Nabaltec

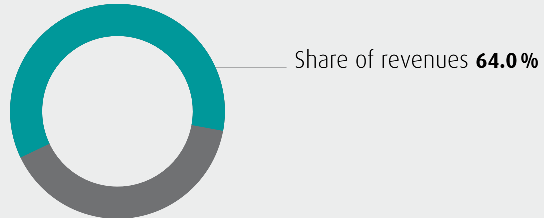
Our Know-How for Your Safety

Annual Report 2008

Our Know-How for Your Safety

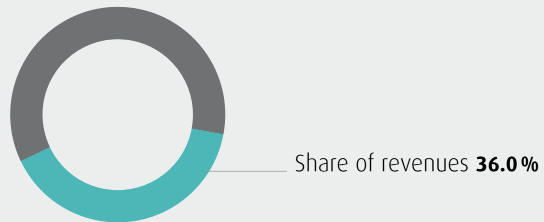
We are specialized in functional fillers for the plastics industry and high-quality raw materials for technical ceramics. Nabaltec supplies specialized markets all over the world. About 65% of our revenues are earned abroad. We are leading in each of our markets, and our innovations have won multiple awards. Our know-how, experience and ability to implement complex processes allow us to offer high-quality and highly-specialized products for a wide range of applications. Our particular specialties are functional fillers for the plastics industry and high-quality specialized raw materials for technical ceramics. Our products are of consistently high quality and can be customized to meet your specifications, which our customers appreciate. In this way, we meet our own requirements to achieve quality leadership in each of our target markets.

OUR BUSINESS DIVISIONS



Functional Fillers

Nabaltec's aluminum hydroxide- and magnesium hydroxide-based flame retardants are non-toxic and eco-friendly, as well as keeping fumes to a minimum. These qualities make them far superior to other flame retardants for use in plastics. Our newly developed additives, which will enter into industrial production in 2009, have a stabilizing effect on plastics and can substitute heavy metals, while others have catalytic properties.



Technical Ceramics

Nabaltec manufactures ceramic raw materials and ceramic bodies from specialty oxides for products which meet the strictest requirements under the most difficult of conditions. Nabaltec's ceramic raw materials are used in the refractory industry, polishing industry, wear-resistant ceramics and electrical ceramics. Our products are also used by providers of high-quality mechanical parts, such as spark plugs, high-voltage insulators and ballistic ceramics. Nabaltec's ceramic bodies include highly-specialized granulates for a broad range of ceramic applications. Whatever the requirements, we have the know-how and experience to provide materials which are customized to your specifications.

KEY FIGURES NABALTEC GROUP

EUR million	**2008** (IFRS)	2007 (IFRS)	Change
REVENUES			
Total revenues	96.3	88.1	9.3 %
therein:			
Functional Fillers	61.6	57.7	6.8 %
Technical Ceramics	34.7	30.4	14.1 %
Foreign share (%)	65.0 %	68.3 %	
EARNINGS			
EBITDA	9.3	8.4	10.7 %
EBIT	4.1	4.0	2.5 %
Result after taxes*	1.1	2.4	−54.2 %
Earnings per share (EUR)*	0.14	0.30	−53.3 %
FINANCIAL POSITION			
Cash flow from operating activities	3.7	18.9	−80.4 %
Cash flow from investing activities	−16.3	−27.2	−40.1 %
ASSETS, EQUITY AND LIABILITIES			
Total assets	132.2	116.9	13.1 %
Equity	45.1	47.3	−4.7 %
Non-current assets	97.3	82.8	17.5 %
Current assets	34.9	34.1	2.3 %
Employees** (persons)	347	314	10.5 %

* net, after minority interests
** end of year including trainees

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Management Board
Johannes Heckmann (left)
Gerhard Witzany (right)

Dear Sir or Madam, Dear Shareholders,

Despite some true challenges, 2008 was another successful year, as revenue grew 9.3% and our earnings before interest and taxes (EBIT) improved slightly, from EUR 4.0 million to EUR 4.1 million. But it must be said that it could have been even better.

The challenges which we mainly faced included:

- rising raw material prices, as well as transportation and energy costs;
- a wave of uncertainty among our customers, especially in the fourth quarter, as the global economy slumped;
- increased competitive pressure in the “Functional Fillers” market;
- a slump in the refractory industry following a drop-off in global steel production in the fourth quarter.

Under these circumstances, it is understandable that we were unable to match our growth rate in 2008. The fourth-quarter downturn in the global economy was just too strong. Production of German chemical industry fell by 10.9% in the fourth quarter according to the German Chemical Association, and industry revenues fell by 7.4%. Plants are now operating at just 75% capacity. This affected the chemical industry’s 2008 balance sheet as well, as production fell 2.2% on the year, while revenues rose by just 1.1%. In some economic sectors of strategic importance to us, including the construction sector and the refractory industry, demand fell drastically towards the end of 2008 and in the first two months of 2009.

"One event that will determine our success in 2009 will be our entry into a new product segment: additives for the plastics processing industry, where our high-quality and eco-friendly products will go a long way towards making the world a safer place."

Gerhard Witzany, Member of the Board

At the first clear sign that a downturn in the economy was about to occur, our customers cut inventories to record lows, which in turn affected our orders. We expect to face a tough period with respect to incoming orders in the first half of 2009 as well, followed by a gradual improvement in the second half of the year. This assessment is consistent with current market forecasts. While the German Chemical Association expects to see a slight improvement in the coming months once customers clear their inventories, this trend should not amount to an uptrend. The Association expects chemical production to fall by 3.5% in 2009, with revenues down 6%. Growth forecasts are being revised all over the industry.

Independent forecasts project average medium-term growth rates of about 5% to 6% for both the flame retardants market and the technical ceramics market and we also believe that strong opportunities exist for stable growth in the halogen-free flame retardants market, especially since our industry will benefit from economic stimulus packages not only in Europe, but also in the US and Asia. The market will also receive a sustained boost in the form of new legislation and stricter regulations for flame retardants which will require businesses to switch from halogenated to halogen-free flame retardants. We are in a position to meet this demand with our superior and innovative products.

Another long-term trend which will benefit us is the inexorable spread of plastics into all areas of life, combined with the demand for safe and eco-friendly products. Our new business unit "Additives" has good opportunities for growth in this respect, since international regulations calling for the replacement of PVC stabilizers containing heavy metals will benefit eco-friendly alternative products. We have developed and patented a product which can replace toxic lead compounds in plastics and which is suitable as an eco-friendly heat stabilizer. Additives are a business with outstanding prospects, and of particular importance for us, since we have proven technologies, processes, structures and methods to facilitate our entry into this new market.

The long-term outlook of our business is still good and intact despite the current economic crisis and we have therefore adhered to our investment plans. For example, our new plant for the production of additives on an industrial scale, with an investment volume of about EUR 20 million, is scheduled to be completed and start up in the fourth quarter of 2009. After adjusting for market conditions, 2009 investment volume will be about EUR 25 million. Investments from 2008 up to and including 2010 have been secured by credit commitments from banks, development loans, an investment grant from the government of Upper Palatinate and company's equity. Total investment volume through 2010 is over EUR 60 million, including EUR 20.4 million in 2008.

The events in 2008 have once again confirmed that our strategy is the right one: we are expanding, but this expansion is measured and driven by the organic growth of our two business units: "Functional Fillers" and "Technical Ceramics," allowing us to minimize or even eliminate risks. To cite just one example, there is no capitalized goodwill in Nabaltec's balance sheet.

We will continue our efforts to develop products joining innovation and high-quality. Our success in developing innovative products was underscored when Nabaltec was named one of Germany's "Top 100" most innovative small and medium-sized companies in 2008 in the 16th edition of the famous competition. Nabaltec impressed the judges with its systematic, well-thought-out and successful innovation management system, and was awarded the sought-after "Top 100" seal by Lothar Späth, former Prime Minister of Baden-Württemberg. This was the third time that Nabaltec has received this award.

We have attained this distinction on the strength of various innovative products in our "Functional Fillers" and "Technical Ceramics" divisions, always guided by our goal of creating processing advantages for our customers.

Our strong market position creates the basis for higher margins, as we continue our strategy of expanding high-margin product segments while diligently managing costs in all areas of the business.

Management board foreword
Report of the supervisory board
Corporate governance report
Nabaltec share

In view of the uncertainty in the global financial markets at the moment, we have decided to use our 2008 earnings to reinforce our capital structure and we advise against a dividend payment this year. We are in the midst of some very important investments in the future of our business and would like to make sure that we have a strong equity base as we do so.

2009 promises to be a difficult year. The industry expected the first half of 2009 to be tough, with a gradual improvement in the second half of the year. We are one of the world's leading providers of halogen-free flame retardants, ceramic bodies, ceramic materials and, soon, additives. We were able to at least hold onto our market position in all of our markets in 2008. Due to the current economic downtrend, which Nabaltec will be unable to escape entirely, we expect revenues and earnings to come in lower than the year before. We currently expect our markets to regain their long-term growth rates in 2010. Accordingly, we believe that the effectiveness of our strategy for growth has been confirmed despite the current economic crisis and we will do our part to make more areas of life safer and more eco-friendly.

Yours,

Johannes Heckmann
Member of the Board

Gerhard Witzany
Member of the Board

Report of the Supervisory Board

Dear Sir or Madam,
Dear Shareholders,

The drastic change in global economic conditions in 2008 affected the economic environment of Nabaltec AG and posed particularly challenges for the supervisory board, including highly volatile energy and raw material prices, new financing terms, especially from banks, and the difficulty in forecasting future global demand due to the tangible uncertainty. With these challenges in mind, we advised the management board in financial year 2008 while constantly monitoring and supervising management of the Group with utmost care and in accordance with our duties as stipulated by law and the Articles of Association.

The supervisory board was informed by the management board directly and involved at an early stage in every decision of fundamental importance for the company. Whenever required by law, the Articles of Association or the internal regulations we voted on management board's reports and draft resolutions after careful deliberation and review. All transactions requiring approval were approved. These included the purchase of land in order to expand operations at the Schwandorf site, a long-term energy supply agreement, the structuring of specific financing arrangements and framework agreements for the procurement of raw materials. We devoted particular attention to the risks facing the Group, risk management, lawful and efficient management practices and compliance.

In the 2008 reporting year, the supervisory board convened for five regular sessions: on 14 March 2008, on 6 May 2008 after the General Meeting, on 12 September 2008, on 27 October 2008 and on 19 December 2008. With one exception, all members were present at each session. Once again, the supervisory board opted not to form committees. No conflicts of interest for individual members of the supervisory board arose during the 2008 reporting year in the course of deliberations, in draft resolutions or through exercise of the board's supervisory mandate. In the assessment of the supervisory board, a sufficient number of members may be viewed as independent, since two members of the supervisory board have no personal or business relationship with the company or with the management board. An agreement exists between Nabaltec AG and Professor Dr.-Ing. Jürgen G. Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering. The supervisory board routinely checks its own efficiency, and did so in 2008 as well.

Even outside the supervisory board sessions, the management board made full and timely reports to the supervisory board, verbally and in writing. In particular, we were kept informed e.g. of market trends, the competitive situation, sales, revenue and earnings trends and the accomplishment of our objectives through monthly and quarterly reports. In addition, I, as Chairman of the supervisory board, kept myself constantly informed of the current course of business, major transactions and critical management board decisions. To that end, I engaged myself in a close and routine exchange of information and ideas with both members of the management board.

The Group's revenues, earnings, liquidity and financial position were routinely discussed at supervisory board sessions, and intensive consideration was also given to the following issues in 2008:

- the 2007 annual financial statements and consolidated financial statements, particularly the appropriation of 2007 earnings;
- developments in connection with Nabaltec's US subsidiary, Nashtec;
- investment and financing plans for 2008 to 2010;
- medium-term planning;
- miscellaneous property acquisitions;
- negotiations in connection with raw materials;
- strategy and steps for the launch of the business unit "Additives".

