltec will benefit from the renewable energy surcharge in 2022 as well. Nabaltec uses fossil fuels, for which it has been charged a carbon price in Germany since 2021. Due to the annual increase in the national CO₂ prices, Nabaltec's cost burden is continuously rising.

CORONAVIRUS

Reference is made to the section on "expected earnings, net assets and financial position" with regard to the procurement and sales risks posed by the coronavirus pandemic.

REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

In February 2022, a bonded loan was successfully issued with a volume of EUR 90.0 million and a value date of April 2022. The proceeds from the issue will be used to refinance existing bonded loans in the amount of EUR 39.0 million and a bilateral bank loan in the amount of EUR 20.0 million, due in April 2022. In addition, the funds will be used to finance further growth projects, in particular to expand capacity in the boehmite product range for lithium ion batteries.

The war between Russia and Ukraine, which broke out on 24 February 2022, directly affects Nabaltec's business only to a limited extent. Nevertheless, consequential effects such as a decline in overall economic growth and rising energy costs may have a negative impact on the liquidity, financial and earnings positions. These macroeconomic effects are highly dependent on the further development of the war and are thus subject to corresponding uncertainties. Due to the dynamic development of the overall situation, neither the specific extent nor the duration of the effects can be reliably determined at present.

*Group risks are well
managed*

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 current and potential customers, the company's future development is currently not exposed to any significant risks – subject to unexpectedly grave negative economic consequences from the Russia-Ukraine conflict and the coronavirus pandemic, which is not yet over. On the whole, potential impact of the company's and the Group's risk is limited, in our estimation. There are currently no discernable risks which could jeopardize the future existence of the company or the Group.

Schwandorf, 25 March 2022

Nabaltec AG
The Management Board



JOHANNES HECKMANN



GÜNTHER SPITZER



DR. ALEXANDER RISCH

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INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2021	1/1/ – 12/31/2020
Revenues	5.1	187,017	159,576
Change in inventories of finished goods and work in progress		-287	-4,283
Own work capitalized	5.2	498	367
Total performance		187,228	155,660
Other operating income	5.3	2,678	2,571
Cost of materials	5.4	-88,151	-74,987
Gross earnings		101,755	83,244
Personnel expenses	5.5	-34,839	-31,993
Depreciation	5.7	-12,737	-39,415
Other operating expenses	5.8	-29,628	-27,699
Operating profit (EBIT) ¹		24,551	-15,863
Interest and similar income	5.10	58	67
Interest and similar expenses	5.11	-1,826	-2,039
Earnings before taxes (EBT)		22,783	-17,835
Taxes on income	5.12	-6,522	-1,818
Net after-tax earnings		16,261	-19,653
Earnings per share ² (in EUR)	7.5	1.85	-2.23

¹ thereof non-recurring effects in the amount of EUR -1.3 million (previous year: EUR -25.3 million)

² also see 6.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2021	1/1/ – 12/31/2020
Net after-tax earnings		16,261	-19,653
Items which may be reclassified to profit and loss in the future			
Currency translation (after taxes)		1,923	-3,182
Net income from hedge accounting (after taxes)		412	407
Total		2,335	-2,775
Items which will not be reclassified to profit and loss in the future			
Actuarial gains and losses (after taxes)		1,063	1,638
Total		1,063	1,638
Other comprehensive income		3,398	-1,137
Total comprehensive income		19,659	-20,790

CONSOLIDATED BALANCE SHEET

FOR 31 DECEMBER 2021

ASSETS

in TEUR	See Notes	12/31/2021	12/31/2020
Non-current assets		122,516	128,127
Intangible assets			
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments)	6.1	396	452
Property, plant and equipment		119,904	123,940
Land, leasehold rights and buildings, including buildings on unowned land	6.2	36,462	37,571
Technical equipment and machinery	6.2	74,918	75,604
Other fixtures, fittings and equipment	6.2	3,792	3,964
Advance payments and assets under construction	6.2	4,732	6,801
Financial assets		78	78
Shares in affiliated companies	6.3	78	78
Deferred tax assets	5.12	2,138	3,657
Current assets		98,190	70,485
Inventories		33,935	32,888
Raw materials and supplies	6.4	22,532	20,460
Work in process	6.4	1,241	1,235
Finished goods and merchandise	6.4	10,162	11,193
Other assets and accounts receivable		12,049	11,243
Trade receivables	6.5	5,457	5,128
Taxes receivable	6.6	432	432
Other assets	6.7	6,160	5,683
Cash and cash equivalents	6.8	52,206	26,354
TOTAL ASSETS		220,706	198,612

LIABILITIES

in TEUR	See Notes	12/31/2021	12/31/2020
Shareholders' equity			
Subscribed capital	6.9	8,800	8,800
Capital reserve	6.9	47,029	47,029
Earnings reserve	6.9	9,699	9,699
Profit carry-forward		30,119	49,772
After-tax earnings		16,261	-19,653
Other changes in equity with no effect on profit and loss	6.9	-15,414	-18,812
Non-current liabilities			
Pension reserves	6.10	43,269	44,492
Other provisions	6.10	1,318	1,361
Accounts payable to banks	6.11	0	58,977
Current liabilities			
Accounts payable from income taxes	6.11	3,677	0
Other provisions	6.10	485	446
Accounts payable to banks	6.11	59,268	505
Trade payables	6.11	10,681	11,610
Other accounts payable	6.11	5,514	4,386
TOTAL LIABILITIES		220,706	198,612

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

CONSOLIDATED CASH FLOW STATEMENT

in TEUR	See Notes	1/1 - 12/31/2021	1/1 - 12/31/2020
Cash flow from operating activity			
Earnings before taxes		22,783	-17,835
+ Depreciation of fixed assets	5.7	12,737	39,415
-/+ Income/loss from the disposal of assets		1	-1
- Interest income	5.10	-58	-67
+ Interest expenses	5.11	1,826	2,039
Net operating income before changes in working capital		37,289	23,551
+/- Increase/decrease in provisions		-54	329
-/+ Increase/decrease in trade receivables and other assets not attributable to investment of financing activity		-807	464
+/- Increase/decrease in inventories		-1,047	7,614
+/- Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity		550	-1,899
Cash flow from operating activity before taxes		35,931	30,059
- Income taxes paid		-2,767	-5,745
Net cash flow from operating activity		33,164	24,314

CONSOLIDATED CASH FLOW STATEMENT

in TEUR	See Notes	1/1/ - 12/31/2021	1/1/ - 12/31/2020
Cash flow from investment activity			
+ Payments received from the disposal of property, plant and equipment		5	10
- Payments made for investments in property, plant and equipment	6.2	-6,651	-10,209
- Payments made for investments in intangible assets	6.1	-90	-124
Net cash flow from investment activity		-6,736	-10,323
Cash flow from financing activity			
- Dividends		0	-1,320
+ Payments received from loans	6.11	0	20,000
- Payments made for the amortization of loans	6.11	0	-31,500
- Interest paid		-1,431	-1,782
+ Interest received		8	17
Net cash flow from financing activity		-1,423	-14,585
Net change in cash and cash equivalents		25,005	-594
Change in funds due to changes in exchange rates		847	-2,036
Funds at start of period	6.8	26,354	28,984
Funds at end of period	6.8	52,206	26,354

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in TEUR	Subscribed capital	Capital reserve	Earnings reserve
1 January 2020	8,800	47,029	9,699
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	–	–	–
31 December 2020	8,800	47,029	9,699
1 January 2021	8,800	47,029	9,699
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	–	–	–
31 December 2021	8,800	47,029	9,699

Profit carry-forward	Other changes in equity with no effect on profit and loss	Consolidated shareholders' equity
51,092	-17,675	98,945
-1,320	-	-1,320
-	1,638	1,638
-	-3,182	-3,182
-	407	407
-	-1,137	-1,137
-19,653	-	-19,653
-19,653	-1,137	-20,790
30,119	-18,812	76,835
30,119	-18,812	76,835
-	-	0
-	1,063	1,063
-	1,923	1,923
-	412	412
-	3,398	3,398
16,261	-	16,261
16,261	3,398	19,659
46,380	-15,414	96,494

STATEMENT OF CONSOLIDATED FIXED ASSETS

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

in TEUR	Cost of acquisition/production					12/31/2021
	1/1/2021	Additions	Disposals	Reclassifi- cation	Currency differences	
Intangible assets	3,534	90	63	0	0	3,561
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	3,445	57	63	67	0	3,506
Advance payments	89	33	0	-67	0	55
Property, plant and equipment	290,605	6,651	316	0	5,795	302,735
Land, leasehold rights and building, including buildings on unowned land	63,554	123	0	90	1,418	65,185
Technical equipment and machinery	206,343	3,007	28	4,836	4,247	218,405
Other fixtures, fittings and equipment	13,907	666	288	24	104	14,413
Advance payments and assets under construction	6,801	2,855	0	-4,950	26	4,732
Financial assets	78	0	0	0	0	78
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	294,217	6,741	379	0	5,795	306,374

