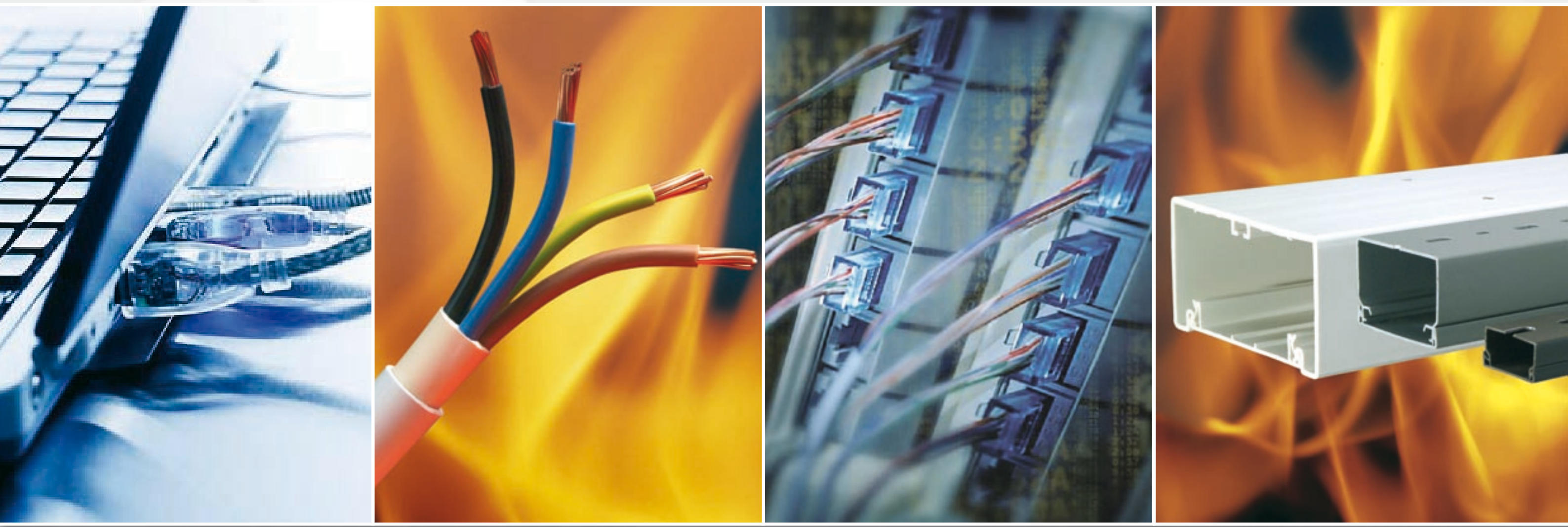
Nabaltec

Know-how for improved safety

ANNUAL REPORT 2007



KEY FIGURES (GERMAN COMMERCIAL CODE)

Group		2007	2006	2005
Revenue	EUR million	88.1	71.6	61.3
Foreign share	%	68.3	65.4	65.2
EBITDA	EUR million	7.1	6.6	5.4
EBIT	EUR million	2.9	4.0	2.9
Earnings *	EUR million	0.2	- 0.2	1.1
Earnings per share **	EUR	0.03	- 0.03	0.18
Operating cash flow	EUR million	16.0	- 7.4	0.5
Investments	EUR million	28.8	28.5	11.7
Total assets	EUR million	97.4	93.2	42.5
Shareholders' equity	EUR million	41.8	43.7	14.8
Equity ratio	%	42.9	46.9	34.7
Employees ***		303	278	276

* after minority interests

** 2005 based on 6,000,000 shares
2006 based on approx. 6.2 million averaged outstanding shares
2007 based on 8,000,000 shares

*** on average including management board and trainees

CONTENT

The Management Board: Johannes Heckmann and Gerhard Witzany

INTERVIEW WITH THE MANAGEMENT BOARD

Mr Johannes Heckmann and Mr Gerhard Witzany

Nabaltec refers to itself as a leading provider of mineral-based flame retardants and raw materials for technical ceramics. What should this mean to us?

Heckmann: Know-how for improved safety – that is what Nabaltec stands for. With our flame retardants, we make a contribution to improve fire prevention and also to increase the safety of people in tunnels or at airports, for example.

Our technical ceramic products are used in the refractory industry and in wear-resistant ceramics, where durability and reliability are crucial. Our products guarantee this.

You have to explain this to me a little more precisely. Why do I need your products? How do I benefit?

Heckmann: You can find our flame retardants in a wide range of applications. Today, for example, a lot of data-processing cables are equipped with our APYRAL® products – which is the official brand name. You can do the math yourself as to how many hundreds of thousands of kilometers of this cable are installed each year, whether in electronic equipment or buildings.

Witzany: Further uses range from interior panels in trains, planes and buildings to textiles and carpeting to the major applications in electrical engineering industry from the cable to the housing of a television. APYRAL® has the life-preserving feature of being halogen-free and flame retardant. You should know that most people do not die from flames but from the poisonous gases in smoke. And we are working exactly on this: Our APYRAL® is not toxic because it merely releases steam.

The technical ceramics are still missing.

Heckmann: The products carried under the brand name NABALOX® have the key feature of being the second hardest mineral after diamond. This plays a big role in polishing pastes among other things. Put simply: We are responsible whether you chrome bumpers shine or not in the end.

As a result of their great thermoshock resistance, our products are also used in refractory materials in the steel industry – everywhere where liquid steel with over a thousand degrees Celsius cools within seconds to a few degrees. Few materials in the world can withstand such temperature changes.

Witzany: As you can see, Nabaltec is frequently there where Joe Average Consumer would least expect us – whether in the sanitary area or automotive industry in brakes, catalytic converters and spark plugs.

Can we say that your products also have a great economic significance?

Heckmann: Yes indeed. According to international statistics, over 100,000 people die each year worldwide from fires and the smoke gases created in them. Over 1% of global gross domestic product is destroyed by fire. A lot of people can still recall the tragic fire at the Düsseldorf Airport in 1996. A lack of fire protection and above all toxic smoke created through the use of halogenated plastics cost a lot of people their lives.

Nabaltec has already made the move abroad. The foreign share in total revenue is now around 70%. Do you want to increase this share further and, if so, how?

Witzany: Fire prevention is becoming more important worldwide. As a result of international competitive pressure, this also applies more and more to emerging countries. We will be much more present there in the future in order to advise and be able to assist potential

Nabaltec
Improved Safety in the Train

customers better. Fire prevention is simply and hauntingly a global issue. It is thus clear that the foreign share in our business will continue to grow.

What role does Nashtec play in this context?

Witzany: With Nashtec, we have built our own mainstay in the US dollar market. We are considered a local producer there and thus have the required proximity to customers. Delivery times are short and, in today's exchange rate situation, it is particularly important that we are not subject to any exchange rate fluctuations. Nashtec products are sold throughout the US dollar world, i.e. both in America and Asia. We thus have the possibility to expand our market share in these countries further over the long term.

Who are your competitors?

Heckmann: Our competitive environment is oligopolistic. There are three key players in the flame retardants area, the U.S. mixed group Albemarle with its subsidiary, Martinswerk in Germany, today still being the market leader in quantitative terms, followed closely by Nabaltec. Then comes Almatis in Bauxite, USA. Together, I think we cover over 80% of the market.

In ceramics, Almatis is undisputedly one of the market leaders, followed by Rio Tinto Alcan and the Hungarian MAL and Chalco from China. This is still a strongly commodity-driven market, while Nabaltec has established itself in niche markets with ceramic bodies and reactive aluminum oxides. The extremely high quality and customer requirements are reflected there in the added-value chain.

And how do you now differ from the competition?

Witzany: In recent years, we have set ourselves apart from the competition in flame retardants through our innovative products and processes. Our APYRAL® CD must be mentioned here above all. This has enabled us to acquire most of the market growth in recent years. We have been growing stronger than the overall market for many years.

In ceramics, we are clearly distinguished from the competition in that we are establishing ourselves more and more in specialty markets that permit greater product added value. With our ceramic bodies, for example, we are the global market leader for ceramic bodies available on the free market.

Now let's talk about the capital market. Your shares have been listed for more than a year in the Entry Standard of the Frankfurt Stock Exchange. What changed for your company and for you personally as a result of this?

Heckmann: First, I would like to say that based on our enormous expansion, the IPO was absolutely the right decision. Through the proceeds from the IPO, we have been able to shoulder the upcoming investments much more easily.

Right from the start, we consciously and voluntarily committed ourselves to the greatest possible degree of transparency. That is why our financial communications are largely oriented on the guidelines of the Prime Standard, as reflected in the bilingual communication and the quarterly reporting. The decision in favor of more open communication was the right one. Today, roadshows and interviews with analysts and investors are part of our everyday routine. Admittedly, this is a completely different environment than that of our operative business. But it is a lot of fun to take on this new challenge.

Witzany: Constant preoccupation with the "value of the enterprise" resulting from the stock exchange price is now an important part of our daily work. We learn from this. New perspectives, issues and ideas are introduced to the company through investors, analysts and journalists.

The international stock markets have been highly volatile recently – just like the shares of Nabaltec AG. Do you think you are sufficiently valuated on the stock exchange? What potential does your share offer in your opinion?

Heckmann: With the current market capitalization, we do not feel that the intrinsic value and performance

Nabaltec
Improved Reliability at the Blast Furnace

Blast furnace, fluid steel in refractory materials capacity of Nabaltec AG is sufficiently valuated in any way. Certainly, the incidents at Nashtec and in Schwandorf caused uncertainty. But this is a thing of the past. Production has been running smoothly again now for a long time. As demand is still high, we are confident that we will be able to prove our high degree of efficiency in the years to come. This should then also be reflected in the price development of our share.

Let's talk about the fiscal year 2007. How satisfied are you with the performance?

Witzany: In the fiscal year 2007, we were able to improve our revenue over the previous year by around 23.0%. Again, both divisions contributed to this increase. We also invested over EUR 28 million. Of course, the performance of the EBITDA and EBIT margins did not proceed as planned because of the incidents at Nashtec and in Schwandorf. Yet, we were nonetheless able to earn a consolidated profit in 2007.

Our growth rates are far above general market growth. There is thus no reason to be dissatisfied with the fiscal year 2007 – to the contrary.