Corporate Governance

During the supervisory board session on 14 March 2008, the management and supervisory boards issued their joint

Declaration of Compliance for 2008, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. Both bodies discussed the changes to the German Corporate Governance Code as amended on 6 June 2008 and published in the electronic Bundesanzeiger [Federal Gazette] on 8 August 2008, especially in the session on 19 December 2008, in preparation for issuing the 2009 Declaration of Compliance. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

2008 annual financial statements and consolidated financial statements

AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft, Munich, has audited the annual financial statements and management report of Nabaltec AG, which were prepared by the management board in accordance with the German Commercial Code (HGB), as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to § 315a of the German Commercial Code, and the consolidated management report. The supervisory board issued the audit mandate by resolution of the General Meeting of 6 May 2008. The auditor has issued an unqualified auditor's opinion for Nabaltec AG's annual financial statements and management report. A qualified auditor's opinion was issued by the auditor for the consolidated financial statements and consolidated management report. The qualification relates to the disclosure of minority interests in the consolidated financial statements, for which Nabaltec Group chose a method of disclosure in anticipation of a new IAS (IAS 27, rev. 2008) which now is expected to be introduced in the second quarter of 2009. The supervisory board responded by conducting a thorough and independent review of the consolidated financial statements with specific attention to the reasons for this qualification and the method of disclosure chosen by Nabaltec. In the interests of clarity and comparability with data reported prior to 2008, and in light of the fact that introduction of the new IAS is expected in the second quarter of 2009, including adoption of the method in question, we believe that the method of disclosing minority interests chosen by Nabaltec is comprehensible, and we nevertheless accept the auditor's conclusions. The other components of the financial statements, the proposal for appropriation of the distributable profit and the auditor's audit reports were also made available in a timely manner for our independent review. During the balance sheet session on 24 April 2009, these documents and the audit report were subjected to intensive discussion and consideration, particularly with respect to the reasons for the qualified auditor's opinion for the consolidated financial statements and consolidated management report. The auditor was present during the session, reported on the essential conclusions of his audit and was available for further questions.

After conducting an independent audit of the annual financial statements and consolidated financial statements, management report and consolidated management report, the supervisory board has made no objections, and accepts the conclusions of the audit conducted by AWT Horwath GmbH. We have accordingly approved the annual financial statements and consolidated financial statements for 31 December 2008 which have been prepared by the management board, and the financial statements for Nabaltec AG are therefore adopted. We have also approved the management board's proposal for appropriation of the company's distributable profit. After conducting our own review, we have found this proposal to be reasonable.

The supervisory board would like to express its thanks and appreciation to the members of the management board and to Nabaltec employees for their hard work in 2008, which was a challenging year for all of us.

Schwandorf, 24 April 2009

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

Corporate Governance Report

Nabaltec AG further developed its corporate governance practices in 2008 and complies with the changes to the German Corporate Governance Code as amended on 6 June 2008 and published in the electronic Bundesanzeiger [Federal Gazette] on 8 August 2008. On 13 March 2009, the management and supervisory boards issued their annual Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act, which can be viewed by shareholders at any time at www.nabaltec.de.

New recommendations in 2008

Nabaltec AG follows the new recommendations with respect to severance rules in management board contracts (No. 4.2.3 of the Code) and Nabaltec's management board contracts generally do not include separate severance rules for a takeover and other cases of early termination. The management board remuneration system is reviewed by the supervisory board at routine intervals. The supervisory board adopts resolutions in this regard defining the essential contractual elements insofar as existing management board contracts offer flexibility in this regard (new recommendation in No. 4.2.2 of the Code).

Nabaltec AG will comply with the new recommendation in No. 7.1.2 of the Code, calling for joint consideration of semi-annual and quarterly reports by the supervisory and management board prior to publication. This consideration is supplemented by monthly reports by the management board to the supervisory board.

Corporate governance practices in 2008

A comparison of the Declarations of Compliance of 26 March 2007 and 14 March 2008 and actual corporate governance practices in financial year 2008 revealed no deviations. Nabaltec AG largely follows the recommendations made by the Government Commission on the German Corporate Governance Code and deviates from those recommendations only in seven respects, where such deviation is required due to the size of the company, the financial constraints of mid-sized companies and for reasons of expediency. For example, the two-member management board of Nabaltec AG does not have a chairman or spokesman (No. 4.2.1 of the Code). Moreover, the company does not have a general age limit for management board members, as recommended in No. 5.1.2 of the Code, as the supervisory board deems it sufficient to take the age of management board members into consideration upon appointment and re-appointment. The disclosure of management board remuneration satisfies all statutory requirements. However, the company does not issue a separate report on management and supervisory board remuneration as part of its Corporate Governance Report (Nos. 4.2.4 and 4.2.5 of the Code). The supervisory board has three members, which is commensurate to the company's size, and works effectively with decisions of the plenary board (Nos. 5.3.1, 5.3.2 and 5.3.3 of the Code). In deviation from No. 5.4.6 of the Code, supervisory board members receive a fixed salary in addition to a meeting allowance, but do not receive performance-based compensation. The services of the chairman are compensated separately. Supervisory board compensation will not be broken down and disclosed, citing each individual by name. The disclosures with respect to total supervisory board remuneration are made in the Notes and Consolidated Notes, in accordance with statutory requirements. The company does not currently have a stock option program or any similar stock-based incentive systems in terms of No. 7.1.3 of the German Corporate Governance Code.

The Rules of Procedure for the supervisory board were unchanged in 2008. The Rules of Procedure for the management board were changed in one respect, consisting of an editorial clarification regarding the value above which investments require consent. The company's Articles of Association were unchanged in 2008. The 2008 general meeting was attended by around 80 shareholders, journalists and guests. 76.6% of voting rights were represented. All points put to a vote were approved. The company's Articles of Association do not currently provide for electronic mailing of invitations and associated documents to financial services providers, shareholders and shareholder associations (No. 2.3.2 of the Code).

No conflicts of interest arose in 2008 for the management or supervisory board. Management board members did not serve on supervisory boards or comparable bodies, with one exception. The supervisory board evaluates its own effectiveness once a year. The supervisory board has a sufficient number of independent members, in its view.

The 2008 individual and consolidated financial statements will be published in April 2009, in compliance with the statutory deadlines and stock exchange rules for the Prime Standard section of the Frankfurt Stock Exchange. Interim and quarterly reports are published within 60 days after the end of the reporting period, i.e. Nabaltec does not follow the recommendation in No. 7.1.2 of the Code. The main reason why interim and quarterly reports are published after the deadlines given in the Code is the consolidation of Nabaltec's US joint venture, Nashtec. In 2008, for the first time, Nabaltec AG's accounting methods were converted in order to comply with the International Financial Reporting Standards (IFRS), both for the end-of-year financial statements and for sub-annual reports and the comparison data from 2007 has been retroactively recalculated using these standards.

Voluntary compliance with stricter transparency standards

Nabaltec AG is listed in the Entry Standard section of the Frankfurt Stock Exchange and is therefore not subject to the Securities Trading Act, particularly the ad-hoc publication requirements in accordance with § 15 of the Securities Trading Act. Nevertheless, in order to provide the greatest possible transparency, Nabaltec voluntarily publishes important company announcements through Deutsche Gesellschaft für Ad-hoc-Publizität (DGAP). Disclosures pertaining to directors' dealings analogous to § 15a of the Securities Trading Act are posted on the company's website, www.nabaltec.de. During the reporting period 2008, management and supervisory board members made 35 disclosures regarding the purchase and sale of Nabaltec AG stock.

The number of shares in the company held by management and supervisory board members is as follows (as of 31 December 2008):

Management Board	
Johannes Heckmann	1,195,250 shares
Gerhard Witzany	1,219,310 shares
Supervisory Board	
Dr. Leopold von Heimendahl	18,456 shares
Dr. Dieter J. Braun	16,000 shares
Professor Dr. Jürgen G. Heinrich	1,700 shares

Nabaltec Share

Performance

Nabaltec share was unable to escape the general stock market downtrend in 2008, finishing the year at EUR 2.49 (all prices refer to XETRA), close to its 2008 low of EUR 2.05 and down 68.1% from the year before. At the end of 2007, Nabaltec share was trading at EUR 7.80. The relevant stock indices, the DAX30, SDAX and the chemical index, were all down sharply in 2008, although the indices lost only between 40% and 46%, somewhat better than Nabaltec.

The performance of Nabaltec share is attributable to the worsening of the business development in the second half of the year 2008 due to the onset of the global economic crisis. After all, specialty chemicals certainly act as an early indicator of the economic trend. As a result, the share was hit more strongly in the second half of the year 2008. This effect can be seen in a large number of "small-cap" stocks, exacerbated in this case by the decline in trading volume.

Liquidity

Nabaltec share's average XETRA daily trading volume was 7,313 shares in 2008. The liquidity of Nabaltec share is reinforced by the voluntary commissioning of a designated sponsor. At the end of 2008, Nabaltec AG switched from HypoVereinsbank/UniCredit to VEM Aktienbank AG because the latter has very broad expertise in designated sponsoring, specializing in small and mid-size businesses.

Earnings per Share

Earnings per share (EPS) were EUR 0.14 in 2008, after adjusting for minority interests, down from EUR 0.30 the year before. Nabaltec AG calculates earnings per share based on the average number of shares in circulation, in accordance with IAS 33. There was no dilution in 2008. EPS approximated 2007 results in the first three quarters of the year, but was down sharply in the fourth quarter.

General Meeting

The general meeting was held on 6 May 2008 in Schwandorf. 76.6% of the capital stock was represented, 2.6% more than the year before (74.0%). All of the agenda items recommended by the management and supervisory boards were approved by a large majority. The general meeting adopted a dividend in the amount of EUR 0.10 per share, to be paid from 2007 earnings. The dividend was paid out to shareholders on 7 May 2008. The total dividend amount paid out by Nabaltec AG was EUR 0.8 million.

Dividends

At the general meeting on 10 June 2009, the management and supervisory boards will recommend carrying forward 2008 distributable profit in order to strengthen the company's equity base and provide more financial breathing space for upcoming investments.

Shareholders' Structure

The majority of Nabaltec AG's 8,000,000 shares are held by the Heckmann and Witzany families. As of 31 December 2008, the Heckmann family held 31.3% of the company's capital stock and the Witzany family held 29.4%. The remainder of the shares are in free float.

Investor Relations

The Nabaltec AG management board conducted numerous discussions in 2008 with German and foreign investors and a road show was held in London in April 2008 together with HypoVereinsbank/UniCredit. Nabaltec also took part in several investor and analyst conferences, including the German Investment Conference conducted by HypoVereinsbank/UniCredit and the Baader Small and Mid Cap Conference in September 2008. Nabaltec also had an opportunity to speak directly with private investors at its general meeting, held on 6 May 2008 in Schwandorf.

Nabaltec AG is listed in the Entry Standard of the Frankfurt Stock Exchange. Since its IPO, Nabaltec has gone beyond the Entry Standard transparency and publication requirements, voluntarily adopting the stricter requirements in effect for the more highly regulated Prime Standard, including bilingual capital market communication and quarterly reporting. In 2008, Nabaltec also adopted the International Financial Reporting Standards (IFRS) for its consolidated financial statements in order to improve comparability with the financial statements of other publicly listed companies. Nabaltec also issues an annual statement with respect to the company’s compliance with the German Corporate Governance Code, as well as voluntarily publishing all stock transactions conducted by its corporate officers (directors’ dealings) on the company website. Nabaltec reported 35 stock transactions in 2008 alone.

Nabaltec share was covered by stock analysts from three banks in 2008: Berenberg Bank, HypoVereinsbank/UniCredit and Cazenove. All rated Nabaltec a “buy,” although HypoVereinsbank/UniCredit changed its recommendation to “hold” in August 2008.

Consolidated Management Report

for financial year 2008

1. OPERATIONS AND BASIC CONDITIONS

1.1 Macroeconomic Situation

Global GDP (Gross Domestic Product) grew by 2.5% in 2008 according to current forecasts. The euro zone economy worsened considerably: after a strong start, economic growth slowed to just 1.2% over the course of 2008. The German economy was slightly better by comparison. While rising inflation inhibited private consumption, investments and exports rose slightly.

The global economic slump hit the US the hardest and fastest way of all the world's industrialized economies, as the continuing housing crisis, declining investments and weak consumer spending have led to nearly stagnant domestic demand. However, exports have grown considerably due to the weak US dollar.

1.2 Industry Situation

The German chemical industry came to a "full stop" at the end of 2008, according to the German Chemical Association's fourth-quarter report, with fourth-quarter chemicals production down 10.9% from the year before and sales down 7.4%. Capacity utilization fell to 75%. This slump affected the overall figures for 2008, with production down 2.2% on the year, although sales managed a slight 1.1% gain.

The year 2008 featured an analog split development for both the functional fillers and the technical ceramics markets: general conditions were largely intact in the first half of the year, but the industry situation worsened in the second half of the year, including severe sales slumps in the fourth quarter. This slump affected some of the industries which are the leading consumers of these products, such as the plastics, automotive, cable & wire, insulation and, above all, the refractory and steel industries. To make matters even worse, the crisis hit all regions of the world at about the same time, so that falling demand could not be offset by growth in other regions.

Nevertheless, the long-term trend of rising demand for halogen-free flame-retardant fillers (especially aluminum hydroxide) is still intact, propelled by new fire safety regulations all over the world. Independent 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. This growth in demand affects fine precipitated aluminum hydroxide most of all, an area where Nabaltec is very well-positioned thanks to its investments in recent years. Prices have remained stable due to efficient utilization of existing global capacity on an annual average basis.