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

in TEUR	Cost of acquisition/production					12/31/2020
	1/1/2020	Additions	Disposals	Reclassifi- cation	Currency differences	
Intangible assets	3,410	124	0	0	0	3,534
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	3,313	48	0	84	0	3,445
Advance payments	97	76	0	-84	0	89
Property, plant and equipment	286,750	10,208	22	0	-6,331	290,605
Land, leasehold rights and building, including buildings on unowned land	64,756	255	0	105	-1,562	63,554
Technical equipment and machinery	195,439	5,682	0	9,738	-4,516	206,343
Other fixtures, fittings and equipment	13,210	723	22	107	-111	13,907
Advance payments and assets under construction	13,345	3,548	0	-9,950	-142	6,801
Financial assets	78	0	0	0	0	78
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	290,238	10,332	22	0	-6,331	294,217

Depreciation					Book value	
1/1/2021	Additions	Disposals	Currency differences	12/31/2021	12/31/2021	12/31/2020
3,082	146	63	0	3,165	396	452
3,082	146	63	0	3,165	341	363
0	0	0	0	0	55	89
166,665	12,591	311	3,886	182,831	119,904	123,940
25,983	1,731	0	1,009	28,723	36,462	37,571
130,739	9,976	24	2,796	143,487	74,918	75,604
9,943	884	287	81	10,621	3,792	3,964
0	0	0	0	0	4,732	6,801
0	0	0	0	0	78	78
0	0	0	0	0	78	78
169,747	12,737	374	3,886	185,996	120,378	124,470

Depreciation					Book value	
1/1/2020	Additions	Disposals	Currency differences	12/31/2020	12/31/2020	12/31/2019
2,908	174	0	0	3,082	452	502
2,908	174	0	0	3,082	363	405
0	0	0	0	0	89	97
131,187	39,241	13	-3,750	166,665	123,940	155,563
17,519	9,438	0	-974	25,983	37,571	47,237
104,537	28,892	0	-2,690	130,739	75,604	90,902
9,131	911	13	-86	9,943	3,964	4,079
0	0	0	0	0	6,801	13,345
0	0	0	0	0	78	78
0	0	0	0	0	78	78
134,095	39,415	13	-3,750	169,747	124,470	156,143

CONSOLIDATED NOTES

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

1. GENERAL

Nabaltec AG, with registered office in Schwandorf, Germany¹, 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 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 division of the Frankfurt Stock Exchange since 24 November 2006. They have been listed in the new "Scale" segment since 1 March 2017.

The present consolidated financial statements were approved by the Management Board on 25 March 2022.

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 2021 (including disclosures for the year before as of 31 December 2020) 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 § 315e (1) of the German Commercial Code. The IFRS include the International Financial Reporting Standards and International Accounting Standards (IAS) published by the International Accounting Standards Board, as well as the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

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

These are the consolidated financial statements of Nabaltec AG. All valid standards adopted by the EU were applied for Financial Year 2021.

The consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position.

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 (TEUR) 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 Consolidated 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 annual periods beginning on 1 January 2021 were applied for Financial Year 2021. This particularly includes the following standards and interpretations, which were to be applied for the first time:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 based on Phase 2 of the IBOR reform project:** In August 2020, the IASB published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments relate to the reform of interest reference rates (IBOR reform), and especially to associated changes in contractual cash flows and hedging transactions. The amendments affect the following:
 - Changes in contractual cash flows: If reform of the interest reference rate results in a change in contractual cash flows, the carrying amount of the affected financial instruments is not to be adjusted or derecognized; rather, the effective interest rate is to be updated.
 - Hedge accounting: Hedging relationships need not be discontinued based only on changes required as a result of IBOR reform, provided the hedging relationship meets the other requirements for the recognition of hedging relationships.
 - Disclosure requirements: Entities are required to disclose information about new risks arising from the IBOR reform and about how the transition to the new reference interest rates is being managed.

The amendments had no impact on the consolidated financial statements.

- **Amendments to IFRS 16: "COVID-19-related rent concessions after 30 June 2021":** The amendments provide relief to lessees from applying IFRS 16's guidance on lease modification accounting for rent concessions granted as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-related lease concession from a lessor is a lease modification. A lessee that makes this election accounts for any qualifying change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. Originally, these changes were

to apply until 30 June 2021. However, as the Corona pandemic continues, on 31 March 2021, the IASB extended the application period of the practical expedient to 30 June 2022. The amendments are to be applied in reporting periods beginning on or after 1 April 2021. The Group has early applied these amendments to IFRS 16 in the current financial year. These changes had no impact on the consolidated financial statements because the Group has not received any rent concessions related to COVID-19 to date.

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

- **Amendments to IFRS 3 (Business Combinations) – Reference to the Conceptual Framework:** In May 2020, the IASB published amendments to IFRS 3. The amendments replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing the existing provisions of the Standard. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “Day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, if incurred separately. At the same time, the Board decided to add a clarifying statement pointing out that existing rules for contingent assets in IFRS 3 would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments take effect in annual reporting periods beginning on or after 1 January 2022, and are to be applied prospectively. The Group does not expect the amendments to have any impact on the consolidated financial statements.
- **Amendments to IAS 16 (Property, Plant and Equipment) – proceeds before intended use:** In May 2020, the IASB published amendments to IAS 16. Entities would no longer be permitted to deduct from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the entity is to recognize these proceeds, and the cost of producing those items, in profit or loss. The amendments will take effect in reporting periods beginning on or after 1 January 2022, and are to be applied retroactively for property, plant and equipment that become operational on or after the beginning of the earliest reporting period presented in the financial statements in which the amendments are first applied. The Group does not expect the amendments to have any impact on the consolidated financial statements.
- **Amendments to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets): Onerous Contracts – Cost of Fulfilling a Contract:** In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach.” The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are to be applied in reporting periods beginning on or after 1 January 2022. The Group will apply these changes to contracts for which it has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not to have an impact on the consolidated financial statements.

- **Improvements to Various International Financial Reporting Standards (2018–2020):** As part of its annual improvements to the IFRS for the 2018–2020 cycle, the IASB has made amendments to IFRS 1 (First-Time Adoption of International Financial Reporting Standards: subsidiary as a first-time adopter), IAS 41 (Agriculture: taxation in fair value measurements) and IFRS 9 (Financial Instruments: fees in the “10%” test for derecognition of financial liabilities). The amendments are to take effect in reporting periods beginning on or after 1 January 2022. Earlier application is permitted. The Group does not expect any notable impact on the consolidated financial statements.

- **Amendments to IAS 1 – Classification of liabilities as current or non-current:** In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 (Presentation of Financial Statements) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
 - what is meant by a right to defer settlement;
 - that the right to defer settlement must exist at the end of the reporting period;
 - that classification is unaffected by the likelihood that an entity will actually exercise its deferral right;
 - that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments take effect for annual reporting periods beginning on or after 1 January 2023, subject to adoption into EU law, and are to be applied retrospectively. The amendments are not expected to have an impact on current accounting practices.

- **Amendments to IAS 1 and Guidance Document 2 Disclosure of Accounting Policies:** In February 2021, the IASB published amendments to IAS 1 and IFRS Practice Statement 2 “Making Materiality Judgements.” These are intended to help companies assess when information on accounting policies should be classified as “material” and consequently disclosed. The amendments are intended to assist entities in providing more helpful disclosures about accounting policies to users of financial statements by replacing the requirement to disclose “significant” accounting policies with the requirement to disclose “material” information about accounting policies and adding guidance to support the application of the concept of materiality in assessing disclosures about accounting policies. These amendments to IAS 1 will take effect in annual reporting periods beginning on or after 1 January 2023, subject to adoption into EU law. Earlier application is permitted. As the amendments to Practice Statement 2 provide non-binding application guidance on the definition of “material” in relation to accounting policy information, an effective date for the amendments was not considered necessary. The Group does not expect the amendments to have any material impact on the Group’s information concerning its accounting methods.