And what about the future? What long-term trends do you see in your industry and how do you assess Nabaltec's prospects of partaking in this growth?

Witzany: With halogen-free flame retardants, I see us at the start of an extremely positively trend, as fine precipitated ATH and its positive features were only recently discovered by industry. The outlook for additives is even more promising, for the first environmentally friendly alternative products have just started to be used. We recognized this trend early on and thus developed a new material that can replace the lead compounds in plastic mixtures used as heat stabilizers.

Heckmann: Generally, in flame prevention, the processing characteristics will take on more and more prominence in the future, because production processes and products will have to meet increasingly higher standards. We view ourselves as already being well-positioned with our patented CD technology.

The refractory industry, the main market for technical ceramics, is placing more and more value on steadily high quality and durability in order to minimize downtimes in this growing market.

Finally, let's venture an outlook on the fiscal year 2008. How is the order situation and what goals have you set for 2008?

Heckmann: At fiscal year-end, we have registered on our books orders totaling EUR 36.8 million, which gives us a lot of confidence for 2008. Based on the general high demand, more customers are going to want to secure their volumes for the future via long-term contracts. This will also have a positive effect on our order structure, because our customers know precisely what they have found in us: Know-how for improved safety!

Witzany: In 2008, we aim at maintaining our track record of growth. Special attention should be paid to earnings growth in the fiscal year 2008. Despite the planned investments of over EUR 35 million, we anticipate a clear increase here.

I thank you for this interview and wish you continued success.

DEAR SHAREHOLDERS,

In the fiscal year 2007, we advised the management board in the direction of the business and supervised management in accordance with the responsibilities and duties prescribed for us in accordance with the law, the Articles of Association, the Corporate Governance Code and the Rules of Procedure. The management board informed us regularly, promptly and comprehensively about business policy, the business and liquidity positions, the company's profitability, the business planning, including the financial, investment and human resource planning, and about all decisions and business transactions of importance for the company. Risk management and compliance constituted further focuses of our activity. Apart from at meetings of the supervisory board, information was provided through verbal and written reports. Both the quarterly and the monthly reports served as a basis for the supervisory board to inform itself of the market development, the competitive situation, the sales, revenue and earnings performance, as well as the degree of goal achievement.

The supervisory board was always directly and early involved in all decisions of the management board of vital importance for the company. As supervisory board chairman, I also had myself briefed on an ongoing basis about the current business performance, important business transactions and key decisions of the management board. For this purpose, I was in close contact and regularly exchanged information and thoughts with both members of the management board.

FOCUSES OF ADVICE

In the reporting year 2007, the supervisory board gathered for a total of five ordinary meetings on 5 February 2007, 26 March 2007, 16 May 2007, 7 September 2007 and 3 December 2007. The entire board was present each time. In all meetings, the revenue and earnings performance, the financial and liquidity situations and the business development were explained in detail and then discussed by us. Moreover, the following topics were generally on the agenda and were dealt with and discussed in depth together with the management board:

- Business plan 2007
- Acquisition of properties
- Annual financial statements and consolidated financial statements for the fiscal year 2006
- ordinary general meeting on 16 May 2007
- Investment plan 2008
- Business plan 2008
- 3-year business plan to 2010
- potential acquisition
- Introduction of a risk management system
- Status of development projects
- Accounting conversion from the German Commercial Code to IFRS
- Compliance declaration pursuant to § 161 of the German Stock Corporation Act

In the supervisory board's estimation, an efficient work routine has been warranted, so that the board waived its right to form committees. No conflicts of interest arose among the supervisory board members in the reporting period.

CORPORATE GOVERNANCE

The management and supervisory boards dealt in detail in the reporting period with the recommendations and suggestions in the German Corporate Governance Code. On 14 March 2008, both boards together issued an updated compliance declaration pursuant to § 161 of the German Stock Corporation Act and made this permanently available to shareholders on the company's website (www.nabaltec.de). Further statements regarding corporate governance at Nabaltec AG may be found in the Corporate Governance Report on pages 12 to 14.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS 2007

The annual financial statements, the consolidated financial statements, the management report and group management report for the fiscal year 2007 prepared in accordance with the provisions of the German Commercial Code were audited by AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft (Munich) pursuant to a vote of the shareholders in the general meeting on 16 May 2007 and given an unqualified auditor's report.

The financial statement documents, the management board's proposal for the appropriation of distributable profit as well as the auditor's reports were presented to all members of the supervisory board in due time. These documents were reviewed and discussed in detail at our meeting on 14 March 2008. The auditor was likewise present for this discussion. He reported on the essential results of his audits and was available to provide supplementary information and answer questions.

After conducting our own audit of the annual financial statements, the consolidated financial statements, the management report and the group management report, the supervisory board did not raise any objections and adopted the results of the audit conducted by AWT Horwath GmbH. We thus approve the annual financial statements of the AG and the Group prepared by the management board as of 31 December 2007; the annual financial statements of Nabaltec AG are thereby adopted. We approve the management board's proposal for the appropriation of distributable profit.

The supervisory board thanks the management board and all employees and acknowledges their performance and high degree of personal commitment in the fiscal year 2007.

Schwandorf, 17 March 2008

Heimendahl

Dr. Leopold von Heimendahl
Supervisory Board Chairman

CORPORATE GOVERNANCE REPORT

The management and supervisory boards of Nabaltec AG feel obliged to uphold the principles of good corporate governance and therefore attach great importance to responsible management which aims to create sustained added value in the interests of the shareholders. The company welcomes the German Corporate Governance Code presented by the Governing Commission, last amended on 14 June 2007. On 14 March 2008, the management and supervisory boards issued the annual Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act, stating that the company remains in compliance with the new version of the Code, for the most part. Exceptions exist based on company size, structure and company-specific circumstances.

SHAREHOLDERS AND THE GENERAL MEETING

Pursuant to the Act on Corporate Integrity and Modernization of the Right of Rescission, which took effect on 1 November 2005, Nabaltec AG has fixed the procedure for verifying the right to vote at the annual general meeting on 16 May 2007 for the so-called "record date", in accordance with typical international practice. Accordingly, the invitation to the general meeting specified the 21st day prior to the meeting as the effective date for registration and furnishing evidence of the right to vote. It will therefore no longer be necessary to deposit shares as a prerequisite for participation in the general meeting and exercise of the right to vote.

In No. 2.3.2 of the Code, the company is to send the convening of the general meeting together with the convocation documents to all domestic and foreign financial services providers, shareholders and shareholder associations by electronic means provided the approval requirements are met. Since that is not the case for Nabaltec AG, the company does not follow this recommendation. Moreover, the existing course of action has proven effective, so that depositary credit institutions and shareholder associations will continue to receive notices pursuant to § 125 of the German Stock Corporation Act to forward to the shareholders.

COOPERATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

The management and supervisory boards work closely together and in a trusting manner for the good of Nabaltec AG. The management board manages the company and conducts its operations. It is bound by the company's interest and is charged with creating a lasting improvement in the value of the company. The management board develops a strategic orientation for the company, coordinates this strategy with the supervisory board, and works to implement it. The supervisory board advises the management board in matters relating to management of the company and supervises its conduct of the company's business. In the course of its activities, the management board routinely makes timely and complete reports to the supervisory board pertaining to all relevant issues of planning and strategic development, the course of business, the company's situation, including risks, risk management and compliance.

THE MANAGEMENT BOARD

The management board of Nabaltec AG continues to consist of two members: Mr Johannes Heckmann and Mr Gerhard Witzany. Although the company's articles of association stipulate an option to this effect, the supervisory board does not deem it expedient to appoint a management board chairman or spokesman while the management board consists of just two members. For this reason, the company has not complied with the recommendation in No. 4.2.1 of the Code.

The remuneration of management board members includes fixed and variable components, with the latter adjusted each year based on the company's performance. A detailed disclosure of management board remuneration in the course of a compensation report, citing each individual member by name (No. 4.2.4 and No. 4.2.5 of the Code), has not been made, since the statutory requirements relating to disclosure of the compensation of individual management board members pursuant to § 286 para. 4 of the German Commercial Code are not applicable to Nabaltec AG.

THE SUPERVISORY BOARD

The composition of Nabaltec AG's supervisory board is unchanged, with Dr. Leopold von Heimendahl (chairman), Dr. Dieter J. Braun (deputy chairman) and Prof. Dr.-Ing. Jürgen G. Heinrich. This body routinely advises and supervises the management board in matters relating to management of the company. The supervisory board discusses the quarterly reports and approves Nabaltec AG's annual financial statements and consolidated financial statements. The supervisory board is also responsible for the appointment and removal of management board members. In this capacity, the supervisory board does not employ a general age limit for management board members as recommended in No. 5.1.2, as the supervisory board deems it sufficient to consider the age of the management board members at the time of appointment or re-appointment.

The supervisory board dispenses with the formation of committees in the course of its activities for reasons of efficiency, and therefore does not implement the recommendations in No. 5.3.1, No. 5.3.2 and No. 5.3.3 of the Code. Also, contrary to No. 5.4.7 of the Code, the supervisory board receives merely a fixed compensation for its services, as well as a session allowance, but does not receive performance-based compensation. The deputy chair has no impact on the amount of the compensation. The company also dispenses with a detailed breakdown and disclosure of supervisory board compensation, citing each individual member by name. Instead, the total compensation paid to the supervisory board is disclosed in the Notes and Consolidated Notes.

An agreement for the performance of research and development work has existed between the company and supervisory board member Prof. Dr.-Ing. Jürgen G. Heinrich since 19 February 1997. The supervisory board has consented to continuation of this contract during the term of Prof. Dr.-Ing. Heinrich's membership in the super-visory board pursuant to § 114 para. 1 of the German Stock Corporation Act.

TRANSPARENCY

Nabaltec AG makes timely and complete disclosures to all interested parties on an equal basis, following the principle of "fair disclosure". The most important means of communication is the company's website (www.nabaltec.de), where users can find a financial calendar notifying them of major dates and publications. All of the company's financial reports are also available for download in the "Investor Relations" section of the website, including not only the annual report, but also quarterly reports, which Nabaltec AG prepares on a voluntary basis. Since these reports have to include the US joint venture "Nashtec" as well, the company is unable to publish them within 45 days of the end of the reporting period, as recommended in No. 7.1.2 for sub-annual reports, but only within 60 days of the reporting date.