In the specialty aluminas and reactive aluminas segments, the refractory market is characterized by the demand of the steel industry. However, the steel industry was dragged down by the global economic downturn and had to cut capacity at the end of 2008. Nevertheless, the long-term

trends have remained intact in this case as well, as the need for manufacturers of refractory products to improve the durability of their products benefits highly refined specialty aluminas. There continues to be excess capacity for less refined products, while capacity for highly refined products such as reactive alumina is clearly at its limit.

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 in the less specialized segment from Indian and Chinese suppliers. Prices of raw materials rose sharply in the first half of 2008 due to strong global demand, but smelter-grade alumina prices fell in the fourth quarter of 2008 due to the economic downturn. Prices are expected to consolidate in the medium term at levels well above current spot prices.

The global recession has affected nearly all of Nabaltec's major markets and segments. The entire chemical and specialty chemicals industry has been hurt by weak demand, and Nabaltec has been affected as well. Nabaltec took the following actions in 2008 in an effort to adapt to these changing conditions:

- adapting production processes and cost structures to falling demand;
- subjecting investments to scrutiny: postponing some and emphasizing investments of strategic importance;
- thorough implementation of measures to improve efficiency.

1.3 Operations

Nabaltec AG develops, manufactures and distributes highly specialized products based on aluminum hydroxide ("ATH"), aluminum oxide and other mineral raw materials. The company's product range includes flame-retardant fillers for the plastics industry, used e.g. in cables, 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 each of its two main markets, the United States (Corpus Christi, Texas) and Europe (Schwandorf and Kelheim, 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 support staff. All sales team members have specialized 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 vital regional proximity, with key accounts managed from Schwandorf directly.

Production of additives for the plastics processing industry began in 2008. Nabaltec AG's patented mineral-based additives are eco-friendly, in production and in use, and take the

place of conventional heavy metal-based stabilizers while increasing product life. Thus far, the additives have been produced in small quantities at the Kelheim testing facility. Investments in industrial production at the Schwandorf site are well underway, and industrial-scale production should begin at the end of 2009.

1.4 Corporate Structure

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

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

In order to position itself in the market as precisely and distinctly as possible, Nabaltec AG divides its operations into two divisions, each in turn comprised of two business units. In addition, the company operates three service departments 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 strives for quality leadership and a market share among the top three suppliers
Fire safety concerns within the plastics and cable & wire industry will continue to grow at a considerable pace in the years to come, as halogenated flame retardant fillers are replaced by halogen-free fillers. In order to benefit from this trend disproportionately high and gain the market leadership within this segment, the company has deliberately expanded its production capacity for ATH-based flame retardant fillers.

The market for additives for the plastics processing industry is driven by a heightened consciousness for environmental concerns and mounting statutory requirements. Following this trend, Nabaltec's new "Additives" unit has developed an eco-friendly PVC stabilizer which will replace the lead-based substances which are currently widespread. This new product, which features high added value, was developed using Nabaltec's proven processes. In the same way, Nabaltec's current investments are laying the groundwork for future growth.

In the ceramic raw materials segment, the market for reactive aluminas is growing at a very fast pace due to demand from the refractory industry and the markets for technical ceramics and polishing industry are also showing solid growth. Nabaltec is responding to this growth by developing innovative new products.

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

2. Constant improvement of production processes in order to optimize customer benefits
Through its integrated sales team and technical support staff, 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 and benefits to its customers for the products it manufactures. To this end, the testing facility in Kelheim and the research and development department at the Schwandorf site are constantly being expanded and collaborations with research institutions are being 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 certain 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 & wire industry.

In the ceramic materials segment, the company plans to expand its range of reactive aluminas 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 and model production in a scale of up to several hundred tons for small-scale product launches, which would not be feasible in that form in Schwandorf. In particular, this is where preparations are being made for the market launch of Nabaltec's eco-friendly additives and stabilizers for the plastics industry. The small quantities manufactured in this facility will then be further developed and optimized in close consultations with key customers in target markets. Industrial scale production is set to begin at the end of 2009.

1.6 Controlling

Nabaltec AG has a versatile cost and revenue accounting system which essentially follows the principle of marginal costing. Earnings are presented in transparent fashion through a multi-level contribution margin statement. 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 projection 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 revenue accounts, including earnings statements, have been displayed using "macs" controlling software.

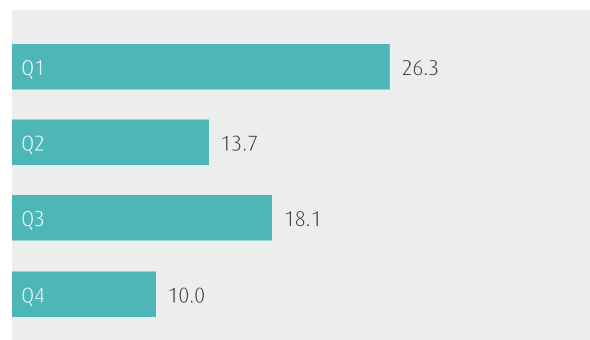
2. COURSE OF BUSINESS IN 2008

2.1 Orders and Revenues

After a promising start and powerful revenues growth continuing well into the third quarter, Nabaltec Group's business took a turn for the worse towards the end of the year, as demand fell in the fourth quarter for both the "Functional Fillers" and "Technical Ceramics" divisions. The "Flame Retardants" unit was especially hard hit by the slump in the construction, plastics, cable & wire, insulation and electronics industries, while the "Technical Ceramics" division fell victim above all to falling demand in the refractory industry. Incoming orders reflected this trend, as many customers cut stocks at the first sign that the economy was weakening, and tried to optimize working capital. We have also observed shorter order cycles and smaller lot sizes. Accordingly, the significance of orders on hand is not as great as before.

Quarterly incoming orders

EUR million



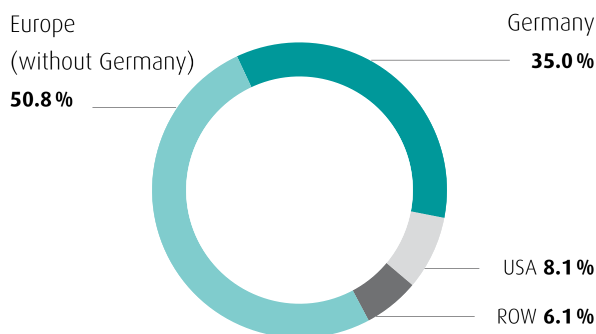
Incoming orders came to a total of EUR 68.1 million in Financial Year 2008, down from EUR 104.5 million the year before. Nabaltec Group's orders on hand were EUR 8.3 million on 31 December 2008, down from EUR 36.8 million last year.

Early on, Nabaltec took action in an effort to mount a quick and comprehensive response to the decline in orders, cutting production at the Schwandorf and Corpus Christi sites.

Revenues by business divisions

EUR million

Revenues by region



Despite the global economic slowdown in the fourth quarter of 2008, Nabaltec Group's 2008 revenues were very solid, with Group revenues growing by 9.3% in 2008 (down from 23.0% the year before), from EUR 88.1 million in Financial Year 2007 to EUR 96.3 million. Both business divisions contributed to this positive trend: revenues in the "Functional Fillers" division grew by 6.8%, from EUR 57.7 million to EUR 61.6 million, while revenues in the "Technical Ceramics" division grew by 14.1%, from EUR 30.4 million to EUR 34.7 million. The export rate was 65.0% in the reporting year, down from 68.3% in Financial Year 2007.

Nabaltec's revenues have shown dynamic growth over the past five years, as revenues have grown at an average rate of 14.4% a year over that span, from EUR 56.5 million to EUR 96.3 million.

2.2 Earnings

Group revenues grew by 9.3% in 2008, to EUR 96.3 million. Given the EUR 4.1 million change in inventories of finished products, total performance actually grew by 12.5%, to EUR 100.6 million, i.e. at a slightly higher pace than net revenues.

The EUR 1.9 million in other operating income (down from EUR 2.4 million the year before) consists primarily of capital gains, income from insurance benefits and other income.

Operating expenses as a percentage of total performance

	2008	2007
Cost of materials	**57.2 %**	56.1 %
Personnel expenses	**17.0 %**	17.5 %
Other operating expenses	**18.5 %**	19.7 %

The cost of materials ratio (cost of materials as a percentage of total performance) rose in 2008 due primarily to rising energy and raw material prices. The gross margin was 44.8%, down from 46.5% the year before. In absolute figures, gross profit increased by EUR 3.4 million, to EUR 45.1 million.

Other operating expenses increased from EUR 17.6 million to EUR 18.6 million but the other operating expense ratio improved from 19.7% in 2007 to 18.5% in 2008.

The personnel expenses ratio fell from 17.5% in 2007 to 17.0%. Total personnel expenses came to EUR 17.1 million in 2008.

Nabaltec Group's earnings figures pointed to stable earnings in the reporting year but varied slightly. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 10.7%, from EUR 8.4 million to EUR 9.3 million. Not including depreciation and amortization, which rose by EUR 0.8 million to EUR 5.2 million, operating result (EBIT) was EUR 4.1 million, slightly higher than the year before (EUR 4.0 million), for an EBIT margin (EBIT as a percentage of total performance) of 4.1%, down from 4.5% the year before. Net financial result in 2008 was EUR −3.1 million, with EUR 3.7 million in interest expenses and EUR 0.6 million in interest income. In 2007, net financial result was EUR −2.8 million. Income taxes came to EUR 1.2 million in 2008, up from EUR 0.5 million the year before. Consolidated result after adjusting for minority interests was EUR 1.1 million due to the weak fourth quarter, down from EUR 2.4 million the year before.

Nabaltec Group posted an EBITDA of EUR 9.3 million in 2008, up from EUR 8.4 million the year before, and an EBIT of EUR 4.1 million (up from EUR 4.0 million the year before), resulting from a different earnings trend in each of its two business divisions. While EBITDA in the "Functional Fillers" division fell to EUR 3.7 million from EUR 4.4 million the year before, EBITDA in the "Technical Ceramics" division rose to EUR 5.6 million from EUR 3.9 million the year before. EBIT in the "Functional Fillers" division fell to EUR 0.3 million, from EUR 1.4 million the year before, while EBIT in the "Technical Ceramics" division grew considerably, to EUR 3.8 million (up from EUR 2.6 million the year before). The sharp decrease in earnings in the "Functional Fillers" division is attributable to the steep fall in demand for fine hydroxides in the fourth quarter of 2008 due to the housing crisis in the US, the UK and Spain.

2.3 Financial Position

2.3.1 Financial Management

The Management Board is responsible for financial management, concentrating on managing Nabaltec's capital structure, cash flow management, interest rate and currency hedging and financing.

With Nashtec's start of production in the US, which was part of a group-wide initiative to increase production, Nabaltec was able to eliminate its exchange rate risk to a considerable degree. Nabaltec pursues a thorough currency hedging policy to contend with other currency risks.

The risks of obtaining financing at very low adjustable interest rates are weighed very carefully against the option of obtaining financing at high fixed rates, which would involve a higher cost of capital. If the long-term risk posted by adjustable rates is high, Nabaltec also uses various medium- and long-term hedging instruments (interest rate swaps).

Nabaltec's growth is financed primarily through bank loans, and Nabaltec takes advantage of KfW (Reconstruction Loan Corporation) and LfA programs, as well as subsidies from the government of Upper Palatinate. As a result, Nabaltec has achieved a balance in its outside financing.

2.3.2 Financing Analysis

Selected balance sheet items as a percentage of total assets

	12/31/2008	12/31/2007
Shareholders' equity	34.1 %	40.5 %
Non-current liabilities	39.0 %	34.7 %
Current liabilities	26.9 %	24.8 %
Total equity and liabilities	**100 %**	**100 %**

On the liabilities side of the balance sheet, shareholders' equity fell from EUR 47.3 million to EUR 45.1 million. This change is primarily attributable to the negative minority interests due to the quote of outside shareholders in consolidated earnings and in other earnings components represented in shareholders' equity. As a result, the equity ratio is now 34.1%, down from 40.5% the year before. Non-current liabilities rose from EUR 40.6 million to EUR 51.5 million in the reporting year. Accounts payable to banks increased by EUR 7.0 million. Non-current accounts payable increased as Nabaltec obtained loans to finance investments. During the reporting year, Nabaltec received an investment grant from the government of Upper Palatinate in the amount of EUR 6.0 million. The portion of this sum which had not been used for new investments in property, plant and equipment as of the balance sheet date (31 December 2008), in the amount of EUR 4.4 million, was disclosed as "other accounts payable."

Current liabilities rose by EUR 6.7 million in the reporting year, from EUR 28.9 million to EUR 35.6 million. This increase results primarily from the growth in current accounts payable to banks by EUR 3.4 million and the rise in Nashtec's loan obligations to its joint venture partner, Sherwin Alumina, by EUR 3.2 million.