- **Changes to IAS 8: Definition of accounting estimates:** In February 2021, the IASB issued amendments to IAS 8 introducing a new definition for accounting estimates. The amendments clarify how changes in accounting estimates differ from changes in accounting policies and error corrections. They also explain how companies can make accounting estimates using measurement techniques and inputs. The amendments are effective – subject to adoption into EU law – for annual periods beginning on or after 1 January 2023, and are applicable to changes in accounting policies and accounting estimates made on or after the beginning of that financial year. Earlier application is permitted, provided this fact is stated. The Group does not expect the amendments to have any material impact on the consolidated financial statements.

- Amendments to IAS 12 Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction:** In May 2021, the IASB published amendments to IAS 12. The IASB thus responded to existing uncertainties in the accounting for deferred taxes in connection with leases and decommissioning obligations. When assets and liabilities were recognized for the first time, the so-called “initial recognition exemption” (IAS 12.15) already applied under certain conditions. In these cases, deferred taxes are by way of exception not to be recognized. In practice, there was uncertainty as to whether this exemption also applied to leases and decommissioning obligations. In order to ensure uniform application of the standard, the IASB has made a narrowly defined amendment to IAS 12. As a result of the amendment to IAS 12, the initial recognition exemption no longer applies to transactions in which both deductible and taxable temporary differences arise in the same amount on initial recognition, even if the other previously applicable conditions are met. This is therefore a retroactive exception to the initial recognition exemption for narrowly defined cases. The amendments result in the recognition of deferred taxes, e.g. on leases accounted for by the lessee and on decommissioning obligations. The amendments will take effect in reporting periods as of 1 January 2023, subject to adoption into EU law. Earlier application of the amendments is permitted. The Group does not expect any impact on the consolidated financial statements.

2.3 SUBSIDIARIES AND CONSOLIDATED COMPANIES

The consolidated financial statements include the financial statements of the parent company and the companies it controls (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		
	2021	2020
Nabaltec AG and fully consolidated subsidiaries		
Domestic	1	1
Foreign	4	4
Unconsolidated subsidiaries		
Foreign	1	1

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

SUBSIDIARY			Share of capital and voting rights	
Name of subsidiary	Main business	Registered office	12/31/2021 in %	12/31/2020 in %
Nashtec LLC	Production of aluminum hydroxides	Corpus Christi, USA	100.00	100.00
Nabaltec USA Corporation	Administration and distribution	Corpus Christi, USA	100.00	100.00
Naprotec LLC	Production	Chattanooga, USA	100.00	100.00
Nabaltec (Shanghai) Trading Co., Ltd.	Marketing and distribution	Shanghai, China	100.00	100.00

There has been no change to the consolidation base since the consolidated financial statements for 31 December 2020.

In Financial Year 2018, Nabaltec AG acquired land and buildings in Chattanooga, Tennessee, USA, for the construction of a production plant for refined hydroxide. Naprotec LLC was formed as a production company for this purpose. The shares in Naprotec LLC were contributed into the newly formed subsidiary Nabaltec USA Corporation in Financial Year 2018. The shares in Nashtec LLC were also contributed into Nabaltec USA Corporation.

Nabaltec AG also formed Nabaltec (Shanghai) Trading Co., Ltd. in October 2018, based in Shanghai, China. The formation of this trading company represents the logical continuation of Nabaltec's expansion of operations in Asia.

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

SUBSIDIARY			Share of capital and voting rights	
Name of subsidiary	Main business	Registered office	12/31/2021 in %	12/31/2020 in %
Nabaltec Asia Pacific K.K.	Marketing and sales	Tokyo, Japan	100.00	100.00

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.

2.4 CONSOLIDATION METHODS

Capital consolidation for the subsidiaries was performed by netting out the book value of each investment with each 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.

2.5 CURRENCY TRANSLATION

The consolidated financial statements are prepared in Euros.

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 companies, 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 subsidiaries essentially operate independently in financial, economic and organizational terms, the functional currency is identical to each 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 subsidiaries' 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. However, due to the uncertainty associated with these assumptions and estimates, events may occur which require substantial adjustments to the book values of the affected assets and liabilities in future periods. Estimates and discretionary decisions are subject to added uncertainty given the currently unforeseeable global consequences of the coronavirus pandemic. Effects on the consolidated financial statements relating to the coronavirus may also arise from volatile foreign exchange rates, payment defaults, changing revenue and cost structures and uncertain forecasts with respect to the amount and timing of cash flows. These factors may affect the fair values and carrying amounts of assets and liabilities and the amount and timing of income realization, as well as cash flow. As a result, negative deviations from the assumptions made in advance may require impairment of goodwill and/or other non-current assets, while positive deviations may lead to the reversal of impairments. Estimates and discretionary decisions of relevance to the consolidated financial statements have been updated with due regard for available information about expected economic performance, as well as government measures in specific countries.

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. 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, and recently based on fair value.
- **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 TEUR 43,269 on 31 December 2021 (year before: TEUR 44,492). Further details are presented in Section 6.10, "Current and non-current provisions."

- 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 2021, the book value of recognized other provisions was TEUR 187 (year before: TEUR 148). We refer to the explanations in Section 6.10, "Current and non-current provisions," for further statements and information.
- Recognition of **deferred taxes**: 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 2021 (prior to netting out with deferred tax liabilities) amounted to TEUR 11,361 (year before: TEUR 12,979).
- **Impairment** of non-financial assets: impairment tests of other intangible assets and property, plant and equipment are performed as the circumstances require and 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.

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 IFRS 15 in the amount of the expected consideration once the customer obtains control over the goods and can derive benefits from them.

The point in time at which control over the delivered goods is transferred typically confirms to the time of delivery or the contractual date for the passage of risk. Nabaltec AG's revenues are realized exclusively at specific points in time. Accordingly, the timing of revenue realization at Nabaltec AG does not involve significant discretionary decisions. Customers' payment targets are set within narrow periods and no financing components exist.

Revenues are diminished by variable consideration (cost of sales and discounts).

For more detailed information, please see Section 5.1, "Revenues."

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 2021 (year before: TEUR 0).

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 4–5 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 20–50 years
- Technical equipment and machinery 5–22 years
- Fixtures, fittings and equipment 3–20 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 subsidized asset in the form of reduced depreciation.

4.8 LEASES WITH THE GROUP AS LESSEE

The Group makes an evaluation upon the commencement of each contract to determine whether the contract establishes or contains a lease in accordance with IFRS 16. That is the case if the contract entitles a party to control use of an identified asset in exchange for payment of a fee over a defined period of time.

In accordance with IFRS 16, the Group recognizes right-of-use assets and corresponding lease liabilities at present value, provided those assets or liabilities are material. Exercising the option in accordance with IFRS 16.4, the Group does not apply the rules to leases of intangible assets.

Nabaltec has resolved to take advantage of the exemption and not to recognize rights of use and lease liabilities based on low-value assets or for short-term leases. The Group recognizes lease payments accruing in connection with leases in straight-line fashion over the term of the lease.

The Group recognized no right-of-use assets or corresponding lease liabilities as of 31 December 2021 due to materiality considerations (year before: TEUR 0).

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. On each reporting date, an assessment is made as to whether indications are present that non-current assets may be impaired. If such indications exist, the recoverable amount of the asset is determined and compared to its book value. If individual assets do not generate separate cash inflows that are largely independent of those of other assets or groups of assets, the impairment test is performed based on the smallest overarching cash-generating unit. 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

Upon initial recognition, financial assets are classified and measured as follows in accordance with IFRS 9:

- financial assets at amortized cost (AC);
- debt instruments at fair value through other comprehensive income (FVOCI): investments in debt instruments recognized at fair value with changes recognized in other comprehensive income (FVOCI – debt);
- equity instruments at fair value through other comprehensive income (FVOCI): equity investments recognized at fair value with changes recognized in other comprehensive income (FVOCI – equity);
- financial assets at fair value through profit and loss (FVTPL): investments at fair value with changes in value in profit and loss.

Financial assets are not reclassified after initial recognition unless the Group changes its business model for the management of financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period which follows the change in the business model.

Financial assets are recognized at amortized cost if two of the following conditions are met and if the asset is not designated as a financial asset at fair value through profit and loss (FVTPL):

- the asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated as a financial asset held at fair value through other comprehensive income (FVOCI) if one of the following two conditions are met and if the instrument is not designated as a financial asset at fair value through profit and loss (FVTPL):

- the debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of an equity investment not held for trading, the Group may irrevocably elect to recognize subsequent changes in the fair value of the investment in other comprehensive income. This election is made individually for each investment.

All financial assets not held at amortized cost or at fair value through other comprehensive income (FVOCI) are recognized at fair value through profit and loss (FVTPL). This includes all derivative financial assets as well as financial instruments held for trading which are voluntarily designated as financial assets at fair value through profit and loss (FVTPL).