The members of the management board own the following number of shares in the company's capital stock (as of 14 March 2008):

Johannes Heckmann	1,169,550 shares
Gerhard Witzany	1,176,250 shares

The supervisory board chairman Dr. Leopold von Heimendahl owns 10,000 shares of Nabaltec AG (as of 14 March 2008):

Nabatec AG is listed in the Entry Standard of the Frankfurt Stock Exchange and is thus not subject to § 15a of the Securities Trading Act. However, in the spirit of providing the greatest transparency possible, Nabaltec AG will voluntarily publish directors' dealings on its website as of the fiscal year 2008.

INVESTOR RELATIONS

The Nabaltec share began the trading year 2007 at a Xetra closing price of EUR 17.60. During the first quarter, the share managed to increase, listing at a price of EUR 19.20 as of the closing date. The second quarter, in contrast, was characterized by volatile trading, reflected in declining share performance. This trend continued in the second half of the year, with the price being at EUR 7.80 on 28 December 2007.

After the financial statements and annual report 2006 constituted the focus of investor relations work at the start of fiscal year 2007, the annual general meeting of Nabaltec AG on 16 May 2007 formed the highlight of the second quarter. The course chosen by the management and supervisory boards was clearly confirmed, with nearly all items on the agenda being approved unanimously. Apart from this personal dialogue with shareholders, national and international roadshows aided direct exchange with the financial community.

Nabaltec AG is listed in the Entry Standard Segment of the Frankfurt Stock Exchange. Beyond the publicity requirements applicable there, the company has voluntarily complied since its IPO with the numerous rules of the more stringently regulated Prime Standard Segment. Apart from bilingual communications, this also entails quarterly reporting. In the spirit of the highest possible transparency, Nabaltec will convert its reporting from German Commercial Code (HGB) to IFRS with the interim report 1/2008. This switch is intended not only to facilitate comparisons with other exchange-listed companies but to further strengthen trust in the enterprise. For this same purpose, Nabaltec will also be voluntarily publishing directors' dealings on its corporate website as of fiscal year 2008.

NABALTEC GROUP MANAGEMENT REPORT FOR THE FISCAL YEAR 2007

1. BUSINESS AND OPERATING ENVIRONMENT

1.1 MACROECONOMIC SITUATION

According to data published by the "ifo Institut für Wirtschaftsforschung e.V." in Munich, the rate of economic growth in the Euro zone in 2007 was not quite as high as in the previous year, as the crisis in the international financial markets noticeably restrained the optimistic mood, especially in mid-year. The gross domestic product (GDP) in the Euro zone increased by 2.7% in the last year, after rising by 2.8% in 2006.

According to data released by the Federal Statistical Office, German economic growth was once again below the average in the past year with 2.5% and thus 0.4% lower than in the previous year. Exports were a major growth driver, improving by 8.3%. However, private consumer spending declined by 0.3% relative to the previous year, due in no small part to the VAT increase at the beginning of the year, which affected spending in 2006 as consumers made purchases in anticipation of the rate hike.

Of the individual economic sectors, Germany's economic growth was generated above all in the manufacturing sector (growth of 5.2%) and from business investments in machinery, vehicles and equipment (growth of 8.3%).

1.2 INDUSTRY SITUATION

The sustained rise in demand for halogen-free flame retardant fillers (particularly aluminum hydroxide) is being stimulated by new fire safety regulations all over the world. Medium-term forecasts continue to project an annual rise in demand of over 6% worldwide. This market growth is further stimulated by the growing public consciousness for fire safety and the ongoing replacement of potentially hazardous flame retardants with eco-friendly halogen-free aluminum hydroxide. In order to accommodate this new demand, which affects fine precipitated aluminum hydroxide most of all, Nabaltec added 17,000 tons of new production capacity for the manufacture of fine precipitated aluminum hydroxide in its Schwandorf site during the reporting year. The high utilization of existing global capacity has further stabilized prices, allowing the company to raise prices in order to offset the average rise in costs.

In the specialty oxides and reactive aluminum oxides segments, the market is characterized by high demand in the refractory industry. The need for manufacturers of refractory products to improve the durability of their products benefits highly refined specialty oxides. There continues to be excess capacity for less refined products, while capacity for highly refined products such as reactive aluminum oxide is clearly at its limit. Prices in the various segments are affected differently by competition in this respect.

The company's major competitors, Almatis, Albemarle, Rio Tinto Alcan and MAL, focus on different products and markets, to some extent. New competition can be expected above all from less specialized Indian and Chinese suppliers.

Prices of raw materials (smelter grade oxide, chemical grade aluminum hydroxide) did not change significantly during the reporting year, and are expected to consolidate at their current levels in the medium term, due in part to the arrival of new capacities in the market.

1.3 BUSINESS ACTIVITY

Nabaltec AG develops, manufactures and distributes highly specialized products based on aluminum hydroxide ("ATH"), aluminum oxide and other raw materials. The company's product range includes flame retardant fillers for the plastics industry, used e.g. in cables in tunnels, airports, high-rise buildings and electronic devices, as well as base materials for use in technical ceramics, the refractory industry and catalysis. As the world's only supplier of fine precipitated ATH, which is used as a high-quality halogen-free flame retardant filler, Nabaltec maintains production sites in both centers of consumption, in America (Corpus Christi, Texas) and Europe (Schwandorf, Germany). This allows Nabaltec to manufacture its fine precipitated ATH in cost-efficient fashion, in close proximity to customers, and to serve each of these two important markets directly. Nabaltec maintains very close contacts with customers through its sales team and its technical application consulting services. All sales team members have specific technical and chemical expertise, so that expert advice is guaranteed. Thanks to a worldwide network of commercial agents, customer service is provided directly on-site in order to ensure the important regional proximity.

1.4 CORPORATE STRUCTURE

Nabaltec, with registered office in Schwandorf, was founded in 1994 and, in 1995, acquired the specialty oxides division of VAW aluminium AG. In September 2006, it was transformed into a joint-stock company and has been listed in the Entry Standard section of the Frankfurt Stock Exchange since November 2006. The company owns a 51% interest in Nashtec Management Corp. and a 51% interest (50.49% directly and indirectly via Nashtec Management Corp., which holds 1% of the shares as the general partner) in Nashtec L.P. (USA) as part of a joint venture.
The company does not have any other holdings or subsidiaries.

In order to position itself in the market as precisely and distinctly as possible, Nabaltec AG divides its business activity into two divisions, each in turn comprised of two business units. In addition, the company operates three service centers as profit and cost centers.

BUSINESS DIVISIONS

Functional Fillers:

- Flame Retardants
- Additives

Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS

- Administrative Services
- Technical Services
- Laboratory Services

1.5 STRATEGY

Nabaltec AG's strategy is built on three major pillars:

1. In its target markets, Nabaltec AG focuses on quality leadership and a market share among the top three suppliers

Fire safety applications within the plastics and cable industry will continue to grow at a considerable pace in the years to come, as halogenated flame retardant fillers are replaced by halogen-free flame retardant fillers. In order to benefit from this trend and gain the market leadership within this segment, the company plans to expand its production capacity for ATH-based flame retardant fillers.

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

In the ceramic raw materials segment, the market for reactive aluminum oxides is growing at a very fast pace due to demand from the fast-growing refractory industry. Nabaltec is responding to this growth by further expanding production capacity and developing new products.

2. Constant improvement of production processes in order to optimize customer's benefit

Through its sales team and technical application consulting services, Nabaltec is engaged in a constant exchange with its customers. As a result, not only does the company benefit from the product and processing expertise of its customers, but it can also orient its own product and process development activities in order to offer processing advantages to its customers with the products it manufactures. To this end, the testing facility in Kelheim and the research and development departments at the Schwandorf site are constantly being expanded and collaborations with research institutions are being intensified.

Optimizing processes includes efficient energy use, which represents a major competitive factor. Therefore, Nabaltec has taken extensive measures in order to optimize energy consumption.

3. Systematic product range expansion

In addition to the ongoing improvement of existing products, new products will be developed for selected applications in specific fields. For example, the company plans to develop additional halogen-free flame retardant fillers based on patented CD technology, as well as new applications for plastics in the computer and electronics industry. It may also introduce new eco-friendly functional fillers with other functions, such as stabilizers for the plastics and cable industry.

In the ceramic raw materials segment, the company plans to expand its range of reactive aluminum oxides for specialized applications in the refractory industry. It also plans to expand its range of polishing oxides through the use of specialized production techniques.

The Kelheim testing facility enables development activity involving several hundred tons, as well as small-scale product launches, which would not be feasible in that form in Schwandorf.

1.6 CONTROLLING

Nabaltec AG has a differentiated cost and activity accounting which essentially follows the principle of marginal costing. Earnings are presented in transparent fashion through a multi-level contribution margin accounting. There is no allocation of fixed costs among the units; deviations are added or subtracted only for the unit responsible. This accounting system is the basis for the company's controlling activities, and is used for both the business divisions and the service centers. It quickly and reliably supplies information about actual results and deviations from estimates, as well as the impact of decisions and actions on earnings.

This is the basis for a comprehensive planning process, assigning responsibilities and defining specific objectives for even the smallest units of the company. Accordingly, cost and revenue projections are used as a means to achieve the company's objectives. Estimate/actual comparisons are available online, indicating need for action at an early stage, and promoting the process of leadership through defining objectives. A monthly estimate/actual comparison is made for each cost center and item.

Corporate data is presented and discussed each month by senior management, and possible actions are then discussed and implemented. The structure is consistent with that employed for planning. A forecast is made at the conclusion of each quarter.

Navision ERP software has been in use in all commercial departments since 1998. Since 2003, all cost and activity accounts, including earnings statements, have been displayed using "macs" controlling software.

2. COURSE OF BUSINESS IN 2007

2.1 REVENUE PERFORMANCE

Nabaltec Group's revenue improved by 23.0% in 2007 (previous year: 16.8%), as the revenue growth of recent years continued to accelerate. Revenue improved from EUR 71.6 million in the fiscal year 2006 to EUR 88.1 million. Both divisions contributed to this positive trend: revenue in the "Functional Fillers" divisions increased from EUR 46.2 million to EUR 57.7 million while revenue in the "Technical Ceramics" division improved from EUR 25.4 million to EUR 30.4 million. The percentage of foreign revenue increased from 65.4% in 2006 to 68.3% in the reporting year, as Nashtec supplied the USD markets.