2.3.3 Other off-Balance Sheet financing Instruments

Nabaltec has sold various technical equipment and machinery as part of a sale-and-lease-back transaction. The leases will run for another one to five years. Nabaltec also routinely uses factoring in connection with trade receivables e.g. in an effort to minimize possible default risks. Nabaltec Group does not use any other financial engineering instruments.

2.3.4 Investment Analysis

Nabaltec Group made a total of EUR 20.4 million in investments in Financial Year 2008. After deducting the 2008 portion of the investment grant, there were a total of EUR 18.8 million in additions. Investments focused on new machinery and equipment, especially in the "Flame Retardants" unit, as well as investments in the "Additives" unit for the

construction of a production facility. In 2007, Nabaltec made EUR 20.7 million in investments, as well as another EUR 8.0 million as part of sale-and-lease-back transactions.

2.3.5 Cash Flow

The consolidated cash flow statement showed cash flow from operating activities of EUR 3.7 million in Financial Year 2008 (year before: EUR 18.9 million). The decline was primarily attributable to an extraordinary effect in 2007 arising from a factoring change, which raised cash flow by EUR 9.0 million, as well as the clear build-up in inventories before the 2008 balance sheet date.

Cash flow from investing activities was EUR –16.3 million during the reporting period, including EUR 6.0 million in investment grants from the government of Upper Palatinate. Cash paid for investments in property, plant and equipment came to EUR 21.5 million, resulting from EUR 18.6 million in additions disclosed in the Statement of Fixed Assets, plus EUR 1.6 million in investment grants and the reduction of trade payables for investments, amounting to EUR 1.2 million as of 31 December 2008. Cash flow from investing activities was EUR –27.2 million in 2007, including EUR 8.0 million in payments for investments as part of sale-and-lease-back transactions.

Cash flow from financing activities came to EUR 12.7 million in the reporting period. In addition to the dividends pay-out in the amount of EUR 0.8 million, a total of EUR 2.6 million in rendered payments for financial loans were made in 2008. During the same period, Nabaltec received EUR 12.4 million in new borrowings and EUR 7.9 million from sale-and-lease-back transactions. Net interest payments amounted to EUR 3.1 million. Cash flow from financing activities was EUR –1.0 million in Financial Year 2007.

Nabaltec Group's total cash and cash equivalents as of 31 December 2008 amounted to EUR 1.9 million, up from EUR 1.7 million at the beginning of Financial Year 2008.

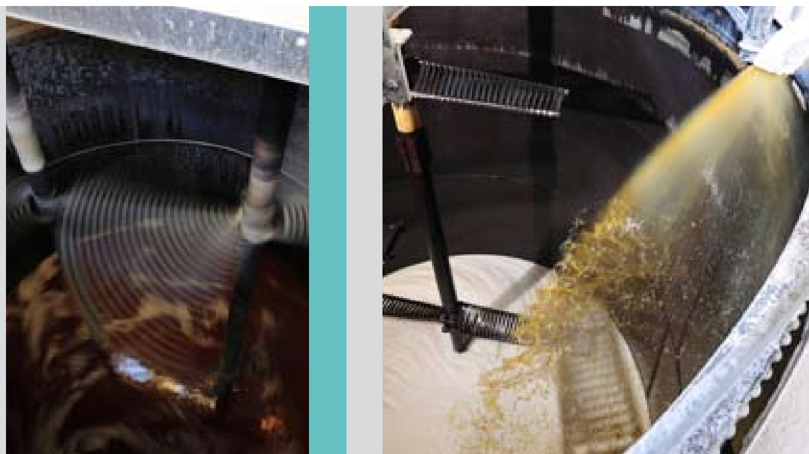
2.4 Assets Position

Nabaltec Group's total assets increased from EUR 116.9 million on 31 December 2007 to EUR 132.2 million on 31 December 2008.

Major Group asset items as a percentage of total assets

	12/31/2008	12/31/2007
Property, plant and equipment	73.3 %	70.6 %
Inventories	21.5 %	15.2 %
Trade receivables and other assets (including held-for-sale assets)	3.4 %	12.4 %

On the assets side, property, plant and equipment grew by EUR 14.4 million, or 17.5%, to EUR 96.9 million. This increase is attributable to investments in technical equipment and machinery, infrastructure and production process optimization, for a total of EUR 20.4 million.



Current assets were affected on the one hand by a strong rise in inventories and, on the other, by a drop in other assets. Inventories, especially raw materials, were deliberately increased in the final months of 2008. This is attributable to the expiration of a multi-year raw materials supply agreement at the end of the year, as well as the sharp increase in raw material prices in 2009, which became apparent in mid-2008. The decline in other assets is attributable to the sale of assets as part of sale-and-lease-back transactions, for a total of EUR 7.1 million.

2.5 Non-financial Performance Indicators

2.5.1 Employees

Nabaltec AG was once again named one of the 100 best employers in the German small and medium sized business community in 2008 in the nationwide multi-sector “TOP JOB” competition. Nabaltec already received this distinction once before, in 2006. For seven years now, this annual initiative has sought to identify and honor small businesses with outstanding personnel policies, awarding achievements in the fields of “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, which requires Nabaltec to attach high priority to training. The significant role played by trainees at Nabaltec, comprising about 9.2% of the overall work force in 2008, 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 lab technicians, chemists, electrical mechanics specialists and industrial mechanics specialists. In all, Nabaltec Group had 315 employees at the end of 2008 (31 December 2007: 284), 314 of whom were employed in Germany (31 December 2007: 283). The company also employed 32 trainees (31 December 2007: 30).

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). In addition, Nabaltec AG’s laboratory services are accredited under the DIN EN ISO/IEC 17025:2005 standard. A quality management system conforming to ISO 9001:2000 was introduced for Nashtec as well during the reporting year and successfully certified by TÜV Süd Management Service GmbH. Documenting Nashtec’s compliance with a high quality standard which is consistent with the one in effect for the Schwandorf site.

2.5.2 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 business 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, as well as research and technology companies. Our research partners currently include the Institute of Plastics Processing at RWTH Aachen University, the German Plastics Institute in Darmstadt, the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the Technical University of Dresden and the Paper Technology Foundation in Munich. Nabaltec emphasizes innovation by participating in projects of the German Federation of Industrial Research Associations and the Federal Ministry of Education and Research in both of its two divisions.

As an expression of Nabaltec's strong commitment to research and development, the company was named one of Germany's "Top 100" innovative small and medium sized companies in the 16th edition of the famous competition. Nabaltec impressed the judges with its systematic, well-thought-out and successful innovation management system, and was awarded the sought-after "Top 100" seal by Lothar Späth, former Prime Minister of Baden-Württemberg. This was the third time that Nabaltec has received this award.

The focus of all research and development activity is on process development, energy optimization, improving the existing product range and new developments. The following were Nabaltec's central developments in the "Functional Fillers" division during the 2008 reporting year:

The "Flame Retardants" unit worked on new methods for the production of APYRAL® mixed hydroxides with the aim of improving added value and facilitating processing. In the boehmite sector, new mixtures with specific processing properties have been created especially for cable & wire and die casting applications, in combination with magnesium hydroxide, using the APYRAL®-AOH types.

In its "Additives" unit, Nabaltec has developed specialized ACTILOX®-AS products as anti-settling additives. These products have demonstrated initial successes in unsaturated polyester resins, accomplishing its object of suspension stabilization while reducing viscosity considerably and enabling more efficient processing.

The "Technical Ceramics" division focused on the development of GRANALOX® and expanded its range of ceramic bodies with the goal of improving cost/benefit ratio by

allowing for more efficient processing. To the line of NABALOX® reactive aluminas, a new product has been added which offers processing advantages over conventional oxides in the production of unformed refractory products since it needs little tempering water. In the field of polishing alumina, a new product generation has been developed which has demonstrated strong market potential due to its outstanding finish properties.

2.5.3 Customer Relations

Nabaltec is one of the world's leading specialists in halogen-free flame retardants, technical ceramics and ceramic bodies. Its strong market position as one of the three leading suppliers in the world was achieved in large part by working closely with its customers: jointly developing high-quality products and adapting them to meet customer needs and demands. Nabaltec products help make its customers' products safer, more eco-friendly, more durable and more competitive, while optimizing customer production processes. Many of these joint development projects have given rise to long-term supply agreements and partnerships.

2.5.4 Environmental Protection

Environmental protection and the conservation of natural resources are of central importance for Nabaltec AG. Nabaltec actively accepts responsibility for the environment, and this commitment extends well beyond its own sites.

Nabaltec places a special emphasis on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Together with an external partner, Nabaltec has developed methods which use much less process energy, leading to a substantial reduction in CO_2 emissions. The energy savings achieved through these projects have the potential of reducing annual energy costs by double digits, depending on capacity. In general, Nabaltec endeavors to develop production processes in such a way as to represent a closed loop for both old and new facilities.

For example, when handling chemicals such as sodium hydroxide for the production of fine hydroxides, Nabaltec ensures that these chemicals are not released into the environment, but instead kept within a closed production loop for eventual reuse. Similar principles will be observed for the CAHC facility which is currently under construction (replacement of lead stabilizers), where our primary concern is to avoid generating industrial waste water.

3. OUTLOOK

2009 forecasts for the chemical industry are very modest. The German Chemical Association expected a slight improvement in the coming months once customers finish cutting their stocks, but this normalization does not amount to a new market uptrend. The Association expected chemicals production to fall 3.5% in 2009, with sales falling by 6%.

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 properties 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 cable & wire and insulation markets, the principal consumers of the fine hydroxides produced by the "Functional Fillers" division, are highly dependent on the construction sector. The construction industry is in bad shape at the moment in all of the world's major economies, so that a recovery can hardly be expected in the coming months. The slump has not been as severe in the other sectors which use these products, the low-voltage, telecommunications and IT sectors. We believe that the chances are good that the market for halogen-free flame retardants will recover in Financial Year 2009, especially since our market will benefit from government stimulus packages, which have been adopted not only in Europe, but in the US and Asia as well. Our optimism is also based on laws and regulations enacted in recent years which require companies to switch from halogenated flame retardants to halogen-free alternatives.

A focus for 2009 and 2010 is development of the new "Additives" division in preparation for market entry. Nabaltec sees 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 line which can replace toxic lead compounds in plastics mixtures, and which can be used as a heat stabilizer. The plant assigned to this new product should be completed in the fourth quarter of 2009 and will start its operations shortly after.

The market for technical ceramics and refractory products showed stable growth through October 2008 thanks to strong steel production and this trend is expected to continue in the coming years. However, experts and market participants are becoming increasingly cautious as a result of the current economic crisis, as the worsening economy has begun to affect orders for many steel producers, especially in Asia. Nabaltec's customers have responded by cutting stocks and shortening order cycles considerably.

In the ceramic raw materials market, the company expects its facilities to operate at reduced capacity in light of the tough economic environment, as well as an improvement in prices. International demand for reactive aluminas is expected to continue to rise. Demand for high-quality alumina products will also continue to rise, as this is the only means of reducing consumption of refractory materials in crude steel production and raising operating times. We expect the market for ceramic bodies to improve in the future despite slightly stagnating sales. The principal applications for these products are personal and vehicular protection, which is becoming more important all over the world.

The company has decided to adjust its investment and expansion plans in light of the tough market environment, and has once again analyzed all projects with respect to return

on investment (ROI) and market opportunities. As a result, some investments will be spread out over a longer period of time. Future investments are backed by equity and an investment grant from the government of Upper Palatinate, as well as business development loans and loan commitments from banks. Total investment volume through 2010 is over EUR 60 million, including EUR 20.4 million in 2008.

The development of Nabaltec's subsidiary Nashtec L.P. has not been up to expectations. For the moment, Nashtec is dependent on financial assistance from its shareholders in view of the current economic situation.

Nabaltec will respond to the worsening economic environment by becoming more flexible with respect to costs. In the case of personnel expenses, for example, Nabaltec will seek to increase flexibility by taking advantage of the pay and working hours options allowed by the collective bargaining agreement for the German chemicals industry, including short-time working. Personnel expenses have been cut by 6.67% since the beginning of 2009 under the collective bargaining agreement and a works agreement, and Nabaltec announced short-time working in February. With respect to the cost of materials, Nabaltec will take advantage of opportunities to cut costs and obtain lower prices to the best of its ability.

Nabaltec anticipates a global economic downturn in 2009. However, we will take advantage of this challenging time to make the company even better by streamlining cost structures, improving efficiency and developing new market segments. Nabaltec's products and solutions help companies raise efficiency and develop innovative products of their own which are safer and more eco-friendly than their predecessors, thus creating the conditions for future growth. Nabaltec will therefore continue to invest strategically in research and development projects. In light of the current economic downtrend and the severe recession in the first quarter of 2009, the effects of which Nabaltec will not be able to escape entirely, we expect 2009 revenues and earnings to come in below the year before. We currently expect our markets to resume their course of growth in 2010. In view of these circumstances, we believe that our growth strategy has proven itself in spite of the current economic crisis.