INITIAL MEASUREMENT

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.

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.

SUBSEQUENT MEASUREMENT**Financial assets at amortized cost (AC)**

Assets at amortized cost are measured using the effective interest method in subsequent measurement. Impairment costs are subtracted from the amortized cost of the asset. Interest income, exchange rate gains and losses and impairments are recognized in profit and loss. Gains or losses from derecognition are also recognized in profit or loss.

Debt instruments at fair value through other comprehensive income (FVOCI)

These assets are recognized at fair value in subsequent measurement. Interest income calculated using the effective interest rate method, exchange rate gains and losses and impairments are recognized in profit or loss. Other net gains or losses are recognized in other comprehensive income. Upon derecognition, cumulative other comprehensive income is reclassified as profit or loss.

Equity investments at fair value through other comprehensive income (FVOCI)

These assets are recognized at fair value in subsequent measurement. Dividends are recognized as income in profit and loss unless the dividends are clearly being paid in order to cover part of the cost of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified as profit or loss.

Financial assets at fair value through profit and loss (FVTPL)

These assets are recognized at fair value in subsequent measurement. Net gains and losses, including any interest or dividend income, are recognized in profit and loss.

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.

In some cases, trade receivables are sold to a factor in order to secure early payment. The affected receivables are derecognized at the time of the sale, since all risks and opportunities associated with ownership of the receivables are transferred to the buyer. The security deposit charged by the factoring partner is recognized under other current financial assets, consistent with the general rules of IFRS 9.

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.

Financial assets are subject to a standardized “expected loss impairment model,” which is broken down into a simplified approach for trade receivables and the three-stage general approach for all other financial assets. In the three-stage approach, expected losses upon acquisition of the asset are recognized in the amount of the present value of the expected losses over 12 months (Level 1). If there is a significant increase in credit risk, the loss allowance is to be increased up to the amount of the expected losses over the lifetime of the credit risk (Level 2). If there is objective evidence of impairment, interest is calculated based on the net carrying amount (the carrying amount minus the loss allowance; Level 3).

Trade receivables are recognized at amortized cost less reasonable allowances. Allowances on accounts receivable are performed based on the expected loss.

Allowances are performed on a case-by-case basis if doubts exist as to the recoverability of other assets recognized at amortized cost or financial instruments at fair value through other comprehensive income (FVOCI).

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 by applying 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. Accordingly, the Group’s funds correspond to the “cash and cash equivalents” reported in the balance sheet. 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 are 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 the financial year for cash flow hedges relating to interest rate risks. No currency hedges were used in the reporting year.

Derivative financial instruments which are not designated as hedging instruments are classified as financial assets at fair value through profit and loss. Derivatives are classified as financial assets if their fair value is positive or as financial 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.

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 as other comprehensive income, like other actuarial gains and losses, 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 cost and past service costs arising from changes in the plan.

4.19 FINANCIAL LIABILITIES

Financial liabilities in terms of IFRS 9 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. Income and losses from financial liabilities measured at fair value are recognized as profit and loss.

Other liabilities

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 they are extinguished, i.e. once the underlying obligation is satisfied, cancelled or expired.

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 REVENUES

Revenues are mainly earned from supplying customers with aluminum hydroxide- and aluminum oxide-based products. No other services are provided to customers. Contracts typically come about through individual customer orders. In other words, the contracts consist exclusively of a single performance obligation, i.e. the delivery of goods. A combination of contracts or contractual modifications would not be relevant.

With regard to determination of the transaction price, consideration for Nabaltec is comprised of fixed and variable components. The fixed consideration is the fixed amount specified in the individual order. Variable consideration includes discounts and bonuses, which are subtracted from revenues in the period in which they accrue. Because the terms of the contracts are short (individual orders), there are no significant financing components. Non-cash consideration is not paid.

Nabaltec has no contracts with multiple performance obligations. Accordingly, there is no need to allocate the transaction price based on stand-alone selling prices.

Revenue is realized at a specific point in time. In particular, no products exist which have no alternative use for the company due to practical or contractual limitations. The point in time at which control over the delivered goods is transferred typically conforms to the time of delivery and/or the contractual date for passage of risk.

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 TEUR 498 (year before: TEUR 367) was capitalized in Financial Year 2021 for various technical equipment and machinery, including capitalized interest in the amount of TEUR 82 (year before: TEUR 103).

5.3 OTHER OPERATING INCOME

Other operating income is comprised as follows:

OTHER OPERATING INCOME		
in TEUR	2021	2020
Currency gains	1,409	370
Other	415	235
Payments in kind	203	210
Rent and lease payments	168	148
Supply of industrial water	156	163
Analysis Center services	138	143
Siding and track work	85	55
Warehouse and scrap sales	51	48
HR services	29	28
Insurance indemnities	12	67
Income from the reversal of reserves	7	0
Income from the disposal of property, plant and equipment	5	10
Exchange rate differences from consolidation	0	1,085
Allowances on accounts receivable	0	9
Total	2,678	2,571

Other operating income includes income from exchange rate differences arising from consolidation in the amount of TEUR 0 (year before: TEUR 1,124 due to write-downs on Nashtec LLC's property, plant and equipment).

5.4 COST OF MATERIALS

Cost of materials is comprised as follows:

COST OF MATERIALS		
in TEUR	2021	2020
Cost of raw materials, supplies and of purchased goods	85,802	72,693
Cost of purchased services	2,349	2,294
Total	88,151	74,987

5.5 PERSONNEL EXPENSES

Personnel expenses are comprised as follows:

PERSONNEL EXPENSES		
in TEUR	2021	2020
Wages and salaries	28,773	26,043
Social security contributions	5,064	4,853
Expenses for pension obligations	817	901
Other pension expenses	185	196
Total	34,839	31,993

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 TEUR 1,995 (year before: TEUR 2,109), 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		
	2021	2020
Industrial workers	246	250
Employees	188	194
Minimally employed workers	3	3
Total	437	447

In addition, an average of 43 trainees were employed during the year (year before: 51).

5.7 DEPRECIATION

Depreciation of fixed assets is evident from the above presentation of the Statement of Consolidated 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 is compared against the realizable value. The realizable value of each cash-generating unit was determined by calculating the value in use 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. Forecasted cash flows are discounted using a risk-adequate discount rate.

Impairment tests indicated a need to write down a total of TEUR 0 in assets in Financial Year 2021 (previous year: TEUR 24,634). These write-downs related to allowances in the amount of TEUR 23,712 arising from impairment of Nashtec LLC's property, plant and equipment in the "Functional Fillers" product segment due to lower capacity utilization at Nashtec LLC as a result of the coronavirus pandemic, as well as the expectation that sales in the North American market will be slow to recover in the coming years. The value in use of TEUR 14,880 was estimated using a pre-tax discount rate of 6.3% and a perpetual growth rate of 1% starting in 2024. In the year before there were also TEUR 424 in allowances at the Schwandorf site for equipment which is no longer needed following closure of the mullite production site, in the "Specialty Alumina" product segment, as well as write-downs on property, plant and equipment in the amount of TEUR 498 in the "Functional Fillers" product segment.

5.8 OTHER OPERATING EXPENSES

Other operating expenses are comprised as follows:

OTHER OPERATING EXPENSES		
in TEUR	2021	2020
Freight	12,452	10,364
Outside services	7,621	7,292
Sales commissions	3,020	3,260
Other taxes	1,267	1,148
Insurance	1,077	1,047
Other administrative costs	812	982
Lease payments	795	933
Other	765	541
Legal and consulting expenses	693	595
Ancillary personnel expenses	489	438
Currency losses	400	911
Advertising expenses	118	81
Travel expenses	114	97
Losses from the disposal of fixed assets	5	10
Allowances on accounts receivable	0	0
Total	29,628	27,699

5.9 RESEARCH AND DEVELOPMENT

All research and development costs for the year, in the amount of TEUR 4,184 (year before: TEUR 4,186), 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	2021	2020
Income from plan assets (pension liability insurance)	50	50
Interest income from bank balances	8	17
Total	58	67

5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are shown in the following table:

INTEREST AND SIMILAR EXPENSES		
in TEUR	2021	2020
Interest expenses to banks	728	865
Interest expenses from interest rate swaps	578	632
Interest expenses from compounding of provisions	378	393
Interest expenses from factoring	116	116
Interest expenses from other compounding	17	24
Commission on bank guarantees	9	9
Total	1,826	2,039

5.12 TAXES ON INCOME

Taxes on income break down as follows:

TAXES ON INCOME		
in TEUR	2021	2020
Actual taxes:		
Tax expense for current year	6,370	2,255
Tax expense for prior years	0	22
Deferred taxes:		
Accrual and reversal of temporary differences	1,592	-1,054
Recognized in other comprehensive income not through profit and loss	-1,440	595
Total	6,522	1,818

Taxes on income for Financial Year 2021 consist of current trade and corporate income tax plus the solidarity mark-up.