2.2 NET ASSETS, FINANCIAL POSITION AND EARNINGS SITUATION

2.2.1 NET ASSETS

	31/12/2007 EUR million	%	31/12/2006 EUR million	%
ASSETS				
Fixed assets				
Intangible assets	0.3	0.3	0.1	0.1
Property, plant and equipment	63.9	65.6	50.1	53.8
Financial assets	0.6	0.6	0.5	0.6
	64.8	66.5	50.7	54.5
Current assets				
Inventories	16.7	17.1	14.3	15.3
Trade receivables	2.7	2.8	2.5	2.7
Cash on hand and in banks	1.7	1.7	11.1	11.9
Other assets (including deferred expenses and accrued income)	11.5	11.8	14.6	15.6
	32.6	33.5	42.5	45.5
Total assets	**97.4**	**100.0**	**93.2**	**100.0**
LIABILITIES				
Shareholders' equity	41.8	42.9	43.7	46.9
Investment grants to fixed assets	0.4	0.4	0.6	0.6
Provisions and accrued liabilities				
Provisions for pensions	6.6	6.8	6.1	6.6
Accrued taxes	0.4	0.4	0.0	0.0
Other provisions and accrued liabilities	4.7	4.8	4.2	4.5
	11.7	12.0	10.3	11.1
Non-current accounts payable				
Non-current accounts payable to banks	11.1	11.4	12.4	13.3
Current accounts payable				
Trade payables	10.1	10.4	9.9	10.5
Current accounts payable to banks	16.1	16.5	12.2	13.1
Other accounts payable (deferred income and accrued expenses)	6.2	6.4	4.1	4.5
	32.4	33.3	26.2	28.1
Total liabilities	**97.4**	**100.0**	**93.2**	**100.0**

The total assets of Nabaltec Group increased from EUR 93.2 million as of 31 December 2006 to EUR 97.4 million as of 31 December 2007.

On the assets side, property, plant and equipment rose by a clear EUR 13.8 million. This increase is attributable to the acquisition of EUR 11.5 million in new technical equipment and machinery in order to expand production capacity at Schwandorf. In current assets, accounts receivable from the factoring company decreased by EUR 9.0 million due to the transition from maturity factoring to financing factoring. At the same time, current assets increased by EUR 7.1 million for assets acquired in the course of sale and lease back transactions, which are slated for resale in 2008. Cash on hand and in banks decreased by EUR 9.4 million.

On the liabilities side, shareholders' equity decreased from EUR 43.7 million to EUR 41.8 million. This development is primarily attributable to the increased compensation for minority shareholders due to the start-up losses at Nashtec, resulting in an equity ratio of 42.9% (previous year: 46.9%). Total accounts payable increased from EUR 38.6 million to EUR 43.5 million in the reporting year. Accounts payable to banks increased by EUR 2.6 million and other accounts payable increased by EUR 2.1 million. The main reason for this development is the rise in Nashtec's loan obligations towards its joint venture partner, Sherwin Alumina.

2.2.2 FINANCIAL POSITION

The consolidated cash flow statement showed an operating cash flow of EUR 16.0 million in 2007 (previous year: EUR -7.4 million). A major reason for this improvement was the reduction in accounts receivable from the factoring company by EUR 9.0 million due to the transition from maturity factoring to financing factoring. In addition, depreciation increased by EUR 1.6 million during the reporting period.

Net cash flow from investment activity was EUR -28.8 million, just above 2006's value, EUR -28.5 million. This includes EUR 8.0 million in investments as part of sale and lease back transactions, and investments in the amount of EUR 0.9 million have already been resold in 2007. Net cash flow from financing activity came to EUR 2.7 million in the reporting period. In addition to EUR 0.8 million in dividends, a total of EUR 5.8 million in loan principal was repaid in the past year. At the same time, the company received EUR 8.3 million in loans. By comparison, net cash flow from financing activity amounted to EUR 45.3 million in 2006. The difference is above all a result of the net issue proceeds from the company's successful IPO in November 2006, in the amount of EUR 28.9 million. Nabaltec also received EUR 20.4 million in cash loans in 2006, far more than in 2007. Cash and cash equivalents at the end of the reporting period amounted to EUR 1.7 million.

2.2.3 EARNINGS SITUATION

	01/01/2007 - 31/12/2007 EUR million	%	01/01/2006 - 31/12/2006 EUR million	%
Revenue	88.1	98.6	71.6	98.4
Increase/decrease in finished and unfinished products	0.7	0.8	1.1	1.5
Other own work capitalized	0.6	0.6	0.1	0.1
Total performance	**89.4**	**100.0**	**72.8**	**100.0**
Cost of materials	50.4	56.4	39.0	53.6
Gross profit	**39.0**	**43.6**	**33.8**	**46.4**
Other operating income	2.7	3.0	1.2	1.7
Gross earnings	**41.7**	**46.6**	**35.0**	**48.1**
Personnel expenses	15.5	17.3	13.9	19.1
Depreciation	4.2	4.7	2.6	3.6
Other operating expenses	19.1	21.4	14.5	19.9
Total operating expenses	38.8	43.4	31.0	42.6
Earnings before interest	**2.9**	**3.2**	**4.0**	**5.5**
Financial result	-2.5	-2.8	-2.2	-3.0
Result from ordinary business activities	**0.4**	**0.4**	**1.8**	**2.5**
Extraordinary result	0.0	0.0	-2.1	-2.9
Earnings before taxes	**0.4**	**0.4**	**-0.3**	**-0.4**
Taxes	1.9	2.1	0.8	1.1
Earnings before minority interests	**-1.5**	**-1.7**	**-1.1**	**-1.5**
Minority interests	-1.7	-1.9	-0.9	-1.2
Earnings after minority interests	**0.2**	**0.2**	**-0.2**	**-0.3**

Nabaltec Group's revenue showed clear improvement over the previous year, rising to EUR 88.1 million. Other operating income increased by EUR 1.4 million, to EUR 2.7 million (previous year: EUR 1.2 million), an improvement which was primarily attributable to insurance benefits in connection with the interruption of production at Nashtec. Cost of materials as a percentage of total performance rose to 56.4% in 2007 from 53.6% in the previous year. The cause of the sharp rise in this ratio was increased spending for raw materials and supplies for Nashtec, including expenditures for the thorough safety inspection. In addition, there was a sharp increase in the cost of electricity at the Schwandorf site compared to 2006. Other operating expenses increased from EUR 14.5 million to EUR 19.1 million, with the expense ratio increasing from 19.9% in 2006 to 21.4% in 2007. The rise in the freight costs, which was attributable in part to the shipment of products by air to supply Nashtec's customers (EUR 0.4 million), as well as currency-related depreciation expenses in the amount of EUR 0.7 million for a loan from Nabaltec to Nashtec, contributed substantially to this change. Due to the growth of Nabaltec AG and the resulting expansion of its work force and increase in collective wages, the company's personnel expenses rose by EUR 1.6 million over the previous year, to EUR 15.5 million. However, personnel expenses as a percentage of total performance decreased from 19.1% in 2006 to 17.3% in 2007.

Nabaltec Group's earnings figures present a two-sided picture in the reporting year: while earnings before interest, taxes, depreciation and amortization (EBITDA) improved from EUR 6.6 million to EUR 7.1 million, the deduction of depreciation and amortization, which rose by EUR 1.6 million, to EUR 4.2 million, yields earnings before interest and taxes (EBIT) of EUR 2.9 million, down from EUR 4.0 million in the previous year. Accordingly, the resulting EBIT margin (relating to total performance) decreased to 3.2% (previous year: 5.5%). Consolidated earnings after minority interests reached EUR 0.2 million despite the start-up losses and the two-month plant shutdown at Nashtec due to the safety inspection.

2.3 EMPLOYEES

In 2008, as in 2006, Nabaltec AG has been named one of the 100 best employers among German mid-size companies by the "TOP JOB" survey, which looks at mid-size companies in all industries nationwide. This is the sixth time that this annual survey has recognized companies for their outstanding human resources policy, a category which includes achievements in "leadership and vision", "motivation and dynamism", "culture and communications", "employee development and perspective", "family and social orientation" and "internal entrepreneurship". Especially striking was Nabaltec's outstanding performance in the "employee development and perspective" category, a result which is attributable above all to the company's need for highly qualified employees. For this reason, Nabaltec attaches high priority to good training. The significant role played by trainees at Nabaltec, comprising about 9.6% of the overall work force in 2007, has almost become a tradition. As in previous years, Nabaltec's trainee rate was well above the industry average, and Nabaltec's trainees are routinely among the best of their year. The company is currently offering training positions for industrial clerks, IT clerks, chemical laboratory assistants, chemical workers and electronic technicians for industrial engineering. Moreover, industrial mechanics for production technology will be added to the training program on 1 September 2008.

In all, Nabaltec Group had an average of 303 employees, including management board and trainees (previous year: 278), 302 of whom were employed in Germany (previous year: 277).

In order to promote safety-consciousness among all of its employees and to simplify implementation of statutory and trade association requirements, the company decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001:2000 and ISO 14001:2004, to introduce a work and health management system in accordance with OHSAS 18001:1999 (Occupational Health and Safety Assessment Series). Certification for the new system was successfully obtained during the reporting year. In addition, Nabaltec AG's laboratory services have been accredited under the DIN EN ISO/IEC 17025:2005 standard since September 2006.

2.4 ORDERS ON HAND

Incoming orders came to a total of EUR 104.5 million in 2007. As of 31 December 2007, orders on hand in Nabaltec Group came to EUR 36.8 million, up from EUR 23.9 million in the previous year.

2.5 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec AG's overall strategy of consolidating its market position by optimizing production processes. As a leading supplier of highly specialized products, we consider research and development to be one of our core competencies. In all divisions of the company, the goal is clearly defined: offering customers superior quality and processing advantages. To this end, we work closely with customers in order to incorporate their feedback directly into our development activities, while also enabling us to quickly identify and actively promote new trends. Our in-house expertise is effectively supplemented in some areas by joint projects and collaborations with universities, public and private institutions.
Our research partners currently include Fraunhofer Institutes, Forschungszentrum Karlsruhe GmbH, Forschungszentrum Jülich GmbH and the University of Bayreuth.