Note with respect to uncertainties in the outlook:
The above statements and information with respect to future developments are based on current expectations, as well as certain assumptions. They therefore involve a number of risks and uncertainties. Future sales and earnings are affected by a large number of factors, a large number of which are out of Nabaltec Group's control. As a result, actual results may deviate from the statements and forecasts made in this report.

4. REPORT ON RISKS

The company's innovative global activities in highly competitive markets involve entrepreneurial risks. By establishing a comprehensive risk management system and constantly im-

proving risk management instruments in all areas, dangers to the company can be identified early on 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. 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. In these tough economic times, there is also an option of reducing pay within the bounds allowed in the collective bargaining agreement.

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.

The economic environment for the company's two business units, especially the "Functional Fillers" division, in 2008 was marked by strong uncertainty in the financial and goods markets, which led to falling demand for capital goods and associated products. Considerably stricter lending practices

have further exacerbated this trend. As a result, Nabaltec Group faces the risk of stagnant or falling demand. Despite adjustments to cost structures and capacities, which have increased flexibility, sharp fluctuations in demand such as those which arose at the end of 2008 involve tangible revenues and earnings risks. Nabaltec is following the economic situation faced by suppliers very closely and is developing targeted alternatives for all of its products.

Nabaltec AG and its US subsidiary both have detailed financial and cash flow projections, which are routinely subjected to actual/estimate comparisons. If additional liquidity is needed, the necessary financing measures will be taken. In order to contend with the risk that banks will be more reluctant to lend as a result of the current financial crisis, Nabaltec has obtained long-term bank loans, including loans from state-owned banks, with appropriate collateral. The interest rate risk is partially offset through hedging transactions. The loan agreements of Nabaltec AG are partly subject to covenants, which are partially based on leverage coverage ratios as well as based on the equity ratio. The loan creditor has the right in case of default of the covenants to increase interest margins or has the right to call given extraordinary notice. In financial year 2008 a default of covenants occurred, and for 2009 a default may occur. The Management Board is in the process of intense talks with the related bank and expects based on current results no significant sanctions to be imposed by the bank.

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. In general, the Group's risks are well-managed and their potential impact is therefore limited. The company's future existence is secure.

5. SUPPLEMENT REPORT

In January 2009 the Group acquired liabilities from a minority shareholder at an amount of USD 1.4 million. There were no other significant events after the balance sheet date.

Schwandorf, 31 March 2009
Nabaltec AG

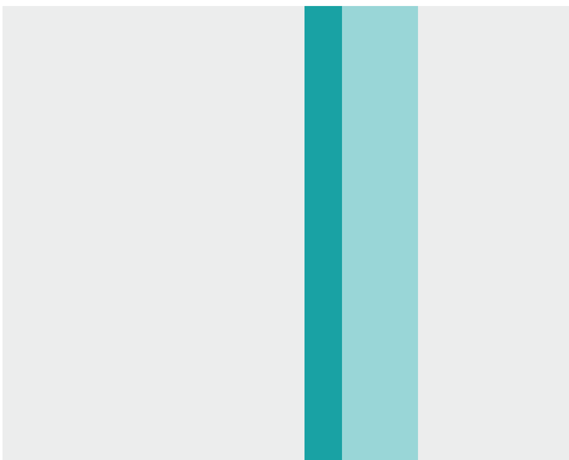
The Management Board

Johannes Heckmann

Gerhard Witzany

Consolidated Financial Statements

for the financial year 2008



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Consolidated Income Statement

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

	See Note #	**2008 01/01 – 12/31/ EUR 000**	2007 01/01 – 12/31/ EUR 000
Revenues	5.1	96,277	88,109
Increase in unfinished and finished products		4,115	738
Other own work capitalized	5.2	253	562
Total performance		**100,645**	**89,409**
Other operating income	5.3	1,935	2,434
Cost of materials	5.4	–57,528	–50,195
Gross profit		**45,052**	**41,648**
Personnel expenses	5.5	–17,109	–15,648
Depreciation and amortization	5.7	–5,190	–4,375
Other operating expenses	5.8	–18,625	–17,649
Operating result (EBIT)		**4,128**	**3,976**
Interest and similar income	5.10	587	469
Interest and similar expenses	5.11	–3,674	–3,274
Result from ordinary operations (EBT)		**1,041**	**1,171**
Income taxes	5.12	–1,223	–512
Consolidated result after taxes		**–182**	**659**
thereof attributable to			
Shareholders of the parent company		1,126	2,364
Minority interests		–1,308	–1,705
Consolidated result after taxes		**–182**	**659**
Earnings per share (in EUR)[1]	7.5	**0,14**	**0,30**

1 See also section 6.9 Equity.

Consolidated Balance Sheet

AT DECEMBER 31, 2008

ASSETS	See Note #	12/31/2008 EUR 000	12/31/2007 EUR 000
NON-CURRENT ASSETS		**97,292**	**82,785**
Intangible assets			
Concessions, industrial property rights and similar rights and assets,as well as licenses to such rights and assets (including advance payments)	6.1	364	265
Property, plant and equipment		**96,928**	**82,520**
Land, leasehold rights and buildings on non-owned land	6.2	27,250	24,157
Technical equipment, plant and machinery	6.2	56,057	40,975
Other fixtures, fittings and equipment	6.2	2,373	2,005
Advance payments and plant and machinery under construction	6.2	11,248	15,383
CURRENT ASSETS		**34,869**	**34,073**
Inventories		**28,408**	**17,849**
Raw materials and supplies	6.3	16,552	10,003
Unfinished goods	6.3	569	284
Finished products and merchandise	6.3	11,287	7,562
Trade receivables and other assets		**4,519**	**7,486**
Trade receivables	6.4	1,303	2,783
Income tax claims	6.5	0	174
Other assets	6.6	3,216	4,529
Cash and cash equivalents	6.7	**1,942**	**1,676**
Assets of a disposal group classified as held for sale	6.8	**0**	**7,062**
Total assets		**132,161**	**116,858**

Equity and Liabilities

	See Note #	12/31/2008 EUR 000	12/31/2007 EUR 000
EQUITY		**45,051**	**47,329**
Subscribed capital	6.9	8,000	8,000
Capital reserve	6.9	29,764	29,764
Earnings reserves	6.9	9,707	9,707
Profit/loss carried forward	6.9	1,394	−170
Consolidated result after taxes	6.9	1,126	2,364
Accumulated other comprehensive result	6.9	−934	−486
Minority interests	6.9	−4,006	−1,850
NON-CURRENT LIABILITIES		**51,501**	**40,605**
Pension provisions	6.10	9,643	9,606
Liabilities due to banks	6.11	27,377	20,374
Profit participation capital	6.11	4,902	4,878
Liabilities from finance lease	6.11	1,269	2,362
Deferred tax liabilities	5.12	3,943	3,385
Other liabilities	6.11	4,367	0
CURRENT LIABILITIES		**35,609**	**28,924**
Liabilities for income taxes	6.11	608	439
Other provisions	6.10	930	1,528
Liabilities due to banks	6.11	10,236	6,790
Trade payables	6.11	9,497	11,401
Liabilities from finance lease	6.11	1,093	1,037
Other liabilities	6.11	13,245	7,729
Total equity and liabilities		**132,161**	**116,858**

Consolidated Cash Flow Statement

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

	See Notes #	**2008 01/01–12/31 EUR 000**	2007 01/01–12/31 EUR 000
CASH FLOW FROM OPERATING ACTIVITIES			
Period profit before taxes		**1,041**	**1,171**
+ Depreciation and amortization	5.7	5,190	4,375
–/+ Gain/ loss from asset disposals		–13	23
– Interest income	5.10	–587	–469
+ Interest expenses	5.11	3,674	3,274
Operating profit before working capital changes		**9,305**	**8,374**
+ One time effect from change in factoring			8,962
+/– Increase / decrease in provisions		–561	256
–/+ Increase / decrease in trade receivables and other assets not attributable to investing or financing activity		2,793	882
+/– Decrease / increase in inventories		–10,558	–2,601
+/– Increase / decrease in trade payables and other liabilities, not attributable to investment or financing activity		3,089	4,043
Cash flow from operating activities before taxes		**4,068**	**19,916**
– Income taxes paid		–321	–1,029
Cash flow from operating activities		**3,747**	**18,887**

		See Notes #	**2008 01/01–12/31** EUR 000	2007 01/01–12/31 EUR 000
CASH FLOW FROM INVESTING ACTIVITIES				
+	Cash received from disposals of property, plant and equipment		78	43
–	Cash paid for purchases in property, plant and equipment	6.2	–21,482	–18,970
+	Cash received from investment grants		6,000	0
–	Cash paid for investments related to sale-and-lease-back transactions		–809	–8,044
–	Cash paid for investments in intangible assets	6.1	–116	–221
Cash flow from investing activities			**–16,329**	**–27,192**
CASH FLOW FROM FINANCING ACTIVITIES				
–	Dividends paid to business owners	6.9	–800	–800
+	Cash received from disposals of assets under sale-and-lease-back transactions	6.11	7,872	981
+	Cash received from financial loans	6.11	12,433	8,345
–	Cash rendered for payment of financial loans	6.11	–2,578	–5,815
–	Cash rendered for liabilities from finance lease	6.11	–1,038	–1,038
–	Interest paid		–3,734	–3,167
+	Interest received		587	469
Cash flow from financing activities			**12,742**	**–1,025**
NET CHANGE IN CASH AND CASH EQUIVALENTS			**160**	**–9,330**
Change in cash and cash equivalents due to exchange rate changes			**106**	**–70**
Cash and cash equivalents at beginning of period		6.7	1,676	11,076
Cash and cash equivalents at end of period		6.7	**1,942**	**1,676**

Statement of Changes in Consolidated Equity

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

	Subscribed Capital	Capital reserve	Earnings reserves
	EUR 000	EUR 000	EUR 000
BALANCE AT 01/01/2007	8,000	29,764	9,707
Foreign currency translation			
Net gains from hedge accounting	-	-	-
Profit/loss recognized directly in equity	-	-	-
Profit/loss for the period	-	-	-
Consolidated profit for the period	-	-	-
Profit distribution	-	-	-
BALANCE AT 12/31/2007	**8,000**	**29,764**	**9,707**
BALANCE AT 01/01/2008	**8,000**	**29,764**	**9,707**
Foreign currency translation			
Net gains from hedge accounting			
Loss recognized directly in equity			
Profit/loss for the period			
Consolidated profit for the period			
Profit distribution			
BALANCE AT 12/31/2008	**8,000**	**29,764**	**9,707**

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF NABALTEC AG				
Profit carried forward EUR 000	Accumulated other comprehensive result EUR 000	Total EUR 000	Minority interests EUR 000	Consolidated equity EUR 000
630	−97	**48,004**	−423	**47,581**
	−503	**−503**	166	**−337**
-	114	**114**	112	**226**
-	−389	**−389**	278	**−111**
2,364	-	**2,364**	−1,705	**659**
2,364	**−389**	**1,975**	−1,850	**125**
−800	-	**−800**	-	**−800**
2,194	**−486**	**49,179**	**−1,850**	**47,329**
2,194	**−486**	**49,179**	**−1,850**	**47,329**
	249	**249**	−165	**84**
	−697	**−697**	−683	**−1,380**
	−448	**−448**	−848	
1,126		**1,126**	−1,308	**−182**
1,126			**−4,006**	
−800		**−800**		
2,520	**−934**	**49,057**	**−4,006**	**45,051**

Statement of Changes in Consolidated Non-current Assets

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

	ACQUISITION / PRODUCTION COSTS					
	Balance at 01/01/2008 EUR 000	Addition EUR 000	Disposal EUR 000	Transfer EUR 000	Currency differences EUR 000	**Balance at 31/12/2008** EUR 000
INTANGIBLE ASSETS	**1,982**	117	-	38	-	**2,137**
Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	**1,864**	97	-	38	-	**1,999**
Advance payments	**118**	20	-	-	-	**138**
PROPERTY, PLANT AND EQUIPMENT	**103,173**	18,641	361	−38	1,131	**122,546**
Land, leasehold rights and buildings on non-owned land	**25,203**	1,043	-	2,724	310	**29,280**
Technical equipment, plant and machinery	**57,362**	4,860	175	13,275	792	**76,114**
Other fixtures, fittings and equipment	**5,225**	771	186	65	29	**5,904**
Advance payments and plants and machinery under construction	**15,383**	11,967	-	−16,102	-	**11,248**
Total non-current assets	105,155	18,758	361	0	1,131	124,683