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: 29.13%). This number is comprised of the 15% corporate income tax rate, which remains unchanged, the unchanged 5.50% solidarity mark-up and the trade tax rate of 13.30% (year before: 13.30%). Taxes for the foreign companies were calculated using the applicable national tax rates.

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

in TEUR	Before taxes		Deferred taxes		After taxes	
	2021	2020	2021	2020	2021	2020
Foreign currency translation	2,757	-4,617	-834	1,435	1,923	-3,182
Net income from hedge accounting	581	574	-169	-167	412	407
Actuarial gains and losses	1,500	2,311	-437	-673	1,063	1,638
Total	4,838	-1,732	-1,440	595	3,398	-1,137

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:

TAX RATE		
	2021	2020
Tax rate	29.13%	29.13%
in TEUR		
Earnings before taxes	22,783	-17,835
Expected tax expense	6,637	-5,195
Deviations		
1. Different foreign tax rate	-99	897
2. Adjustments to actual taxes from prior years	0	15
3. Non-deductible expenses	41	6,072
4. Other	-57	29
Tax expense recognized in the consolidated income statement	6,522	1,818

Deferred tax assets and liabilities are as follows:

in TEUR	Consolidated balance sheet		Consolidated income statement	
	12/31/2021	12/31/2020	2021	2020
Deferred tax assets				
Other assets	557	547	10	11
Pension reserves	7,506	8,155	-649	-635
Other provisions	290	241	49	20
Loss carry-forward	2,918	3,053	-135	742
Other	90	983	-893	541
Gross total, deferred tax assets	11,361	12,979	-1,618	679
Netting	-9,223	-9,322	0	0
Net total, deferred tax assets	2,138	3,657	-1,618	679
Deferred tax liabilities				
Fixed assets	8,481	8,743	189	-302
Inventories	532	567	35	-82
Other	210	12	-198	759
Gross total, deferred tax liabilities	9,223	9,322	26	375
Netting	-9,223	-9,322	0	0
Net total, deferred tax liabilities	0	0	26	375

The deferred tax asset in the form of the loss carry-forward is attributable in its entirety to Nabaltec USA Corporation. In general, the tax loss carry-forwards in the US, in the amount of TEUR 13,897 (year before: TEUR 14,538), can be carried forward without limitation for purposes of federal tax due to a change in tax law.

Deferred tax claims are only recognized insofar as the company has adequate taxable temporary differences or insofar as there is convincing substantive evidence that adequate taxable income will be available in the future for which unused tax losses can be utilized. Based on management's assumptions and assessments as to future business performance, there is convincing substantive evidence for the realization of these tax claims. This assessment is based on past experiences, as well as currently available information and forecasts. Accordingly, deferred tax assets on loss carry-forwards in the amount of TEUR 2,918 (previous year: TEUR 3,053) were recognized for companies which had negative taxable income in the current or previous year and whose deferred tax assets on loss carry-forwards were not offset by deferred tax liabilities.

Such loss carry-forwards are deductible up to 80% of current taxable income.

Deferred tax assets and liabilities in the US are netted out with deferred tax assets in connection with loss 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 above presentation of the "Statement of Consolidated 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 2021, 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 Consolidated Fixed Assets", which is presented above.

As in the year before, no property, plant and equipment served as collateral or land charges for debt.

A total of TEUR 82 in borrowing costs were capitalized in Financial Year 2021 (year before: TEUR 103) 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 1.90% (year before: 2.10%).

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.

6.4 INVENTORIES

Inventories are comprised as follows:

INVENTORIES		
in TEUR	12/31/2021	12/31/2020
Raw materials and supplies	22,532	20,460
Work in process	1,241	1,235
Finished goods and merchandise	10,162	11,193
Total	33,935	32,888

As in the previous year, no inventories serve as collateral for accounts payable to banks.

The impairment of inventories, which is recognized as an expense, amounted to TEUR 629 (year before: TEUR 2,974).

The impairment was particularly attributable to non-recurring effects in the amount of TEUR 682 from the discontinuation of mullite production, as well as TEUR 1,288 from an impairment on raw materials held by Nashtec.

6.5 TRADE RECEIVABLES

Trade receivables are as follows:

TRADE RECEIVABLES		
in TEUR	12/31/2021	12/31/2020
Gross trade receivables	5,604	5,275
Individual allowances	-147	-147
Total	5,457	5,128

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

Trade receivables as of the reporting date were diminished by TEUR 29,832 (previous year: TEUR 22,568) through a non-recourse factoring arrangement, in which the factor assumes the default risk for the receivables. We refer to Section 7.2, "Disclosures concerning financial instruments," with regard to the development of the allowance account and the age structure of accounts receivable.

6.6 TAXES RECEIVABLE

Taxes receivable, in the amount of TEUR 432 (previous year: TEUR 432), consists of tax refund claims against the German tax authorities resulting from corporate income tax, solidarity mark-up and trade tax.

6.7 OTHER ASSETS

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

OTHER FINANCIAL ASSETS		
in TEUR	12/31/2021	12/31/2020
Accounts receivable from factoring	2,731	3,018
Other	1,355	941
Other financial assets	4,086	3,959

OTHER NON-FINANCIAL ASSETS		
in TEUR	12/31/2021	12/31/2020
VAT receivable	1,800	1,514
Accrued assets	274	210
Other non-financial assets	2,074	1,724
Total	6,160	5,683

The accounts receivable from factoring recognized as of 31 December 2021, in the amount of TEUR 2,731 (year before: TEUR 3,018), consist primarily of security deposits in connection with factoring arrangements.

As in the previous year, other assets have a residual term of less than one year.

6.8 CASH AND CASH EQUIVALENTS

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

CASH AND CASH EQUIVALENTS		
in TEUR	12/31/2021	12/31/2020
Bank balances	52,204	26,351
Cash on hand	2	3
Total	52,206	26,354

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 as high as 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 funds presented in the consolidated cash flow statement, there are no differences in cash and cash equivalents as of 31 December 2021.

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

6.9 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 TEUR 8,800 on the reporting date (year before: TEUR 8,800) and consists of 8,800,000 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 16 June 2021 to raise the capital stock through 31 May 2026 once or multiple times by up to TEUR 4,400 by issuing up to 4,400,000 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 2021/I).

The previous authorization to use Authorized Capital 2016/I expired on 31 May 2021. No use was made of the previous authorization in the current financial year before its expiry.

Conditional capital

In Financial Year 2021, the previous Conditional Capital 2016/I was replaced.

By resolution of the shareholders in general meeting on 16 June 2021, the share capital of the company was conditionally increased by up to TEUR 4,400 by issuing up to 4,400,000 new no-par-value bearer shares (Conditional Capital 2021/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 16 June 2021.

No such bonds have been issued to date.

Capital reserve

As of 31 December 2021, the capital reserve amounted to TEUR 47,029 (year before: TEUR 47,029). The capital reserve results in part from the capital increase executed in September 2017. With an issue price of EUR 23.00 per share, the capital increase generated a premium in the amount of TEUR 17,600. At the same time, transaction costs in the amount of TEUR 335 (after taxes) were subtracted from shareholders' equity. The capital reserve also includes a premium from the IPO, which took place in 2006. This resulted 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 TEUR 29,000.

Earnings reserve

As of 31 December 2021, earnings reserves amounted to TEUR 9,699 (year before: TEUR 9,699).

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

For Financial Year 2021, the Management Board will propose to distribute a dividend in the amount of EUR 0.25 per share, i.e., a total of TEUR 2,200, from the retained earnings of Nabaltec AG determined in accordance with the principles of German commercial law.

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 2021, other changes in equity with no effect on profit and loss amounted to a cumulative total of TEUR -15,414 (year before: TEUR -18,812).