The focus of all research and development activities is on process development, energy optimization, improving the existing product range and new developments. In the reporting year 2007, we were able to introduce the following sub-micron products at the world's largest plastics trade fair, K 2007, in Düsseldorf:

- ACTILOX® 400 SM und APYRAL® 200 SM: The major qualitative feature of these supplements to standard fillers is their particle size. With an average grain size of 300 - 400 nanometers, their size is well below that of standard fillers, which is 1 micrometer (is 1,000 nanometers) or higher. The lower the particle size, i.e. the finer the material is, the more effective the material is as a flame retardant.

- APYMAG® AOH: This product is a filler combination whose major advantage is high resistance to heat. While aluminum hydroxide, for example, can be processed at temperatures of up to 200° C, APYMAG® AOH can be processed at temperatures as high as 340° C. Furthermore, APYMAG® AOH displays better processing characteristics than equally heat-resistant magnesium hydroxides.

In another research and development success, we are able to report the successful marketing of the new patented ACTILOX® CAHC co-stabilizer for the PVC industry. This product acts as a temperature stabilizer and acid scavenger in the processing of PVC.

2.6 INVESTMENTS

In the fiscal year 2007, Nabaltec Group invested EUR 28.8 million, up from EUR 28.5 million in the previous year. Of this sum, EUR 8.0 million was invested in objects as part of sale and lease back transactions, which are nevertheless listed as current assets (cf. net assets and financial position). The company's investment activity focused above all on increasing production capacity for the APYRAL® CD qualities, ceramic bodies and reactive aluminum oxides. The company also invested in improving infrastructure and in energy supply.

3. OUTLOOK

Current forecasts project average growth rates of about 6% for both the flame retardant and technical ceramics markets. In the past, Nabaltec AG has consistently outperformed the market by a clear margin, and this is a stated objective for the years to come as well.

With its patented CD technology, Nabaltec AG is already well-positioned for future growth in the market for halogen-free flame retardants, as the positive characteristics of fine precipitated ATH have begun to capture the industry's attention in recent years. The company's product range, which is based on CD technology, is being further expanded in order to offer processing advantages to customers outside of the cable industry as well. The company sees even greater opportunities for growth in the additives market, where the replacement of stabilizers containing heavy metals with eco-friendly alternative products is being stimulated by international regulations. Nabaltec was able to identify this trend early on, thanks to its close customer relationships. It has already developed and patented a product which can replace toxic lead compounds in plastics mixtures, and which can be used as a heat stabilizer.

In the ceramic raw materials market, the company expects its facilities to operate at high capacity, as well as an improvement in prices. International demand for reactive aluminum oxides is expected to continue to rise. The situation in the ceramic bodies market is similar. Demand will continue to rise in this area as well.

After posting 23.0% revenue growth in 2007, we foresee clear growth in 2008 as well. The company will continue to invest in expanding its production capacity for fine precipitated ATH in Schwandorf. In two stages, an additional capacity of 13,000 tons each will be installed and they will become operational by the beginning of 2009. For 2008, over EUR 35 million in investments are planned at the Schwandorf site. In addition to expanding production capacity for halogen-free flame retardant fillers, these investments will also go towards boosting the efficiency of the calcination systems, developing application technologies, improving infrastructure (logistics and energy) and beginning production of a facility for the manufacture of additives, to be completed in 2009. On the earnings side, we expect a clear rise in 2008.

4. RISK REPORT

The company's innovative global activities in highly contested markets involve entrepreneurial risks. By establishing a comprehensive risk management system and constantly improving risk management instruments in all areas, serious dangers to the company can be identified and eliminated. The starting point of risk management is identifying and assessing various risk types and profiles, which are then monitored and managed by the controlling department. Reports about operational risks and routine status reports are prepared for management and discussed on the highest level. The most important element in this system is comprehensive operational planning, including the identification of targets, accompanied by routine forecasts.

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

Risk management also includes routinely testing the efficiency of hedging instruments and the reliability of controlling systems. Insurance coverage exists for casualty and liability risks, thus limiting the financial consequences for the company's financial, earnings and liquidity position and preventing situations where the continued existence of the company is in jeopardy.

With the introduction of factoring in 2002, the percentage of insured payment claims increased further, producing a clear improvement in the company's liquidity position. Currency risks were limited in strategic fashion through currency hedging transactions involving US dollars and British pounds. As of 31 December 2007, the company had no forward exchange transactions. Interest rate swaps and fixed-interest loan contracts are used to secure medium-term financing.

If necessary, the company responds to fluctuations in the demand for products and services in close consultation with employee representatives, within the bounds of the flexible working hours allowed under the collective bargaining agreement for the chemicals industry.

Based on the information available at this time, no risks exist in connection with the EU's REACH Regulation for existing products, which took effect on 1 July 2007. In order to meet the high requirements and better assess possible restrictions on new products, the company has created a separate REACH office. The risk of increased registration expenses will be countered by the company's planned entry into an industrial syndicate.

Due to our continuous surveillance of the markets of relevance for the company, as described above, as well as our constant efforts to improve our products and adapt to the needs of existing and potential customers, risks of future development do not currently exist.

There are no recognizable risks which could endanger the continued existence of the company, whether in the reporting period or in the future.

5. SUPPLEMENT REPORT

No particular operational or structural changes and transactions occurred for Nabaltec AG after the balance sheet date whose inclusion in this report is required.

Schwandorf, 3 March 2008

Nabaltec AG
The Management Board

Johannes Heckmann   Gerhard Witzany

NABALTEC AG CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2007

CONSOLIDATED BALANCE SHEET OF NABALTEC AG, SCHWANDORF, FOR 31/12/2007

ASSETS

	31/12/2007 KEUR	31/12/2006 KEUR
A. FIXED ASSETS		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	261	70
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on non-owned land	14,430	12,847
2. Technical equipment and machinery	32,348	20,808
3. Other fixtures, fittings and equipment	1,770	1,193
4. Advance payments and plant and machinery in process of construction	15,383	15,299
	63,931	**50,147**
III. Financial assets		
1. Shares in affiliated companies	2	2
2. Other loans	647	547
	649	**549**
	64,841	**50,766**
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	8,872	7,908
2. Finished products and merchandise	7,840	6,449
	16,712	**14,357**
II. Accounts receivable and other assets		
1. Trade receivables	2,724	2,424
2. Other assets	11,263	14,334
	13,987	**16,758**
III. Cash on hand and in banks	1,676	11,076
	32,375	**42,191**
C. DEFERRED EXPENSES AND ACCRUED INCOME	197	269
	97,413	**93,226**

LIABILITIES

	31/12/2007 KEUR	31/12/2006 KEUR
A. SHAREHOLDERS' EQUITY		
I. Subscribed capital		
Conditional capital: KEUR 3,000 (PY: KEUR 3,000)	**8,000**	**8,000**
II. Profit participation capital	**5,000**	**5,000**
III. Capital reserve	**30,824**	**30,824**
IV. Compensatory item for currency translation	**255**	**47**
V. Profit/loss carried forward	**-169**	**839**
VI. Consolidated net income (PY: consolidated net loss)	**177**	**-209**
VII. Compensatory item for minority interests	**-2,323**	**-842**
	41,764	**43,659**
B. INVESTMENT GRANTS TO FIXED ASSETS	**424**	**608**
C. PROVISIONS AND ACCRUED LIABILITIES		
1. Provisions for pensions and similar obligations	6,563	6,116
2. Accrued taxes	439	0
3. Other provisions and accrued liabilities	4,704	4,212
	11,706	**10,328**
D. ACCOUNTS PAYABLE		
1. Accounts payable to banks	27,164	24,565
2. Trade payables	10,067	9,897
3. Other accounts payable	6,288	4,169
- thereof from taxes: KEUR 472 (PY: KEUR 174)		
- thereof for social security: KEUR 13 (PY: KEUR 9)		
	43,519	**38,631**
	97,413	**93,226**

CONSOLIDATED INCOME STATEMENT OF NABALTEC AG, SCHWANDORF, FOR THE PERIOD FROM 01/01/2007 - 31/12/2007

		01/01/2007 - 31/12/2007		01/01/2006 - 31/12/2006
	KEUR	KEUR	KEUR	KEUR
1. Revenue		88,109		71,578
2. Increase in finished products		732		1,069
3. Other own work capitalized		562		148
Total performance		**89,403**		**72,795**
4. Other operating income		2,703		1,245
		92,106		74,040
5. Cost of materials:				
a) Expenses for raw materials and supplies and purchased goods	50,051		38,818	
b) Expenses for purchased services	383	50,434	199	39,017
Gross profit		**41,672**		**35,023**
6. Personnel expenses:				
a) Wages and salaries	12,725		10,792	
b) Social security, pensions and support expenses	2,780		3,117	
- thereof for pensions: KEUR 661 (PY: KEUR 1,025)				
7. Depreciation on intangible fixed assets and property, plant and equipment	4,186		2,571	
8. Other operating expenses	19,067	38,758	14,541	31,021
		2,914		**4,002**
9. Other interest and similar income	368		74	
10. Interest and similar expenses	2,904		2,329	
Financial result		**-2,536**		**-2,255**
11. Result from ordinary business activities		**378**		**1,747**
12. Extraordinary expenses	0		2,108	
13. Extraordinary result		0		-2,108
14. Taxes on income and earnings	1,428		761	
15. Other taxes	459	1,887	37	798
16. Consolidated net loss		**-1,509**		**-1,159**
17. Loss attributable to minority shareholders		-1,686		-950
18. Consolidated net income (PY: consolidated net loss)		177		-209
19. Profit/loss carried forward		-169		839
20. Consolidated net profit		**8**		**630**

CONSOLIDATED CASH FLOW STATEMENT OF NABALTEC AG, SCHWANDORF,
FOR THE PERIOD FROM 01/01/2007 - 31/12/2007

	01/01/2007 - 31/12/2007 KEUR	01/01/2006 - 31/12/2006 KEUR
Period result (not including extraordinary items)	-1,509	949
Write-ups/downs on fixed assets	4,186	2,571
Increase/decrease in provisions	1,379	1,242
Other income/expenses with no effect on payments	-184	-161
Income/loss from the disposal of fixed assets	23	0
Special effect from change in factoring	8,962	-8,258
Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activity	-1,412	-7,039
Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity	4,592	3,285
Net cash flow from current business activity	**16,037**	**-7,411**
Inflow from disposal of property, plant and equipment	43	11
Outflow for investments in property, plant and equipment	-20,429	-28,423
Outflow for investments in intangible fixed assets	-221	-47
Outflow for investments in assets as part of sale and lease back transactions	-8,044	0
Outflow for investments in financial assets	-100	0
Net cash flow from investment activity	**-28,751**	**-28,459**
Inflow from equity providers	0	31,000
Outflow to shareholders	-800	-1,000
Inflow from disposal of assets as part of sale and lease back transactions	981	0
Inflow from borrowings	8,345	20,378
Outflow for repayment of loans	-5,815	-2,956
Outflow from extraordinary items	0	-2,108
Net cash flow from financing activity	**2,711**	**45,314**
Change in cash and cash equivalents with effect on payments	-10,003	9,444
Change in cash and cash equivalents due to exchange rates, changes in consolidated companies and valuation	603	701
Cash and cash equivalents at start of period	11,076	931
Cash and cash equivalents at end of period	**1,676**	**11,076**

Cash and cash equivalents are comprised of cash on hand and in banks.