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2007 TO DECEMBER 31, 2007

	ACQUISITION / PRODUCTION COSTS					
	Balance at 01/01/2007 EUR 000	Addition EUR 000	Disposal EUR 000	Transfer EUR 000	Currency differences EUR 000	**Balance at 31/12/2007** EUR 000
INTANGIBLE ASSETS	**1,756**	221	-	5	-	**1,982**
Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	**1,756**	103	-	5	-	**1,864**
Advance payments	**-**	118	-	-	-	**118**
PROPERTY, PLANT AND EQUIPMENT	**85,604**	20,429	249	−5	−2,606	**103,173**
Land, leasehold rights and buildings on non-owned land	**23,101**	897	-	1,971	−766	**25,203**
Technical equipment, plant and machinery	**43,041**	4,742	161	10,943	−1,203	**57,362**
Other fixtures, fittings and equipment	**4,163**	980	88	232	−62	**5,225**
Advance payments and plants and machinery under construction	**15,299**	13,810	-	−13,151	−575	**15,383**
Total non-current assets	87,360	20,650	249	-	−2,606	105,155

ACCUMULATED DEPRECIATION AND AMORTIZATION					CARRYING AMOUNT	
Balance at 01/01/2008 EUR 000	Addition EUR 000	Disposal EUR 000	Currency differences EUR 000	Balance at 31/12/2008 EUR 000	Balance at 31/12/2008 EUR 000	Balance at 31/12/2007 EUR 000
1,717	56	-	-	1,773	364	265
1,717	56	-	-	1,773	226	147
	-	-	-	-	138	118
20,653	5,134	294	125	25,618	96,928	82,520
1,046	956	-	28	2,030	27,250	24,157
16,387	3,703	118	85	20,057	56,057	40,975
3,220	475	176	12	3,531	2,373	2,005
-	-	-	-	-	11,248	15,383
22,370	5,190	294	125	27,391	97,292	82,785

ACCUMULATED DEPRECIATION AND AMORTIZATION					CARRYING AMOUNT	
Balance at 01/01/2007 EUR 000	Addition EUR 000	Disposal EUR 000	Currency differences EUR 000	Balance at 31/12/2007 EUR 000	Balance at 31/12/2007 EUR 000	Balance at 31/12/2006 EUR 000
1,686	31	-	-	1,717	265	70
1,686	31	-	-	1,717	147	70
-	-	-	-	-	118	-
16,597	4,343	183	−104	20,653	82,520	69,007
195	875	-	−24	1,046	24,157	22,906
13,695	2,867	104	−71	16,387	40,975	29,346
2,707	601	79	−9	3,220	2,005	1,456
-	-	-	-	-	15,383	15,299
18,283	4,374	183	−104	22,370	82,785	69,077

Notes to the Consolidated Financial Statements

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

1. GENERAL INFORMATION

Nabaltec AG, with its registered head office in Schwandorf (Germany)[2], was founded under the name Nabaltec GmbH, with its registered head office in Schwandorf (registered in the Commercial Register of the Amberg Local Court under HRB 3920) by virtue of Articles of Incorporation dated December 14, 1994. It acquired the division speciality oxides from VAW Aluminium AG in 1995. The company was converted to a stock corporation in 2006.

In accordance with Article 2 of the bylaws of Nabaltec AG, the business object of the company is the development of mineral commodities based products, especially using aluminum hydroxide and aluminum oxide and the distribution of those products.

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

These consolidated financial statements were released for publication by the Management Board as of March 31, 2009.

2. ACCOUNTING AND VALUATION POLICIES

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

2.1. Basis of preparation

The consolidated financial statements at December 31, 2008 (including the prior-year figures at December 31, 2007) were prepared in accordance with International Financial Reporting Standards (IFRS) as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). The IFRS issued by the International Accounting Standards Board comprise the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All EU-compliant standards applicable to the 2008 financial year were applied. Apart from that IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements", both issued in 2008 but not yet endorsed by the European Union, were applied in the consolidated financial statements as of December 31, 2008 as an endorsement by the EU has been expected on short notice (please refer also to sections 2.2 and 6.9).

The consolidated financial statements present a true and fair view of the assets, liabilities, financial position and profit or loss of Nabaltec AG. As described below, in some cases standards were applied prior to their effective date.

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

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

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

The income statement has been prepared by disclosing expenses by nature.

2.2. Accounting standards applied

All accounting standards and interpretations which must be applied at December 31, 2008 were applied in the 2008 financial year and the comparative year 2007. In addition to the new and amended IAS, these also include the following, in particular:

2 Nabaltec AG, Alustraße 50-52, 92421 Schwandorf, Germany

- IFRS 1 "First-time Adoption of International Financial Reporting Standards"

- IFRS 3 "Business Combinations"

Additionally the following issued standards have been applied in the consolidated financial statements as of December 31, 2008, due to the fact that an early application is permitted and an endorsement on short notice by the EU has been expected:

- IFRS 3 R "Business Combinations": The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after 1 July 2009. As the Group will probably continue to apply the purchased goodwill method for future business combinations the changes in IFRS 3R will have no effect. The remeasurement in context of business combinations achieved in stages and taking into account the contingent consideration transferred will tend to result in increasing goodwills.

- IAS 27 "Consolidated and Separated Financial Statements": The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after July 1, 2009. Especially losses attributed to the minority (non-controlling) interests will affect results at the time of first time application. Existing regulations concerning losses attributed to the minority (non-controlling) interests will be replaced (see section 2.5). Thus following the concept that a group as a unity is funded by several shareholders, the exceptional position of minority interests is disposed off. That means, that prospectively – in the case that losses attributable to minority interests would result in a negative recognition on the face of the balance sheet – losses are not further attributable to the shareholders of the parent company but to the minority to the same extent as profits (see section 6.9).

The following Standards and Interpretations, which have not been applied by Nabaltec AG, have been endorsed by the EU, but have to be applied in financial years that begin on or after January 1, 2009:

- IAS 23 "Borrowing Costs": The revised Standard was published in March 2007 and must be applied in financial years that begin on or after January 1, 2009. The revised version of IAS 23 eliminates the option of immediately expensing borrowing costs for qualifying assets, requiring instead that such borrowing costs have to be capitalized. The Group expects effects concerning Group's assets and liabilities, financial position and operating performance from the application of the Standard

- IFRS 8 "Operating Segments": The Standard, which was published by the IASB in November 2006 and endorsed by the EU by resolution of November 14, 2007, prescribes the application of the "management approach" for reporting the economic performance of operating segments. Accordingly, operating segments are components of a company whose operating results are reviewed regularly by the company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. The segment information reported should correspond to the company's internal reporting system. According to the Group's assessment, the operating segments according to IFRS 8 should be essentially the same as the business segments identified in accordance with IAS 14. The effects of this Standard on the other segment disclosures have not yet been finally determined. As the Standard addresses disclosure requirements only, the application of this Standard will not have any effects on the Group's assets and liabilities, financial position and operating performance in financial year 2009.

- Changes to IFRS 1 and IAS 27: "Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate": The changes are effective for financial years beginning on or after January 1, 2009 and contain the objective of simplifying measuring the initial cost of investment in subsidiaries, joint ventures, and associates in single-entity financial statements for which IFRS I adopted for the first time. The application of the changes from financial year 2009 is not expected to have an impact on the accounting policies of the Group.

- Changes to IFRS 2 "Share-based Payment": The application of the changes is required for the first time in financial years that begin on or after January 1, 2009. The amendment is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance because the companies included in the consolidated financial statements do not grant share-based payment according to the definition of IFRS 2.

- IAS 1 "Presentation of the Financial Statements": The amended Standard was published in September 2007 and must be applied for the first time in financial years that begin on or after January 1, 2009. The application of the new Standard is expected to have effects on the disclosure of the Group's financial information, but is not expected to have any effect on the recognition and measurement of assets and liabilities in the consolidated financial statements.

- IFRIC 13 "Customer Loyalty Programs". This Interpretation was published in June 2007 and must be applied for the first time in financial years that begin on or after July 1, 2008. As the Group currently does not offer any customer loyalty programs, the first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

- IFRIC 14 "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction": Application of this Interpretation is mandatory for the first time in financial years that begin on or after January 1, 2008. As the Group has no excess of plan assets or plan obligationhas not established any performance-oriented pension plans, the first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.
- The IASB issued the so called "Improvements of IFRSs" as of May 22, 2008 – a summarized standard with the purpose of changing several International Financial Reporting Standards. The first-time application of this Standard for financial years that begin on or after January 1, 2009, is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

- Changes to IAS 32 "Fianncial Instruments: Disclosure and Presentation": changes were of IAS 32 were issued in February 2008 and is effective for financial years that begin on or after January 1, 2009. The first-time application of this Standard is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

The following Standards and Interpretations are currently in the endorsement process, meaning that they have not yet been adopted by the EU and have therefore not been applied by Nabaltec AG:

- The IASB published a revision of IFRS 1 "First Time Adoption of IFRS" as of November 27, 2008. The revision causes a reorganization of the Standard. Application of the revised Standard is mandatory for the first time in financial years that begin on or after July 1, 2009. The Group does not expect any effects from the application on the financial statements.

- As of March 5, 2009 the IASB published amendments of IFRS 7 "Financial Instruments – Disclosures" requiring additional disclosures concerning the measurement of fair values and liquidity risk. The application of the amendments is mandatory for the first time in financial years that begin on or after January, 2009. Besides the additional disclosure requirements the Group does not expect any effects from the application on the financial statements.

- In July 2008 the IASB published an amendment of IAS 39 "Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement". The amendment clarifies the application of the basic principles of

hedge accounting in two specific situations – designation of inflation related risk as a hedged item and designation of a one-sided risk as a hedged item. The application of the amendment is mandatory for financial years that begin on or after July 1, 2009. An earlier application is permitted. The Group does not currently expect any material effects from the application of the amendment on the presentation of the financial statements, if it will be endorsed by the EU in this way.

- IFRIC 12 "Service Concession Arrangements": This Interpretation was published in November 2006 and must be applied for the first time in financial years that begin on or after January 1, 2008. As the companies included in the consolidated financial statements are not concession operators according to the definition of IFRIC 12, the first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

- IFRIC 15 "Agreements for the Construction of Real Estate": IFRIC 15 refers to the issue of how to account for revenue and associated expenses by entities that undertake the construction of real estate and sell these items before construction is completed. The interpretation defines criteria for the accounting in accordance with either IAS 11, or IAS 18. Additionally the Interpretation defines the timing of revenue recognition and determines the relevant disclosures. Application of IFRIC 15 is mandatory for financial years beginning on or after January 1, 2009. The first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": IFRIC 16 provides guidance and clarification on accounting for hedges of net investments in a foreign operation. Application of IFRIC 16 is mandatory for financial years beginning on or after October 1, 2008. The first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

- IFRIC 17 "Distribution of Non-Cash Assets to Owners": IFRIC 17 provides guidance on dividends paid in the form of assets other than cash and has to be applied for financial years beginning on or after July 1, 2009. The first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

- IFRIC 18 "Transfers of Assets from Customers": IFRIC 18 clarifies the IFRS requirements for agreements whereby an entity receives from a customer an item of property, plant and equipment that the entity must then use to connect the customer to a network and / or to provide the customer with ongoing access to a supply of goods or services. IFRIC 18 is to be applied for financial years beginning on or after July 1, 2009. The first-time application of this Interpretation is not expected to have any effects on the presentation of the assets and liabilities, financial position and operating performance of the Group.

The following Standards have not been applied because they are not relevant to Nabaltec AG:

- IFRS 4 "Insurance Contracts"
- IFRS 6 "Exploration and Evaluation of Mineral Assets"
- IAS 26 "Accounting and Reporting by Retirement Benefit Plans"
- IAS 28 "Investments in Associates"
- IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IAS 31 "Interests in Joint Ventures"
- IAS 40 "Investment Property"
- IAS 41 "Agriculture"

2.3. First-time adoption of IFRS

The consolidated financial statements of Nabaltec AG at December 31, 2008 are the first IFRS financial statements according to the definition of IFRS 1 "First-time Adoption of IFRS". The transition date according to IFRS 1 "First-time Adoption of IFRS" is January 1, 2007.

The last published financial statements of Nabaltec AG were the consolidated financial statements at December 31, 2007, which were prepared in accordance with the accounting regulations of the German Commercial Code (HGB).

According to IFRS 1 "First-time Adoption of IFRS", the recognition and measurement methods should be converted to IFRS at January 1, 2007 basically in such a way as though the company had always applied IFRS. By way of exception to the complete retrospective application of the IFRS in effect at the reporting date, IFRS 1 "First-time Adoption of IFRS" grants certain exceptions and simplification options for the transition date ("IFRS opening balance sheet").