6.10 CURRENT AND NON-CURRENT PROVISIONS

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

FINANCIAL YEAR 2021

in TEUR	01/01/2021	Addition	Utilization	Reversal	12/31/2021
Provisions for personnel expenses	1,361	53	96	0	1,318
Provisions for environmental conservation and disposal	298	0	0	0	298
Other provisions	148	186	140	7	187
Total	1,807	239	236	7	1,803

FINANCIAL YEAR 2020

in TEUR	01/01/2020	Addition	Utilization	Reversal	12/31/2020
Provisions for personnel expenses	1,378	99	116	0	1,361
Provisions for environmental conservation and disposal	0	298	0	0	298
Other provisions	187	140	179	0	148
Total	1,565	537	295	0	1,807

Provisions for personnel expenses, in the amount of TEUR 1,318 (year before: TEUR 1,361), consist of anniversary pay obligations. These obligations were measured using the projected unit credit method, in which anniversary pay obligations are funded by single premiums for the annual growth in vested rights, with due regard for trend assumptions. As a biometric foundation for the calculation, the 2018 G benchmark tables of Prof. Dr. Klaus Heubeck were used. The measurement was also based on the assumption of an actuarial interest rate of 1.10%, a salary trend of 2.75%, and a fluctuation rate of 1.00%.

The provisions for environmental conservation and disposal include TEUR 298 in cleaning expenses relating to discontinuation of the mullite production area.

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 from 60 to 65 years. Pension obligations are calculated based on a retirement age of 63 (pension rules) and 65 (Management Board members).

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

PENSION EXPENSES

in TEUR	2021	2020
Current service cost	817	901
Net interest expense	352	368
Pension expenses	1,169	1,269
Actual income from plan assets	59	65

The net interest expense is comprised of the interest expense, in the amount of TEUR 367 (year before: TEUR 383), less expected income from plan assets in the amount of TEUR 15 (year before: TEUR 15). The interest share of the funds transferred to pension reserves and income from plan assets is 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 2020	-24,871
Losses from changes in biometric and financial assumptions	0
Experience gains	2,261
Income from plan assets	50
Actuarial losses on 31 December 2020	-22,560
Profit from changes in biometric and financial assumptions	2,553
Experience losses	-1,096
Income from plan assets	44
Actuarial losses on 31 December 2021	-21,059

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

DEFINED BENEFIT OBLIGATIONS	
in TEUR	
Defined benefit obligations on 1 January 2020	48,212
Interest expense	382
Current service cost	901
Benefits paid	-864
Actuarial gains/losses	-2,261
Defined benefit obligations on 31 December 2020	46,370
Interest expense	367
Current service cost	817
Benefits paid	-917
Actuarial gains/losses	-1,456
Defined benefit obligations on 31 December 2021	45,181

Of the TEUR 45,181 in defined benefit obligations as of 31 December 2021 (year before: TEUR 46,370), a sum in the amount of TEUR 14,649 (year before: TEUR 15,666) is covered by pension liability insurance with a premium reserve of TEUR 1,912 (year before: TEUR 1,878).

Pension payments in the amount of approximately TEUR 940 are expected in Financial Year 2022 and TEUR 959 in Financial Year 2023.

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 2020	1,839
Employer contributions	36
Benefits paid	-62
Expected returns	15
Actuarial gains/losses	50
Fair value of plan assets on 31 December 2020	1,878
Employer contributions	36
Benefits paid	-61
Expected returns	15
Actuarial gains/losses	44
Fair value of plan assets on 31 December 2021	1,912

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 TEUR 36 in Financial Year 2022.

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

in TEUR	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Fair value of plan assets	1,912	1,878	1,839	1,807	1,776
Present value of defined benefit liability	45,181	46,370	48,212	37,859	38,580
Pension reserves	43,269	44,492	46,373	36,052	36,804

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

in %	2021	2020
Discount rate	1.10	0.80
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 2018 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	43,200	47,294
Salary trend	45,409	44,955
Pension trend	46,780	43,658

The above sensitivity analysis 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.

6.11 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	12/31/2021	59,268	59,268	–	–
	12/31/2020	59,482	505	58,977	–
Trade payables	12/31/2021	10,681	10,681	–	–
	12/31/2020	11,610	11,610	–	–
Accounts payable from income taxes	12/31/2021	3,677	3,677	–	–
	12/31/2020	–	–	–	–
Other accounts payable	12/31/2021	5,514	5,514	–	–
	12/31/2020	4,386	4,386	–	–
Total	12/31/2021	79,140	79,140	–	–
	12/31/2020	75,478	16,501	58,977	–

Accounts payable to banks

Accounts payable to banks consist of long-term loans against borrower's notes and long-term loans obtained at typical market interest rates.

Nabaltec AG's loans against borrower's notes 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 2021 were breached in the 2021 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 and China resulting from corporate income tax, solidarity mark-up and trade tax for the past financial year.

Other accounts payable

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

OTHER ACCOUNTS PAYABLE

in TEUR	12/31/2021	12/31/2020
Negative market values from interest rate swaps	293	874
Financial statements and auditing	170	172
Other	99	150
Professional association	41	12
Other current financial accounts payable	603	1,208
in TEUR	12/31/2021	12/31/2020
Bonuses and other performance-based compensation	2,520	901
Other excise duties	1,138	873
Outstanding vacation claims	756	902
Amounts owed to the tax office	336	307
Social expenses owed	69	85
Other	50	69
Inventor compensation	33	30
Demographic Contribution II	9	11
Other current non-financial accounts payable	4,911	3,178
Other current accounts payable (total)	5,514	4,386

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.

7. OTHER DISCLOSURES

7.1 OTHER FINANCIAL LIABILITIES

Liabilities arising from leases with the Group as lessee

The Group has financial liabilities arising from lease agreements. As of the reporting date, 31 December 2021, no lease agreements existed for various technical equipment and machinery within the context of sale-and-leaseback transactions. The residual terms of all contracts are largely between 1 and 5 years.

A total of TEUR 795 (year before: TEUR 933) in expenses arising from leases (including short-term leases and leases of low-value assets) were recognized in the current year.

Total future lease payments (including short-term leases and leases of low-value assets) have the following maturities:

in TEUR	12/31/2021	12/31/2020
Lease payments within 1 year	771	634
Lease payments, 1–5 years	1,052	402
Lease payments, over 5 years	1	2
Total	1,824	1,038

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 2021, there were a total of TEUR 2,633 in obligations (year before: TEUR 2,314) arising from investment orders.

Nabaltec AG has issued Nashtec LLC a payment guarantee in the amount of TUSD 1,200 (year before: TUSD 1,300) to secure its supply of raw materials.

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 IFRS 9	Book value		Fair value	
		2021	2020	2021	2020
Financial assets					
Trade receivables	AC	5,457	5,128	5,457	5,128
Other assets and accounts receivable					
Other non-derivative accounts receivable and financial assets	AC	4,086	3,959	4,086	3,959
Cash and cash equivalents	AC	52,206	26,354	52,206	26,354
Financial liabilities					
Financial liabilities at amortized cost					
Accounts payable to banks	AC	59,268	59,482	59,268	59,482
Trade payables	AC	10,681	11,610	10,681	11,610
Other financial liabilities					
Other non-derivative financial liabilities	AC	310	334	310	334
Negative market values of interest rate derivatives (designated in effective cash flow hedges)	–	293	874	293	874

The following abbreviations are used for the measurement categories pursuant to IFRS 9:

ABBREVIATIONS		
AC	Amortized cost	Financial instruments recognized at amortized cost
FVOCI (debt)	Fair Value through Other Comprehensive Income – debt instrument	Debt instruments at fair value, with no effect on profit and loss (recycling)
FVOCI (equity)	Fair Value through Other Comprehensive Income – equity instrument	Equity instruments at fair value, with no effect on profit and loss (non-recycling)
FVTPL	Fair Value through Profit and Loss	Financial instruments at 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.

In accordance with IFRS 9, shares in non-consolidated affiliated companies are generally classified as FVOCI.

Net income by measurement category

Income and expenses from financial instruments are presented below using the measurement categories in IFRS 9:

in TEUR		MEASUREMENT CATEGORY PURSUANT TO IFRS 9				Net income 2021
		From interest	From subsequent measurement			
			At fair value	Currency translation	Impairment	
Amortized cost	AC	8	–	1,142	0	1,150
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Fair Value through Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–861	–	–133	–	–994
Total 2021		–853	–	1,009	–	156

in TEUR		MEASUREMENT CATEGORY PURSUANT TO IFRS 9				Net income 2020
		From interest	From subsequent measurement			
			At fair value	Currency translation	Impairment	
Amortized cost	AC	17	–	–652	9	–626
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Fair Value through Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–1,005	–	111	–	–894
Total 2020		–988	–	–541	9	–1,520

In the consolidated statement of comprehensive income, 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 “amortized cost” 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 TEUR 693 (year before: TEUR 853).