STATEMENT OF CONSOLIDATED SHAREHOLDER´S EQUITY OF NABALTEC AG, SCHWANDORF, FOR 31/12/2007

Parent company

	Subscribed capital	Profit participation capital	Capital reserve	Earned consolidated equity
	KEUR	KEUR	KEUR	KEUR
01/01/2006	**6,000**	**5,000**	**1,824**	**1,839**
Issuance of new shares	2,000		29,000	
Distribution				-1,000
Other changes				
Consolidated net loss				-209
31/12/2006	**8,000**	**5,000**	**30,824**	**630**
01/01/2007	**8,000**	**5,000**	**30,824**	**630**
Distribution				-800
Other changes				
Consolidated net result				177
31/12/2007	**8,000**	**5,000**	**30,824**	**8***

* rounded

		Minority shareholders			
Other consolidated result Compensatory item for currency translation	Equity	Minority capital	Other consolidated result Compensatory item for currency translation	Equity	Consolidated shareholders' equity
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
13	**14,676**	**62**	**13**	**75**	**14,751**
	31,000			0	31,000
	-1,000			0	-1,000
34	34		33	33	67
	-209	-950		-950	-1,159
47	**44,501**	**-888**	**46**	**-842**	**43,659**
47	**44,501**	**-888**	**46**	**-842**	**43,659**
	-800			0	-800
208	208		206	206	414
	177	-1,686		-1,686	-1,509
255	**44,086**	**-2,574**	**252**	**-2,322**	**41,764**

NABALTEC CONSOLIDATED NOTES FOR THE FISCAL YEAR 2007

1. GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Nabaltec AG, Schwandorf, is the parent company of the Nabaltec Group. The consolidated financial statements as of 31 December 2007 were prepared in accordance with the provisions of §§ 290 ff. of the German Commercial Code. The cost summary method was used for the income statement.

2. CONSOLIDATION GROUP

In addition to the parent company Nabaltec AG, Schwandorf, Nashtec L.P., Corpus Christi (USA), was included in the group of consolidated companies by way of a full consolidation.

	Amount of Shares in Capital	
Enterprise	in	
	KEUR	%
Nashtec L.P., Corpus Christi (USA)	161	50.49

The Nashtec Management Corporation was not included in the consolidated financial statements due to its minor significance in the terms of § 296 para. 2 of the German Commercial Code.

3. CONSOLIDATION PRINCIPLES

The capital consolidation was made in accordance with the book value method pursuant to § 301 para. 1, Sentence 2, No. 1 of the German Commercial Code. The date of the initial consolidation corresponded to the date of the initial inclusion of the subsidiaries in the consolidated financial statements. The valuations as of the date of the initial inclusion of the subsidiaries in the consolidated financial statements were used when offsetting the book values of the shareholdings with the equity of the subsidiaries subject to consolidation.

In the consolidated balance sheet, a compensatory item was disclosed separately in the shareholders' equity for shares not held by the parent company in the subsidiaries included in the consolidated financial statements in the amount of the other shareholders' equity stakes pursuant to § 307 para. 1 of the German Commercial Code. In the consolidated income statement, the profit to which other shareholders are entitled or the loss allocable to them was disclosed separately after the item "consolidated net income or loss" pursuant to § 307 para. 2 of the German Commercial Code.

The revenue and expense consolidation was made pursuant to § 305 para. 1 of the German Commercial Code by offsetting sales revenues, other operating income and interest income between the enterprises included in the consolidated financial statements with the expenses allocable to them.

Accounts receivable and liabilities between the integrated companies were offset pursuant to § 303 para. 1 of the German Commercial Code. Differences arising from the translation of accounts receivable and liabilities in foreign currencies were treated with an effect on earnings.

The treatment of interim results in accordance with § 304 para. 1 of the German Commercial Code was waived in accordance with § 304 para. 2 thereof, because these results were of minor significance to a fair view of the Group's financial, liquidity and earnings situation.

Uniform disclosure, valuation and classification principles exist for the accounting of the domestic and foreign consolidated companies. When items varied from German classification and valuation provisions, corresponding reclassifications and revaluations were made.

4. CURRENCY TRANSLATION

Values have been specified in the consolidated financial statements in euro (EUR) or thousands of euro (KEUR).

The currency of the foreign subsidiary has been translated in accordance with the principle of the functional currency. Except for shareholders' equity, assets and liabilities have been translated at the exchange rate on the balance sheet date. The shareholders' equity has been translated using past exchange rates.

The average exchange rate was used to translate the income statement. The resulting translation differences were disclosed neutrally in terms of earnings under a separate item in the shareholders' equity. To the extent translation differences arose during the capital consolidation, they were disclosed in the shareholders' equity neutrally in terms of earnings. The translation differences transferred neutrally in terms of earnings to shareholders' equity are evident in the statement of shareholders' equity. The change in the compensatory item based on the translation of foreign currency is likewise evident in the statement of shareholders' equity. The result from the period includes translation differences in the amount of KEUR 2.

5. ACCOUNTING AND VALUATION METHODS

The following uniform accounting and valuation methods were applied in the consolidated financial statements of Nabaltec AG:

Intangible fixed assets were reported at acquisition cost, less normal straight-line depreciation. The useful life was four years. Write-offs were made in the year of acquisition on a pro rata temporis basis.

Property, plant and equipment has been reported at acquisition or production cost, less normal depreciation. Normal depreciation was performed on a straight-line basis, assuming the normal useful life, oriented on the maximum rates permitted by tax law. Independently usable assets up to EUR 410.00 have been fully written off in the year of acquisition pursuant to § 6 para. 2 of the Income Tax Act. Write-offs were made in the year of acquisition on a pro rata temporis basis. No interest for borrowed funds is contained in the production costs.

Financial assets have been reported at the updated acquisition cost.

Raw materials and supplies, as well as merchandise have been listed at acquisition cost, with due regard to the strict lower of cost or market principle. Acquisition costs were computed in accordance with the averaging method. Items whose fair value on the balance sheet date is lower than the acquisition costs have been depreciated at the lower fair value.

Finished products have been valued at production cost, with due regard to the strict lower of cost or market principle. Aside from directly attributable cost of materials and fabrication costs, the production cost includes a reasonable portion of overhead material and fabrication costs. Interest on borrowings and the cost of general administration were not included in production costs. Finished products were consolidated into valuation units using group valuation pursuant to § 240 para. 4 of the German Commercial Code. Production costs of identical or nearly identical products were ascribed not to the individual items, but to the relevant group, using a weighted average value.

Accounts receivable and other assets are reported at nominal value. Recognizable individual risks are accounted for through individual allowances. The general credit and default risk in connection with trade receivables is accounted for through a general allowance.

Liquid assets have been reported at the nominal values.

Prepaid expenses relate to expenses prior to the balance sheet date, which represent an expense for a certain time after that date. The expenses are reversed using the straight-line method in accordance with the time passed.

Subscribed capital is reported at the nominal value.

Investment grants for fixed assets were listed in the amount of the grant and are reversed over time based on the useful life of the subsidized investments.

Accruals for pensions have been formed based on actuarial principles in accordance with the partial value method pursuant to § 6a of the Income Tax Act, assuming an interest rate of 6% and the 2005 G benchmark tables of Dr. Klaus Heubeck.

Other accruals have been formed for all recognizable risks and contingent liabilities, in the amount necessary based on the assessment of a prudent businessperson.

Liabilities have been accounted for at the repayment or performance amounts. The valuation principles have not been changed with respect to he previous year.

PRINCIPLES OF CURRENCY TRANSLATION

Foreign-currency receivables and liquid assets have been valued at the selling rate on the date of accrual or the balance sheet date, whichever is lower. Foreign-currency liabilities have been valued at the buying rate on the date of accrual or the balance sheet date, whichever is higher.

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

FIXED ASSETS

The development of fixed assets in the fiscal year is described on pages 42 and 43.

ACCOUNTS RECEIVABLE AND OTHER ASSETS

Other assets consist primarily of accounts receivable from a factoring company for the sale of receivables (KEUR 2,223), assets foreseen for resale (KEUR 7,062) and VAT refund claims (KEUR 953). All accounts receivable and other assets have a residual term of less than one year.

The decrease in accounts receivable from a factoring company compared to the previous year from KEUR 11,185 to KEUR 2,223 resulted from the switch from maturity factoring to financing factoring at mid-year 2007.

During the fiscal year, assets foreseen for resale within the framework of sale and lease back transactions in the amount of KEUR 7,062 (previous year: KEUR 0) were disclosed under the item "other assets."