The Group has applied the following exceptions:

- IFRS 3 "Business Combinations" was not applied to the acquisitions of subsidiaries or investments in associates and joint ventures that were completed prior to January 1, 2007.
- All accumulated actuarial gains and losses on pension obligations and similar post-employment benefits at January 1, 2007 were recognized directly in equity. The Group has resolved to apply the amounts to be disclosed in accordance with IAS 19.120A(p) prospectively as of the transition period to IFRS.
- It was assumed that the accumulated currency translation differences for all foreign entities are deemed to be zero as of January 1, 2007.
- Certain items in the IFRS opening balance sheet are carried at amortized cost and production costs. The Group has elected to regard those fair values as deemed cost at the date of the revaluation.

The remaining exceptions and simplification options were not applicable or were not exercised.

The effects on the assets and liabilities, financial position and operating performance of the conversion from the former accounting standards according to HGB to those according to IFRS are presented in the reconciliation statements below.

Reconciliation of shareholders' equity

in EUR thousands	01/01/2007	**12/31/2007**
Shareholders' equity according to HGB	**43,659**	**41,764**
Presentation of profit participation capital	−4,853	**−4,878**
Measurement of non-current assets	13,991	**13,957**
Measurement of inventories	892	**1,137**
Recognition of deferred taxes	−4,301	**−3,388**
Measurement of derivative financial instruments	76	**303**
Classification of finance leases	1,040	**1,656**
Measurement of pension provisions	−3,537	**−3,690**
Measurement of other provisions	407	**400**
Other	207	**68**
Shareholders' equity according to IFRS	**47,581**	**47,329**

Reconciliation of consolidated result after taxes

in EUR thousands	01/01–12/31/2007
Consolidated result after taxes according to HGB	**–1,509**
Measurement of non-current assets	49
Classification of finance leases	616
Measurement of inventories	246
Foreign currency translation	672
Recognition of deferred taxes	916
Measurement of pension provisions	–153
Measurement of other provisions	–8
Other	–170
Consolidated result after taxes according to IFRS	**659**

Reconciliation of the cash flow statement

The differences between HGB and IFRS regarding the cash flows from operating activities, investing activities and financing activities result mainly from the changes in the classification of leased assets and profit participation capital.

As indicated in the tables above, the following significant effects resulted from the transition to IFRS:

- Measurement of non-current assets: According to the accounting regulations of the German Commercial Code (HGB), land and buildings were carried at amortized cost. In context to the first-time adoption of IFRS, the material items of land and buildings were remeasured and subjected to scheduled depreciation over the remaining useful life on the basis of external appraisals. The total revaluation amounted to EUR 10,060 thousand, thereof an amount of EUR 8,856 thousand applicable to buildings. Land and buildings not subject to remeasurement are carried at amortized cost or rather cost of conversion. The useful life of material items of technical equipment, plant and machinery in Schwandorf has been redetermined.

- Classification of finance leases: According to HGB, the leases applicable to various items of technical plant and equipment were classified as operating leases. According to IFRS, some of the leased assets were capitalized in the company's balance sheet in accordance with the criteria of IAS 17 "Leases". Accordingly, finance lease liabilities were recognized in the corresponding amounts. Therefore, according to IFRS, interest expenses and reduction on the finance lease liabilities and depreciation of the capitalized technical plant and machinery are recognized in the corresponding periods, whereas according to HGB, the contractual lease fees were recognized as expenses in the corresponding periods. Thus, the transition effect resulted from the difference between the lease expenses, on the one hand, and the interest expenses and depreciation, on the other hand.

- Measurement of inventories: In the IFRS balance sheet, no write downs were charged against the inventories of sodium hydroxide solution and aluminum hydroxide, as had been done in the HGB balance sheet, because no quantity reduction had occurred and the products into which these auxiliary materials were incorporated were not sold at a loss.

- Measurement of derivative financial instruments (with resp. without hedge accounting): According to HGB, a provision for contingent losses has to be recognized to account for negative market values of derivative financial instruments. According to IFRS, on the other hand, derivative financial instruments are recognized regardless of whether their market values are positive or negative. Changes in the market values of derivative financial instruments are basically recognized through profit or loss. Changes in market values of derivative financial instruments in an effective cash flow hedging relationship according to IAS 39 are recorded directly in equity (revaluation reserve).

- Foreign currency translation: Unlike HGB, translation differences related to monetary items that are part of a net investment in a foreign operation (loans to affiliated companies) are recognized directly in equity, in accordance

with IAS 21.32. According to HGB, foreign exchange gains are not recognized in income if they would cause the carrying amount in question to exceed the historical cost, due to the realization and cost principle.

- Measurement of pension provisions: According to the German Commercial Code, the company's pension obligations were measured in the consolidated financial statements on the basis of the entry age normal method ("Teilwertverfahren") using actuarial methods. According to IFRS, such pension plans must be measured by application of actuarial methods. The pension provisions were measured using the projectal unit credit method according to IAS 19. For purposes of the transition to IFRS, the Group exercised the simplification option allowed by IFRS 1.20, under which all the cumulative actuarial gains and losses at the time of the transition to IFRS were recognized in the balance sheet.

- Measurement of other provisions: In the consolidated financial statements according to the German Commercial Code, certain provisions were recognized that do not fulfill the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

- Recognition of deferred taxes: With regard to deferred tax assets in respect of tax loss carry-forwards and the additional deferred taxes resulting from conversion effects, please refer to our comments in section 4.15 Income taxes and deferred and in section 5.12. Income taxes.

- Presentation of profit participation capital: Due to the fact that callable financial instruments are basically not classified as equity instruments, the profit participation capital of Nabaltec AG represents a financial liability. Nabaltec is obligated to pay the contributed amounts back to the investors and has no means of avoiding this obligation. Therefore, the profit participation rights have been presented as financial liabilities according to the definition of IAS 32.

2.4. Consolidation scope

The consolidated financial statements include the separate financial statements of Nabaltec AG, as the parent company, and of its subsidiary.

Subsidiaries are all companies of which the Group has the power to control, the financial and business policies. Such control is usually evidenced by holding more than 50% of the voting rights in the subsidiary. In determining whether the Group exercises control, the existence and effects of voting rights that can be exercised or converted at the present time are also taken into consideration. Subsidiaries are included in the consolidated financial statements (full consolidation) from the time when the Group obtains control over them. They are deconsolidated from the date on which such control is no longer held.

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

NUMBER OF COMPANIES	2008	2007
Nabaltec AG and fully consolidated subsidiary		
Domestic	**1**	1
Foreign	**1**	1

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

SUBSIDIARY	EQUITY HELD	
	EUR 000	%
Nashtec L.P., Corpus Christi (USA)	161	50,49

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

Nashtec Management Corporation was not included in the consolidated financial statements for lack of materiality.

All separate financial statements of subsidiaries that were prepared in accordance with national laws and regulations were converted to IFRS and adapted to reflect the recognition and measurement methods of the Group.

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

Shareholdings according to Article 313 (2) German Commercial Code (HGB)

	Share of equity		Equity as of latest financial year*)		Result of latest financial year*)	
	in %	in USD	in USD	in EUR	in USD	in EUR
Direct investments						
Nashtec Management Corporation, Texas (USA)	51.0	2,102.65	**)	**)	**)	**)
Nashtec L.P., Texas (USA)	50.5	208,163.26	−11,334,033.00	−8,041,043.05	−3,881,996.00	−2,652,999.89
Indirect investments						
Investment of Nashtec Management Corporation:						
Nashtec L.P., Texas (USA)	0.5	2,102.65	−11,334,033.00	−8,041,043.05	−3,881,996.00	−2,652,999.89

*) Equity of the latest financial year in foreign currency is transalted using the spot rate as of the balance sheet date of the financial year. Result of the latest financial year is translated using the average rate of the fiscal year.
**) Disclosures according to equity and result of the latest financial year are ommitted according to Article 313 (2) No. 4 Ph. 3 HGB due to materiality reasons.

2.5. Consolidation methods

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

The effects of all material intragroup transactions, including expenses and income and receivables and payables between the Group companies, are eliminated. Intermediate profits from intragroup sales of assets that have not yet been resold to third parties are likewise eliminated. The deferred taxes required in accordance with IAS 12 are recognized in respect of temporary differences from consolidation measures.

The profits and losses of subsidiaries acquired or sold during the course of the year are included in the consolidated in-

come statement from the date when the power of control over those subsidiaries begins or rather ends.

The shares of consolidated equity and of the consolidated profit or loss for the year attributable to minority interests are presented separately from the shares attributable to the parent company. If the value of minority interests is negative, they are presented as a negative position in equity and the result of the period in accordance with the 2008 amended IAS 27 "Consolidated and Separate Financial Statements". Thus, an attribution to the equity or rather result of the period of the parent company, as required by the former IAS 27 "Consolidated and Separate Financial Statements" is no longer presented.

2.6. Foreign currency translation

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

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

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

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

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

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

3. USE OF ASSUMPTIONS AND ESTIMATES

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

The assumptions and estimates consisted mainly of the following:

- Determination of the economic useful lives of property, plant and equipment and intangible assets. The applied economic lives of non-current assets are based on estimates of the management. The Group reviews the estimated economic useful lives of property, plant and equipment and intangible assets at the end of every financial year. During the current financial, year, however, no changes were made to the estimates pertaining to economic useful lives.

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

- **Pensions** and other **post-employment benefits:** Pension plans are measured on the basis of actuarial calculations. The actuarial measurement is based on assumptions regarding discount rates, the expected return from plan assets, future wage and salary increases, mortality and future pension benefit increases. As a result of the long-term horizon of these plans, such estimates are subject to considerable uncertainties. At December 31, 2008, the provision for pensions and similar benefits amounted to EUR 9,643 thousand (PY: EUR 9,606 thousand). Further details are provided in section 6.10 Current and non-current provisions.

- Provisions for **ecological and decommissioning obligations:** Such provisions are recognized when it is considered probable that ecological and decommissioning obligations will result in future outflows of economic benefits , when the costs can be reliably estimated and the measures in question are not expected to result in future inflows of economic benefits. The estimate of future costs is subject to many uncertainties, including legal uncertainties based on the applicable laws and regulations, and with uncertainties regarding the actual conditions in the different countries and operating locations. In particular, estimates of costs are based on earlier experiences in similar cases, the conclusions of expert opinions commissioned by the Group, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future results of the Group. At December 31, 2008, the carrying amount of recognized provisions was EUR 237 thousand (PY: EUR 694 thousand).

- **Provisions for contingent losses** recognized in the balance sheet result from pending operations where the expected revenues after consideration of payment reduction and selling costs do not cover the cost of sales. As of December 31, 2008 the carrying amount of the provisions for contingent losses was EUR 63 thousand (PY: EUR 327 thousand).

- Measurement of **other provisions:** Other provisions are measured on the basis of the best possible estimate by the management of the amount required to settle the current obligation at the balance sheet date. At December 31, 2008, the carrying amount of the recognized other provisions was EUR 97 thousand (PY: EUR 91 thousand). For additional comments and disclosures, please refer to the explanations in section 6.10. Current and non-current provisions.

- Recognition of **deferred tax assets:** In determining whether deferred taxes can be realized, the Management Board examines whether it is probable that all deferred tax assets can be recovered. The final recoverability of deferred tax assets depends on whether there will be sufficient taxable income available in those periods in which the temporary differences are deductible. If this is not the case, deferred tax assets cannot be used and consequently cannot be recognized in the balance sheet. The carrying amount as of December 31, 2008 (before netting with deferred tax liabilities) was EUR 2,641 thousand (PY: EUR 2,797 thousand).

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

- Investments in **jointly managed companies:** The Group holds a direct investment in a joint venture in the form of a jointly managed company having a share of 50.49 %. In consideration of the overall constellation of legal and economic factors, Nabaltec AG has the power to govern the financial and operating policies of the company in order to obtain benefits from its activities. Therefore, the controlled company was fully consolidated as a subsidiary in the consolidated financial statements.

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

- The **asset impairment test** is based on a discounted cash flow model (DCF-Model). The underlying forecasts provided by the subsidiary required for this model are based on a going concern principle, as well as on the ability to generate internally expected revenue and earnings objectives and the corresponding positive free cash flows within the intermediate term to the long-term. The forecasts contain revenue and earnings margins, based on actual assumptions and objectives concerning the future business in the coming years.

The amounts to be applied in future periods can differ from the earlier estimates. Any such changes will be recognized through profit or loss at the time when better knowledge is obtained.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Revenue recognition

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

Revenues are presented net of discounts and other deductions.

4.2. Expense recognition

The expenses allocable to income are recognized in the corresponding period. Operating expenses are recognized in income at the time when the corresponding product is utilized or at the time they are caused.

4.3. Research and development costs

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

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

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

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

At Nabaltec AG, all significant development costs incurred in connection with internally developed software in the application development phase are capitalized, as a rule. These costs are amortized over the expected useful life starting from the date when the software is first placed into service.

As internal development projects are often subject to government approval procedures and other imponderable factors, the conditions for capitalizing the costs incurred before the asset is approved are usually not met or the extent of such costs incurred in the brief phase between research and market introduction is immaterial.