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 “amortized cost” measurement category and financial liabilities in the “other liabilities” measurement category 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

A hierarchy of various fair values exists 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:

12/31/2021

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	293	0	293
Negative market values of currency derivatives	0	0	0	0

12/31/2020

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	874	0	874
Negative market values of currency derivatives	0	0	0	0

No assets or liabilities were reclassified between the measurement levels in Financial Year 2021.

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. Designated and effective cash flow hedges are recognized in accordance with the hedge accounting rules in IFRS 9. Accordingly, risks arising from fluctuations in interest and exchange rates are deliberately managed with a view to reducing earnings 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 IFRS 9 within the framework of hedge accounting is the requirement that designated hedges must be effective. 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 2021, the Group recognized interest rate derivatives with a market value of TEUR –293 (year before: TEUR –874), which served to hedge against interest rate risks associated with loans against borrower's notes, which are recognized under accounts payable to banks (book value: TEUR 39,000; previous year: TEUR 39,000). No currency derivatives were used in the reporting year (year before: also TEUR 0). 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 2021 of TEUR 581 (year before: TEUR 574), 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. Interest rate derivatives amount to a total of TEUR 39,000 maturing through 2022. The interest rate derivatives secure Nabaltec a fixed interest rate of between 0.94% and 0.96% depending on maturity.

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. As a result, the relevant amounts are derecognized in their entirety and are no longer recognized as trade receivables. The exceptions are trade receivables which are not accepted by the factor, e.g. because a credit limit has been exceeded. Trade receivables are also insured through credit default insurance.

The amounts recognized in the balance sheet have been adjusted by the allowance for unrecoverable claims, which was estimated by management using the expected loss model. 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 financial 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	2021	2020
1 January	147	156
Transfers	0	0
Reversals	0	9
31 December	147	147

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
12/31/2021	5,457	5,457	0	0	0	0
12/31/2020	5,128	5,128	0	0	0	0

As far as trade receivables are concerned which are neither in default 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 impairments were expected 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 Group has existing unutilized credit limits in the amount of TEUR 4,000 as of 31 December 2021 (year before: TEUR 22,000).

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 FLOWS (undiscounted)

in TEUR		Total	thereof term < 1 year	thereof term 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2021	59,679	59,679	–	–
	12/31/2020	61,004	1,688	59,316	–
Trade payables	12/31/2021	10,681	10,681	–	–
	12/31/2020	11,610	11,610	–	–
Other financial liabilities	12/31/2021	603	603	–	–
	12/31/2020	1,208	1,208	–	–
Total (financial liabilities)	12/31/2021	70,963	70,963	–	–
	12/31/2020	73,822	14,506	59,316	–

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 not 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
2021			
USD	+10	560	0
USD	-10	-560	0
2020			
USD	+10	376	0
USD	-10	-376	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 modeled 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
2021			
Europe	+10	0	1
USA	+10	0	0
Europe	-10	0	-1
USA	-10	0	0
2020			
Europe	+10	0	40
USA	+10	0	0
Europe	-10	0	-40
USA	-10	0	0

* 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 2021 and 2020 are shown below:

	12/31/2021 in TEUR	12/31/2020 in TEUR	Change in %
Shareholders' equity	96,494	76,835	-22.35
as % of total capital	61.95	56.36	-3.26
Non-current financial debt	–	58,977	51.38
Current financial debt	59,268	505	–
Debt*	59,268	59,482	-16.09
as % of total capital	38.05	43.64	4.55
Total capital for capital management purposes	155,762	136,317	-19.73

* The company defines debt as accounts payable to banks.

Equity decreased by TEUR 19,659 last year, to TEUR 96,494, largely due to positive consolidated earnings in the amount of TEUR 16,261.

Debt decreased by TEUR 214 last year, to TEUR 59,268, largely due to changes in current account liabilities.

Together, these effects resulted in an increase in the equity ratio (shareholders' equity as a percentage of total capital) to 61.95% in 2021, up from 56.36% in the previous year. The ratio of debt to capital for capital management purposes decreased from 43.64% on 31 December 2020 to 38.05% on 31 December 2021.

In the future, the Group will endeavor to steadily optimize its financial management, together with continuous monitoring and management of 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 6.11, "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 total amount of TEUR 2,574 in Financial Year 2021 (year before: TEUR 1,181). An additional TEUR 1 was transferred to provisions for service anniversaries (year before: TEUR 1). In addition, a total of TEUR 686 was spent on post-employment benefits (year before: TEUR 609).

The members of the Supervisory Board received a total of TEUR 56 in remuneration in Financial Year 2021 (year before: TEUR 56).

The following accounts receivable and payable existed on 31 December 2021 and 2020 vis-à-vis related parties:

in TEUR	Accounts receivable		Accounts payable	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Companies controlled by Supervisory Board members	0	0	0	0
Companies controlled by Management Board members	3	3	27	0

In addition to Management and Supervisory Board compensation, the following transactions with related parties were recognized in Financial Years 2021 and 2020:

in TEUR	Deliveries and services performed and other income		Deliveries and services received and other expenses	
	2021	2020	2021	2020
Companies controlled by Supervisory Board members	0	0	0	5
Companies controlled by Management Board members	29	28	50	1

Transactions with companies controlled by Management Board members include human resources services and other services (income in the amount of TEUR 29, year before: TEUR 28) and investment planning (expenses in the amount of TEUR 50, year before: TEUR 1). Transactions with companies controlled by Supervisory Board members and related persons also resulted from the payment of a royalty (fees of TEUR 0, year before: TEUR 5).

7.5 EARNINGS PER SHARE

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

NUMBER OF SHARES		
	2021	2020
Outstanding common shares as of 1 January	8,800,000	8,800,000
No transactions took place in these years	0	0
Outstanding common shares as of 31 December	8,800,000	8,800,000
Average undiluted number of outstanding common shares	8,800,000	8,800,000

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 2021 and 2020.

Earnings per share are therefore as follows:

EARNINGS PER SHARE		
	2021	2020
Consolidated after-tax earnings – shareholders in the parent company (in TEUR)	16,261	-19,653
Average undiluted number of outstanding common shares	8,800,000	8,800,000
Earnings per share (in EUR)	1.85	-2.23

We also refer to the statements in Section 6.9, "Shareholders' equity."

7.6 DISCLOSURES CONCERNING THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated 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 6.8, "Cash and cash equivalents," is included in the funds presented in the consolidated cash flow statement.

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

The changes in liabilities to banks attributable to financing activities result from changes in current account liabilities amounting to TEUR –220 and from non-cash accrued interest on original transaction costs amounting to TEUR 6.

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 product segments, "Functional Fillers" and "Specialty Alumina." 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 "Specialty Alumina" 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. It is comprised primarily of liquid funds (segment assets), accounts payable to banks and pension reserves (segment liabilities).

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 2021 and 2020 Financial Years.

FINANCIAL YEAR ENDING ON 12/31/2021

in TEUR	Functional Fillers	Specialty Alumina	Other	Nabaltec Group
Revenues				
Revenues from non-Group customers	130,645	56,372	–	187,017
Segment earnings				
EBITDA	25,954	11,334	–	37,288
EBIT	16,594	7,957	–	24,551
Assets and liabilities				
Segment assets	123,469	43,760	53,477	220,706
Segment liabilities	12,572	5,426	106,214	124,212
Other segment data				
Investments				
– Property, plant and equipment	5,109	1,542	–	6,651
– Intangible assets	9	81	–	90
Depreciation				
– Property, plant and equipment	9,268	3,323	–	12,591
– Intangible assets	92	54	–	146

FINANCIAL YEAR ENDING ON 12/31/2020

in TEUR	Functional Fillers	Specialty Alumina	Other	Nabaltec Group
Revenues				
Revenues from non-Group customers	114,200	45,376	–	159,576
Segment earnings				
EBITDA	18,295	5,257	–	23,552
EBIT	–17,318	1,455	–	–15,863
Assets and liabilities				
Segment assets	122,639	46,937	29,036	198,612
Segment liabilities	12,625	5,178	103,974	121,777
Other segment data				
Investments				
– Property, plant and equipment	6,919	3,289	–	10,208
– Intangible assets	74	50	–	124
Depreciation				
– Property, plant and equipment	35,499	3,742	–	39,241
– Intangible assets	114	60	–	174

Regional data

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

FINANCIAL YEAR ENDING ON 12/31/2021

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	45,906	90,361	18,320	32,430	187,017
Other segment data					
Segment assets	182,091	–	36,176	2,439	220,706
Investments					
– Property, plant and equipment	6,151	–	500	–	6,651
– Intangible assets	90	–	–	–	90

FINANCIAL YEAR ENDING ON 12/31/2020

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	39,791	79,565	15,694	24,526	159,576
Other segment data					
Segment assets	165,294	–	31,973	1,345	198,612
Investments					
– Property, plant and equipment	7,176	–	3,032	–	10,208
– Intangible assets	124	–	–	–	124

In Financial Year 2021, no revenues of more than 10% of total revenues were generated with any customer. In the 2020 Financial Year, revenues of more than 10% of total revenues were earned from a single customer (TEUR 18,450).