SHAREHOLDERS' EQUITY

The statement of consolidated shareholders' equity shows the development of the consolidated shareholders' equity.

a) Subscribed capital	EUR	8,000,000.00

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

b) Capital from profit participation rights	EUR	5,000,000.00

Shareholders' equity includes profit participation capital in the amount of EUR 5 million. The scheduled term ends in 2012. Until then, the contracting parties have no routine termination right. The profit participation capital meets the requirements in IDW HFA 1/1994 for disclosure as shareholders' equity.

c) Authorized capital

As of 31 December 2007, the following authorized capital existed (to expire on 22 October 2011)	EUR	3,000,000.00

By resolution of the shareholders in general meeting on 23 October 2006, the management board, with the consent of the supervisory board, was authorized to increase the capital stock by up to EUR 3,000,000.00 through 22 October 2011 by issuing up to 3,000,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions, once or multiple times, and to decide about the exclusion of subscription rights (authorized capital 2006/I).

d) Conditional capital EUR 3,000,000.00

By resolution of the shareholders in general meeting on 23 October 2006, the capital stock was conditionally increased through the issuance of up to 3,000,000 no-par-value bearer shares (conditional capital 2006/I). The conditional capital is to serve exclusively to provide shares to holders of convertible and warrant bonds issued based on the authorization of the company's shareholders in general meeting on 23 October 2006.

e) Capital reserve EUR 30,824,219.38

SPECIAL ITEM FOR FIXED ASSET INVESTMENT GRANTS

Investment grants for fixed assets are reversed over time in accordance with the useful life of the subsidized investments.

ACCRUALS

Other accruals consisted primarily of personnel obligations (KEUR 1,595), clean-up and disposal expenses (KEUR 1,057), contingent losses from pending transactions (KEUR 428) and outstanding invoices (KEUR 1,335).

LIABILITIES

The trade payables and other liabilities include liabilities to minority shareholders of an enterprise included in the consolidated financial statements in the total amount of KEUR 6,436.

The statement of liabilities below breaks down the liabilities and residual terms, indicating any securities which have been furnished:

	Total	Residual terms			Sum backed by security	Type of security
		less than 1 year	1 to 5 years	over 5 years		
	KEUR	KEUR	KEUR	KEUR	KEUR	
Liabilities to banks	27,165	6,790	9,314	11,061	27,165	Land charges, security assignment
Trade payables	10,067	10,067	0	0	0	
Other liabilities	6,287	1,184	5,103	0	0	
	43,519	**18,041**	**14,417**	**11,061**	**27,165**	

STATEMENT OF CONSOLIDATED FIXED ASSETS OF NABALTEC AG, SCHWANDORF, FOR THE PERIOD FROM 01/01/2007 - 31/12/2007

	Acquisition/production cost					
	01/01/2007	Additions	Disposals	Transfers	Currency differences	31/12/2007
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
I. Intangible assets						
1. Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	1,794	103	0	5	0	1,902
2. Advance payments	0	118	0	0	0	118
	1,794	**221**	**0**	**5**	**0**	**2,020**
II. Property, plant and equipment						
1. Land, leasehold rights and buildings, including buildings on non-owned land	14,921	897	0	1,971	-766	17,023
2. Technical equipment and machinery	37,845	4,742	160	10,943	-1,122	52,248
3. Other fixtures, fittings and equipment	4,128	980	88	232	-62	5,190
4. Advance payments and plant and machinery in process of construction	15,299	13,810	0	-13,151	-575	15,383
	72,193	**20,429**	**248**	**-5**	**-2,525**	**89,844**
III. Financial assets						
1. Shares in affiliated companies						
2. Other loans	2	0	0	0	0	2
	547	100	0	0	0	647
	549	**100**	**0**	**0**	**0**	**649**
	74,536	**20,750**	**248**	**0**	**-2,525**	**92,513**

Accumulated depreciation

01/01/2007	Additions	Disposals	Currency differences	31/12/2007	Book value 31/12/2007	Book value 31/12/2006	Depreciation in fiscal year
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
1,724	35	0	0	1,759	143	70	35
0	0	0	0	0	118	0	0
1,724	**35**	**0**	**0**	**1,759**	**261**	**70**	**35**
2,074	543	0	-24	2,593	14,430	12,847	543
17,037	3,035	104	-68	19,900	32,348	20,808	3,035
2,935	573	79	-9	3,420	1,770	1,193	573
0	0	0	0	0	15,383	15,299	0
22,046	**4,151**	**183**	**-101**	**25,913**	**63,931**	**50,147**	**4,151**
0	0	0	0	0	2	2	0
0	0	0	0	0	647	547	0
0	**0**	**0**	**0**	**0**	**649**	**549**	**0**
23,770	**4,186**	**183**	**-101**	**27,672**	**64,841**	**50,766**	**4,186**

7. NOTES TO THE CONSOLIDATED INCOME STATEMENT

REVENUES

Break down of revenue by geographic market:

	2007		2006	
	KEUR	%	KEUR	%
Germany	28,204	32.0	24,793	34.6
Rest of Europe	48,532	55.1	38,694	54.1
North America	6,155	7.0	4,251	5.9
South America	958	1.1	648	0.9
Asia	4,308	4.9	3,417	4.8
Africa	395	0.4	190	0.3
Australia/New Zealand	24	0.0	11	0.0
	88,576	**100.5**	**72,004**	**100.6**
less				
cash discounts and bonuses	-467	-0.5	-426	-0.6
	88,109	**100.0**	**71,578**	**100.0**

Break down of revenue by business divisions:

	2007		2006	
	KEUR	%	KEUR	%
Functional Fillers	57,715	65.5	46,178	64.5
Technical Ceramics	30,394	34.5	25,400	35.5
	88,109	**100.0**	**71,578**	**100.0**

8. NOTES TO THE CONSOLIDATED CASH-FLOW STATEMENT

In the fiscal year, KEUR 2,438 was paid in interest. The retained interest in the fiscal year amounted to KEUR 372.

In the fiscal year, KEUR 1,082 was paid in income taxes.

9. CONSOLIDATED SEGMENT REPORTS FOR THE FISCAL YEAR 2007

In terms of the internal organizational and segment structure, Nabaltec is divided into the "Functional Fillers" and "Technical Ceramics" segments. Earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) have been selected for the segment results.

The "Functional Fillers" and "Technical Ceramics" segments have further been disclosed by region. The regions were defined as Germany, the rest of Europe, the USA and the rest of world (RoW).

	Functional Fillers 2007	Technical Ceramics 2007	Nabaltec Group 2007	Functional Fillers 2006	Technical Ceramics 2006	Nabaltec Group 2006
Segments by area						
in KEUR						
Revenues	57,715	30,394	88,109	46,178	25,400	71,578
Segment results						
EBITDA	3,346	3,754	7,100	4,482	2,091	6,573
EBIT	556	2,358	2,914	2,863	1,139	4,002
Depreciation	2,790	1,396	4,186	1,619	952	2,571
Other non-earnings-related items	783	412	1,195	697	384	1,081
Assets*)	65,582	29,958	95,540	56,874	25,007	81,881
Investments in long-term assets	13,698	7,052	20,750	21,912	6,558	28,470
Debts	34,850	8,669	43,519	32,576	6,054	38,630
Segments by region						
in KEUR						
Revenues						
Germany	9,431	18,516	27,947	9,745	14,800	24,545
Rest of Europe	39,101	9,259	48,360	30,167	8,389	38,556
USA	4,760	1,250	6,010	3,023	1,188	4,211
RoW	4,423	1,369	5,792	3,243	1,023	4,266
Total	**57,715**	**30,394**	**88,109**	**46,178**	**25,400**	**71,578**
Assets*)						
Germany	44,276	29,958	74,234	32,225	25,007	57,232
Rest of Europe	0	0	0	0	0	0
USA	21,306	0	21,306	24,649	0	24,649
RoW	0	0	0	0	0	0
Total	**65,582**	**29,958**	**95,540**	**56,874**	**25,007**	**81,881**
Investments in long-term assets						
Germany	13,515	7,052	20,567	4,557	6,558	11,115
Rest of Europe	0	0	0	0	0	0
USA	183	0	183	17,355	0	17,355
RoW	0	0	0	0	0	0
Total	**13,698**	**7,052**	**20,750**	**21,912**	**6,558**	**28,470**

*) Fixed and current assets, not including liquid funds

10. MISCELLANEOUS NOTES

LIABILITY RELATIONS AND OTHER FINANCIAL OBLIGATIONS

In accordance with § 251 and § 268 para. 7 of the German Commercial Code, the following liability relations were to be noted:

	2007 KEUR	2006 KEUR
1. Obligations arising from the negotiation and transfer of bills of exchange	0	0
2. Obligations arising from guarantees, bills of exchange and check guarantees	0	0
3. Obligations arising from warranty contracts	0	0
4. Liability arising from securities for third-party obligations	0	0
Total	**0**	**0**

The following other financial obligations exist which are of importance for assessing the liquidity situation:

	31/12/2007 KEUR
a) Obligations from rental, lease, service and consulting agreements	13,337
thereof	
- maturing in less than 1 year	3,118
- maturing in 1 to 5 years	8,764
- maturing in over 5 years	1,455
b) Obligations from investment contracts (orders)	1,428
- thereof maturing in less than 1 year	1,428
Total	**14,765**

SHARE OWNERSHIP PURSUANT TO § 313 PARA. 2 OF THE GERMAN COMMERCIAL CODE

	Share in capital stock		Total Shareholders' equity in past fiscal year *)		Earnings in past fiscal year *)	
	in %	in USD	in USD	in EUR	in USD	in EUR
Direct holdings						
Nashtec Management Corporation, Texas (USA)	51.0	2,102.65	1)	1)	1)	1)
Nashtec L.P., Texas (USA)	50.5	208,163.26	-5,498,536.00	-3,736,433.81	-4,717,901.00	-3,442,466.98
Indirect holdings						
Stake of Nashtec Management Corporation: Nashtec L.P., Texas (USA)	0.5	2,102.65	-5,498,536.00	-3,736,433.81	-4,717,901.00	-3,442,466.98

*) Shareholders' equity in foreign currency in the past fiscal year was translated at the exchange rate as of the balance sheet date. Earnings in foreign currency in the past fiscal year were translated using the average exchange rate in the fiscal year.

1) The disclosure of data on shareholders' equity and earnings in the past fiscal year is omitted in accordance with § 313 para. 2, No. 4, Sentence 3 of the German Commercial Code due to its minor significance.

DERIVATIVE FINANCIAL INSTRUMENTS

Within the framework of the Group's risk management system, derivative financial instruments are used to mitigate risks arising from changes in interest rates.

Market values have been determined by independent financial services companies.