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 (Chief Executive Officer)
- Mr. Günther Spitzer (Chief Financial Officer)
- Dr. Michael Klimes (Chief Operating Officer until 31 December 2021)
- Dr. Alexander Risch (Chief Operating Officer since 1 October 2021)

Supervisory Board

- Mr. Gerhard Witzany (Chairman)
- Dr. Dieter J. Braun (Vice Chairman)
- Prof. Dr.-Ing. Jürgen G. Heinrich

7.9 MAJOR EVENTS OCCURRING AFTER THE REPORTING DATE

Nabaltec AG has successfully issued a bonded loan with a volume of TEUR 90,000 and a value date of April 2022. The proceeds from the issue will be used to refinance existing bonded loans in the amount of TEUR 39,000 and a bilateral bank loan in the amount of TEUR 20,000, due in April 2022. In addition, the funds will be used to finance further growth projects, in particular to expand capacity in the boehmite product area for lithium ion batteries.

The war between Russia and Ukraine, which broke out on 24 February 2022, does not directly affect Nabaltec's business. Nevertheless, consequential effects such as a decline in overall economic growth and rising energy costs may have a negative impact on the liquidity, financial and earnings positions. These macroeconomic effects are highly dependent on the further development of the war and are thus subject to corresponding uncertainties. Due to the dynamic development of the overall situation, neither the specific extent nor the duration of the effects can be reliably determined at present.

7.10 AUDITOR'S FEES

The auditor's fee for auditing services (including the 2021 consolidated financial statements) amounts to TEUR 117 (year before: TEUR 104). The auditor received a fee in the amount of TEUR 9 (year before: TEUR 11) for other assurance services, a fee of TEUR 134 (year before: TEUR 73) for tax advisory services and a fee of TEUR 0 (year before: TEUR 0) for other services.

Schwandorf, 25 March 2022

Nabaltec AG
The Management Board



JOHANNES HECKMANN



GÜNTHER SPITZER



DR. ALEXANDER RISCH

INDEPENDENT AUDITOR'S REPORT

To Nabaltec AG, Schwandorf

AUDIT OPINIONS

We have audited the consolidated financial statements of Nabaltec AG, Schwandorf, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2021, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2021 to 31 December 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Nabaltec AG, Schwandorf for the financial year from 1 January 2021 to 31 December 2021.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

OTHER INFORMATION

The legal representatives or the supervisory board are responsible for the other information. The other information comprises:

- the report of the supervisory board, which is expected to be presented to us after the date of this auditor's report,
- all other parts of the Annual Report, which is expected to be presented to us after the date of this auditor's report,
- with the exception of the audited consolidated financial statements and management report and our auditor's report.

The supervisory board is responsible for the report of the supervisory board. Furthermore, the legal representatives are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Nuremberg, 25 March 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:
(Christian Fischer)
Wirtschaftsprüfer
(German Public Auditor)

Signed:
(Johannes Graebner)
Wirtschaftsprüfer
(German Public Auditor)

**ANNUAL
FINANCIAL
STATEMENTS
NABALTEC AG
2021**
**(GERMAN COMMERCIAL CODE,
SHORT VERSION)**

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BALANCE SHEET

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INCOME STATEMENT

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APPROPRIATION OF DISTRIBUTABLE PROFIT

BALANCE SHEET

FOR 31 DECEMBER 2021**ASSETS**

in TEUR	12/31/2021	12/31/2020
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	259	288
2. Advance payments	55	89
	314	377
II. Property, plant and equipments		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	24,565	25,731
2. Technical equipment and machinery	41,928	41,943
3. Other fixtures, fittings and equipment	3,245	3,468
4. Advance payments as well as plant and machinery under construction	4,278	6,624
	74,016	77,766
III. Financial assets		
1. Shares in affiliated companies	3,684	3,684
2. Loans to affiliated companies	32,092	28,730
	35,776	32,414
	110,106	110,557
B. Current assets		
I. Inventories		
1. Raw materials and supplies	16,855	16,138
2. Finished goods and products	8,191	10,037
	25,046	26,175
II. Accounts receivable and other assets		
1. Trade receivables	5,030	4,852
2. Liabilities due to affiliated companies	1,839	1,138
3. Other assets	6,013	5,624
	12,882	11,614
III. Cash on hand and in banks	46,185	22,729
	84,113	60,518
C. Prepaid expenses	251	189
TOTAL ASSETS	194,470	171,264

EQUITY & LIABILITIES

in TEUR	12/31/2021	12/31/2020
A. Shareholders' equity		
I. Subscribed capital (conditional capital: TEUR 4,400; previous year: TEUR 4,000)	8,800	8,800
II. Capital reserve	48,424	48,424
III. Accumulated profits	20,714	6,527
	77,938	63,751
B. Special item for investment grants	1	1
C. Provisions		
1. Retirement benefit obligation and similar provisions	36,817	32,486
2. Accrued taxes	3,671	0
3. Other provisions and accrued liabilities	7,451	5,823
	47,939	38,309
D. Accounts payable		
1. Payables to banks	59,274	59,273
2. Trade payables	7,710	8,804
3. Payables to affiliated companies	1,133	628
4. Other payables		
– thereof relating to taxes: TEUR 336 (previous year: TEUR 306)		
– thereof relating to social security: TEUR 42 (previous year: TEUR 42)	475	498
	68,592	69,203
TOTAL EQUITY & LIABILITIES	194,470	171,264

INCOME STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2021

in TEUR	1/1 – 12/31/2021		1/1 – 12/31/2020	
1. Revenue	187,003		159,583	
2. Increase or decrease in finished goods	-1,112		-4,555	
3. Own work capitalized	498		367	
Total performance	186,389		155,395	
4. Other operating income	3,863		851	
– thereof from currency translation: TEUR 1,405 (previous year: TEUR 350)	190,252		156,246	
5. Cost of materials:				
a) Cost of raw materials, supplies and purchased goods	93,231		80,324	
b) Cost of purchased services	1,068	94,299	704	81,028
Gross profit	95,953		75,218	
6. Personnel expenses:				
a) Wages and salaries	27,242		24,391	
b) Social security contributions and cost of pensions and support	9,254		6,516	
– thereof from pensions: TEUR 4,405 (previous year: TEUR 1,911)				
7. Amortization/depreciation of intangible assets and property, plant and equipment	10,052		11,658	
8. Other operating expenses	26,784		48,204	
– thereof from currency translation: TEUR 380 (previous year: TEUR 896)	73,332		90,769	
	22,621		-15,551	
9. Income from other securities and loans (financial assets)	159		514	
– thereof from affiliated companies: TEUR 159 (previous year: TEUR 514)				
10. Other interest and similar income	5		15	
11. Depreciation of financial assets and securities held as current assets	0		12,776	
– thereof from affiliated companies: TEUR 0 (previous year: TEUR 12,776)				
12. Interest and similar expenses	2,160		2,444	
– thereof from discounts: TEUR 729 (previous year: TEUR 822)	-1,996		-14,691	
Net before-tax result ¹	20,625		-30,242	
13. Income taxes	6,363		2,276	
14. Net after-tax result	14,262		-32,518	
15. Other taxes	75		80	
16. Net result for the year	14,187		-32,598	
17. Profit carried forward	6,527		39,125	
18. Accumulated profit	20,714		6,527	

¹ thereof non-recurring effects in the amount of EUR -1.3 million (previous year: EUR -35.3 million)

APPROPRIATION OF DISTRIBUTABLE PROFIT

The Management Board proposes that the distributable profit of the Financial Year 2021, amounting to EUR 20,713,528.68, will be used as follows:

An amount of EUR 2,200,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.25 per share on the 8,800,000 non par value shares entitled to dividend payments for the Financial Year 2021. The remainder in the amount of EUR 18,513,528.68 will be carried forward.

Schwandorf, April 2022

The Management Board



JOHANNES HECKMANN



GÜNTHER SPITZER



DR. ALEXANDER RISCH

FINANCIAL CALENDAR 2022

Interim Report 1/2022	31 May
Annual General Meeting	29 June
Interim Report 2/2022	25 August
Interim Report 3/2022	24 November

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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.



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