The nominal and market values of the financial instruments as of 31 December 2007 were as follows:

Interest rate hedging

An interest rate swap exists in the nominal value of EUR 5,200,000.00 with a market value of EUR -101,013.63 as of 31 December 2007 and a term until 31 March 2016. There is also an interest rate swap with a nominal value of USD 18,000,000.00 (EUR 12,231,584.67) and a market value of USD 445,795.00 (EUR 302,932.18) as of 31 December 2007.

The derivative interest rate swaps service to mitigate the interest rate risk. Negative market values were reported as accruals. Positive market values were not taken into account.

EMPLOYEES

The average number of workers employed during the fiscal year was as follows:

	Nabaltec Number	Nashtec Number
Industrial workers	162	
Employees	102	1
Marginal workers	7	
	271	**1**

In addition, an average of 29 trainees were employed during the fiscal year.

MANAGEMENT AND SUPERVISORY BOARDS

In accordance with the Articles of Association, the company's management board consists of at least one person. The number of management board members has been defined by the supervisory board. The supervisory board may appoint one management board member as chairperson. No management board member is serving as chairperson at this time.

The members of the management board are:

Mr Johannes Heckmann

Economic engineering graduate

- Supervisory board member of SiC Processing AG

Mr Gerhard Witzany

Commercial graduate

The disclosure of the total remuneration of the management board in accordance with § 314 para. 1, No. 6a of the German Commercial Code was waived in analogous application of § 286 para. 4 of the German Commercial Code.

SUPERVISORY BOARD

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

Dr. Leopold von Heimendahl (supervisory board chairman)
Retired physicist
- Advisory board chairman of Schott Music GmbH & Co. KG
- Member of the council of Johannes Gutenberg University
- Member of the board of directors of BHF-Bank Aktiengesellschaft

Dr. Dieter J. Braun (deputy chairman)
Retired chemist
- Supervisory board chairman of Hydro Aluminium Deutschland GmbH
- Supervisory board chairman of Norsk Hydro Deutschland Verwaltungs GmbH

Prof. Dr.-Ing. Jürgen G. Heinrich
Professor of engineering ceramics
- Chairman of the German Ceramics Society (2003 - 2007)
- President of the European Ceramics Society (since 2007)
- Academician of the World Academy of Ceramics (since 2005)

The supervisory board members received total remuneration of KEUR 45 for the fiscal year 2007.

RELATED PARTY TRANSACTIONS

In the terms of DRS 11, "related parties" are natural and legal persons and enterprises that can be controlled by and exert control over the company.

Parties related to a company include members of management, supervisory and advisory boards, including their next of kin, and those enterprises that can be decisively controlled by management and supervisory board members of the company and parties related thereto or in whom such parties hold a material voting share. Related parties moreover include the main shareholders of the company and generally those enterprises with whom the company forms a corporate group or in whom the company holds a stake enabling it to exert decisive control over the business policy of the holding.

The following management board members of the company and family members of such members hold shares in the company:

- Mr Johannes Heckmann, management board, has a direct shareholding in the company
- Mr Gerhard Witzany, management board, has a direct shareholding in the company
- Mr Thomas Heckmann, brother of management board member Johannes Heckmann, has a direct shareholding in the company
- Mr Dieter Heckmann, father of management board member Johannes Heckmann, has a direct shareholding in the company
- Mrs Renate Witzany, wife of management board member Gerhard Witzany, has a direct shareholding in the company

The business relations of the company existing with related parties during the fiscal year are presented below:

The company regularly avails itself of engineering services, project-related work being awarded in competitive bidding proceedings. Particular contracts have also been awarded to AKW A+V GmbH. Management board member Johannes Heckmann indirectly holds a 50% share in AKW A+V GmbH via AKW A+V Holding GmbH & Co. KG. The further shares in AKW A+V Holding GmbH & Co. KG are held by his brother Thomas Heckmann. In the fiscal year 2007, KEUR 387 was paid to AKW A+V GmbH. No accounts receivable or liabilities existed as of 31 December 2007.

The company invested in a sewage treatment system. The contract was awarded within the framework of a call to tender to AKW A+V Protec GmbH. Management board member Johannes Heckmann indirectly holds a 50% share in AKW A+V Protec GmbH via AKW A+V Holding GmbH & Co. KG. The further shares in AKW A+V Holding GmbH & Co. KG are held by his brother Thomas Heckmann. In the fiscal year 2007, KEUR 186 was paid to AKW A+V Protec GmbH. No accounts receivable or liabilities existed as of 31 December 2007.

The company regularly avails itself of IT services (maintenance of its website) from WIRE GbR. Mr Stefan Witzany, son of management board member Gerhard Witzany, is one of the managing directors of WIRE GbR.

In the fiscal year 2007, KEUR 11 was paid to WIRE GbR. No accounts receivable or liabilities existed as of 31 December 2007.

Between the company and supervisory board member Professor Dr.-Ing. Jürgen G. Heinrich exists an agreement concerning the performance of research and development work regarding aspects of ceramic process engineering. In the fiscal year, KEUR 5 was paid to Professor Dr.-Ing. Heinrich. No accounts receivable or liabilities existed as of 31 December 2007.

Schwandorf, 3 March 2008

Nabaltec AG
The Management Board

Johannes Heckmann | Gerhard Witzany

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Nabaltec AG, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, cash flow statement and statement of changes in equity, together with the group management report for the business year from January 1, 2007 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report.
We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Nabaltec AG comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 13 March 2008

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Christoph Bayer	Manuel Rauchfuss
Wirtschaftsprüfer	Wirtschaftsprüfer

NABALTEC AG FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2007 (ABRIDGED VERSION)

BALANCE SHEET OF NABALTEC AG, SCHWANDORF, FOR 31/12/2006

ASSETS

	31/12/2007 KEUR	31/12/2006 KEUR
A. FIXED ASSETS		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	143	70
2. Advance payments	118	0
	261	**70**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on non-owned land	8,601	5,636
2. Technical equipment and machinery	18,273	10,245
3. Other fixtures, fittings and equipment	1,331	614
4. Advance payments and plant and machinery in process of construction	15,383	9,843
	43,588	**26,338**
III. Financial assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	5,664	4,149
3. Other loans	646	547
	6,473	**4,859**
	50,322	**31,267**
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	8,872	7,409
2. Finished products and merchandise	7,320	6,108
	16,192	**13,517**
II. Accounts receivable and other assets		
1. Trade receivables	2,724	2,424
2 . Other assets	10,820	14,334
	13,544	**16,758**
III. Cash on hand and in banks	1,427	10,546
	31,163	**40,821**
C. DEFERRED EXPENSES AND ACCRUED INCOME	190	165
	81,675	**72,253**

LIABILITIES

	31/12/2007	31/12/2006
	KEUR	kEUR
A. SHAREHOLDERS' EQUITY		
I. Subscribed capital		
Conditional capital: KEUR 3,000 (PY: KEUR 3,000)	8,000	8,000
II. Profit participation capital	5,000	5,000
III. Capital reserve	30,824	30,824
IV. Profit carried forward	1,039	1,056
V. Net income	1,884	783
	46,747	**45,663**
B. INVESTMENT GRANTS TO FIXED ASSETS	**424**	**608**
C. PROVISIONS AND ACCRUED LIABILITIES		
1. Provisions for pensions and similar obligations	6,564	6,116
2. Accrued taxes	439	0
3. Other provisions and accrued liabilities	4,704	4,212
	11,707	**10,328**
D. ACCOUNTS PAYABLE		
1. Accounts payable to banks	13,519	7,555
2. Trade payables	8,519	7,381
3. Accounts payable to affiliated companies	388	248
4. Other accounts payable	371	470
- thereof from taxes: KEUR 149 (PY: KEUR 174)		
- thereof for social security: KEUR 13 (PY: KEUR 9)		
	22,797	**15,654**
	81,675	**72,253**

INCOME STATEMENT 0F NABALTEC AG, SCHWANDORF, FOR THE PERIOD FROM 01/01/2007 - 31/12/2007

	KEUR	01/01/2007 - 31/12/2007 KEUR	KEUR	01/01/2006 - 31/12/2006 KEUR
1. Revenue		88,109		71,578
2. Increase in finished products		980		712
3. Other own work capitalized		562		148
Total performance		89,651		72,438
4. Other operating income		1,335		1,245
		90,986		**73,683**
5. Cost of materials:				
a) Expenses for raw materials and supplies and purchased goods	50,625		38,645	
b) Expenses for purchased services	383	51,008	198	38,843
Gross profit		**39,978**		**34,840**
6. Personnel expenses:				
a) Wages and salaries	12,604		10,750	
b) Social security, pensions and support expenses - thereof for pensions: KEUR 661 (PY: KEUR 1,025)	2,780		3,117	
7. Depreciation on intangible fixed assets and property, plant and equipment	2,961		2,399	
8. Other operating expenses	16,884	35,229	13,608	29,874
		4,749		**4,966**
9. Income from long term financial investments - thereof from affiliated companies: KEUR 378 (PY: KEUR 158)	378		158	
10. Other interest and similar income	319		74	
11. Depreciation on financial assets and marketable securities	672		183	
12. Interest and similar expenses	1,418		1,325	
Financial result		-1,393		-1,276
13. Result from ordinary business activities		**3,356**		**3,690**
14. Extraordinary expenses	0		2,108	
15. Extraordinary result		0		-2,108
		3,356		**1,582**
16. Taxes on income and earnings	1,428		761	
17. Other taxes	44	1,472	38	799
18. Net income		**1,884**		**783**
19. Profit carried forward		1,039		1,056
20. Net profit		**2,923**		**1,839**

APPROPRIATION OF DISTRIBUTABLE PROFIT

The management board proposes that the distributable profit of the fiscal year 2007, amounting to EUR 2,922,867.22, be used as follows:

Distribution to the shareholders by payment of a dividend of EUR 0.10 per share on the 8,000,000 non par value shares entitled to dividend payments for the fiscal year 2007	EUR 800,000.00
Profit carried forward	EUR 2,122,867.22
Distributable profit	**EUR 2,922,867.22**

Schwandorf, March 2008

Nabaltec AG
The Management Board

Johannes Heckmann, Gerhard Witzany

FINANCIAL CALENDAR 2008

06/05/2008	Annual General Meeting
27/05/2008	Interim Report 1/2008
26/08/2008	Interim Report 2/2008
25/11/2008	Interim Report 3/2008

Nabaltec and distribution partners

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