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

The amortization periods are as follows:

- Data processing software 4 to 5 years

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

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

With regard to the capitalization of development costs as internally generated assets, please refer to section 4.3 Research and development costs.

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

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

The depreciation periods are as follows:

- Operational and office buildings 20 to 50 years
- Technical equipment, plant and machinery 5 to 22 years
- Operational and office equipment 3 to 20 years

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

4.6. Borrowing costs
Borrowing costs that can be allocated directly to the purchase, construction or production of a qualifying asset are not capitalized as part of the acquisition costs but expensed as incurred.

4.7. Government grants
Government grants are accounted for as a deduction from the acquisition or production costs of the corresponding asset (IAS 20.24). These deductions are released over the economic useful life of the asset in the form of reduced depreciation charges. See section 6.11 Current and non-current liabilities.

4.8. Non-current assets held for sale
In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", assets held for sale are measured at the lower of the carrying amount and the fair value less costs to sell.

Assets classified as held for sale are not subjected to any further depreciation and are presented in a separate line on the face of the balance sheet. Net gains or losses from the

sale of assets held for sale are presented as other operating income or expenses along with the gains or losses from the disposal of assets.

4.9. Leases - Group as lessee

The determination of whether an agreement constitutes or contains a lease is made on the basis of the economic substance of the transaction. Such a determination requires an assessment of whether the performance of the contractual agreement depends on the use of a given asset or assets and whether the agreement conveys a right to use the asset.

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

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

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

4.10. Impairment of non-financial assets

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

4.11. Financial assets

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

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

The Group determines the classification of its financial assets

at the time of initial recognition and reviews this classification at the end of every financial year, to the extent permitted and appropriate. At the balance sheet date, the Group did not carry any financial assets classified as held-to-maturity investments.

All regular way purchases and sales of financial assets and liabilities are recognized at the trade date, i.e. the date, is the date that an entity commits itself to purchase or sell an asset. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets measured at fair value through profit or loss

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

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

At the time when the Group first becomes a party to a given contract, it determines whether embedded derivatives need to be presented separately from the host contract. The initial decision is reviewed only in the event of substantial changes in the contractual terms and conditions that give rise to a significant change in the cash flows that would have otherwise resulted from the contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In particular, they consist of trade receivables, other assets, as well as cash and cash equivalents. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains and losses are recognized in the profit or loss for the period when the loans and receivables are derecognized or impaired and in connection with installment payment plans.

Available-for-sale financial assets

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

Derecognition of financial assets

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

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

4.12. Impairment of financial assets

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

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

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

4.13. Inventories

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

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

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

Finished goods are aggregated into measurement groups for valuation purposes.

Write downs are charged to account for inventory risks arising from increased storage lives or reduced salebility. Such write downs are charged with reference to the net realizable value at the balance sheet date.

4.14. Cash and cash equivalents

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

4.15. Income taxes and deferred taxes

Current income taxes

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

Deferred taxes

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

Deferred taxes are calculated on the basis of the tax rates that are expected to apply to the period when the asset is realized or the liability settled, according to the current status of the law. Tax rate changes are applied to the extent that such changes are considerable sufficiently probable.

Deferred tax assets are set off against deferred tax liabilities only to the extent that such offsetting is allowed by law.

4.16. Derivative financial instruments and hedging relationships

The Group employs derivative financial instruments to hedge against interest rate and currency risks of the opera-

ting business. Financial instruments are measured at fair value at the balance sheet date. Measurement gains and losses are recognized in profit or loss unless the conditions for hedge accounting are met. Changes in the market value of derivative financial instruments that meet the conditions of hedge accounting are recognized either in profit or loss (fair value hedge) or in equity (cash flow hedge). In the reporting periods hedge accounting has been applied for cash flow hedges against interest rate risk only.

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

4.17. Equity

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

4.18. Other provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognized to account for present obligations owed to third parties as a result of past events, which will probably lead to an outflow of economic resources in the future and the amounts of which can be estimated reliably. For this purpose, "probable" means a probability of more than 50%. The provisions are recognized to account for discernible risks and uncertain obligations in the amount that will probably be required to settle those obligations, without deduction of any reimbursement claims. Non-current other provisions are discounted to present value. The amount required to settle the obligation also includes the cost increases to be taken into consideration at the balance sheet date.

4.19. Pension provisions

Provisions for pensions are measured by application of the projected unit credit method according to IAS 19. The calculations to be performed under this method take into account the pension benefits and vested rights known at the balance sheet date, as well as future expected increases of pension benefits and salaries, based on conservative estimates of the relevant factors. The calculations are performed on the basis of an expert actuarial opinion, which includes biometric data.

4.20. Financial liabilities

Financial liabilities according to the definition of IAS 39 are classified as financial liabilities at fair value through profit or loss or as other financial liabilities.

The Group determines the classification of financial liabilities at the time of initial recognition and reviews the classification at the end of every financial year, to the extent permissible and appropriate.

Financial liabilities measured at fair value through profit or loss

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

Profit participation capital

The profit participation right represents a financial liability according to the definition of IAS 32, which is not measured at fair value through profit and loss. Upon initial recognition, the profit participation rights are measured at fair value less transaction costs. The fair value is equal to the cash consideration received (face value), less the transaction costs paid.

In subsequent periods, the difference between the initially measured value and the repayment amount (face value) is distributed over the term of these instruments using the effective interest method.

Interest-bearing loans

Upon initial recognition, loans are measured at fair value less the transaction costs directly related to the loan. They are not designated as being measured at fair value through profit or loss.

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

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

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

5. NOTES TO THE INCOME STATEMENT

5.1. Revenues

For information on the distribution of revenues among the product segments, please refer to the segment reporting and the corresponding notes in section 7.7 Segment reporting.

5.2. Other own work capitalized

In financial year 2008, EUR 253 thousand (PY: EUR 562 thousand) were capitalized as other own work for several technical equipment and machinery.

5.3. Other operating income

Other operating income breaks down as follows:

	2008 EUR 000	2007 EUR 000
Reimbursements from insurances	519	1,394
Foreign currency translation gains	519	153
Services provided by center of analysis	127	134
Routing and tracking services	124	59
Delivery of processed water	117	120
Remuneration in kind	92	93
Gain from sale of warehouse and scrap	70	60
Gains on disposal of property, plant and equipment	69	41
Income from reversal of provisions	24	50
Government grants	20	24
Income from increase of prepaid expenses based on external audit	0	112
Income from reversal of valuation allowances	0	10
Other	254	184
Total	**1,935**	**2,434**

The government grants were granted related to income. The conditions attached to these grants were met in full and there are no uncertainties in this regard.

5.4. Cost of materials

Cost of materials break down as follows:

	2008 EUR 000	2007 EUR 000
Raw materials, supplies and merchandise	56,797	49,812
Cost of purchased services	731	383
Total	**57,528**	**50,195**

5.5. Personnel expenses

The personnel expenses break down as follows:

	2008 EUR 000	2007 EUR 000
Wages and salaries	14,197	12,715
Social security	2,516	2,118
Expenses for defined benefit plans	321	759
Othe pension expenses	75	56
Total	**17,109**	**15,648**

Expenses for defined benefit plans relate to pension plans that fulfill the criteria of of defined benefit plans accoding to IAS 19.

Other pension expenses relate to payments made by the employer for pension plans of the employees that fulfill the criteria of defined contribution plans according to IAS 19.

In addition, the company's contributions to the statutory pension insurance system in the amount of EUR 1,182 thousand (PY: EUR 1,045 thousand) are included in the item of social security, which is withheld once a month.

5.6. Employees

The average number of employees in the Group showed the following development:

	2008	2007
Industrial worker	179	162
Full-time employees	115	103
Part-time employees	12	7
Total	**306**	**272**

Additionally 31 apprentice-trainees were employed on average (PY: 29).

5.7. Depreciation, amortization and impairments

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

Due to an instance of damage at Nashtech L.P., USA, in 2007 and the under-utilization of the production plant in 2008, the company conducted an asset impairment test in accordance with IAS 36.9 as of September 30, 2007, and September 30, 2008. For this purpose, the carrying amount of the cash-generating units was compared with the recoverable amount. The recoverable amount of the cash-generating units was determined on the basis of the net selling price and the value in use, using the discounted cash flow method. The discounted cash flows were determined with reference to three-year forecasts prepared on the basis of financial plans approved by the management. The cash flow forecasts, which take past experience into account, are based on the management's best estimate of the company's future development. Cash flows beyond the planning period were extrapolated by application of a growth rate of 2.0% (PY: 2.0%). Risk-weighted discount rates after taxes of 9.49% (PY: 11.20%) were applied for determining the net selling price and discount rates after taxes of 7.60% (PY: 10.17%) were applied for determining the value in use.

The following assumptions applied in calculating the recoverable amount of the cash-generating units are subject to estimation uncertainties:

- Profit from ordinary activities;
- Discount rates;
- Growth rate applied for extrapolating the cash flow forecasts beyond the budget period.

Profit from ordinary activities: The profit from ordinary activities was determined on the basis of the latest business plans of the individual cash-generating units, which were approved by management.

Discount rates: The discount rates reflect the estimates of the management regarding the specific risks attributable to the individual cash-generating units. Maturity-specific, risk-adjusted interest rates were used for the purpose of determining appropriate discount rates for the individual cash-generating units.

Estimates of growth rates: The growth rates applied for the purpose of extrapolating the respective revenues were determined on the basis of management expectations. A moderate growth rate of 2.0% (PY: 2.0%) was applied for calculating the terminal value.

As a result of the asset impairment tests conducted, the management concluded that there was no need to recognize impairment losses.

5.8. Other operating expenses

Other operating expenses break down as follows:

	2008 EUR 000	2007 EUR 000
Freight-outs	7,143	6,500
Services third parties not attributable to the process of production	4,807	4,264
Commissions	1,822	1,796
Rent and leasing	1,093	412
Foreign currency translation losses	711	660
Other administration expenses	652	618
Insurances	609	542
Legal and professional fees	385	458
Travel expenses	384	317
Other taxes	345	430
Employee benefit costs	344	359
Advertising expenses	164	299
Losses from sale of fixed assets	57	64
Valuation allowances receivables	11	0
Warranty provisions	8	16
Losses from foreign exchange contracts	6	38
Other	84	876
Total	**18,625**	**17,649**

5.9. Research and development

In financial year 2008, development expenditures of EUR 1,468 thousand (PY: EUR 1,369 thousand) were recognized as expenses.

5.10. Interest and similar income

The interest and similar income are presented in the table below.

	2008 EUR 000	2007 EUR 000
Gains from interest rate swaps	453	148
Return from plan assets (liability insurance)	105	100
Interest income from bank balances	24	135
Other	5	86
Total	**587**	**469**

5.11. Interest and similar expenses

The interest and similar expenses are presented in the table below:

	2008 EUR 000	2007 EUR 000
Interest expenses paid to banks	1,782	1,638
Interest expenses factoring	796	244
Interest expenses profit participation right	405	405
Expenses from finance lease	205	277
Commission on bank guaranty	104	127
Losses from interest rate swaps	0	169
Unwinding of provisions	24	24
Other	358	390
Total	**3,674**	**3,274**

5.12. Income taxes

The income taxes break down as follows:

	2008 EUR 000	2007 EUR 000
Current income taxes: Current tax expenses	673	1,333
Adjustments to current income taxes incurred in the previous year	−9	95
Deferred taxes: Origination and reversal of temporary differences	559	−916
Total	**1,223**	**512**

The effective tax rate for the overall Group in financial year 2008 was 28.08 % (PY: 37.34%).

As part of the corporate tax reform enacted by German lawmakers, the tax rates applicable as of January 1, 2008 were lowered with the objective of substantially reducing the average tax burden for German corporations from the current level of around 40%. The draft law was enacted by resolution of the Bundesrat (upper house of the German parliament) as of July 6, 2007. The Bundestag (lower house of the German parliament) had approved the law already on May 25, 2007. As a principal component of the draft law, the corporate income tax rate was lowered from 25% to 15%. At the same time, the municipal trade tax assessment factor was lowered from 5.0 % to 3.5 %. According to a position paper of the German Accounting Standard Board (GASB), this reduction was to be taken into account as of July 6, 2007 for the purpose of calculating deferred taxes. Consequently, the applicable tax rate for the recognition of deferred taxes in respect of temporary differences, the reversal of which is expected only as of financial year 2008/2009, was lowered from 37.34 % to 28.08 %.

The tax reconciliation statement between the expected income tax income and the tax income actually presented in the income statement in each financial year is presented in the table below.

	2008	2007
Tax rate	28.08 %	37.34 %
	EUR 000	EUR 000
Result from ordinary operations (EBT)	1,041	1,171
Expected tax expense	292	437
Differences		
1. Effect of changes in statutory tax rates	0	−1,116
2. Non-recognizable deferred tax assets related to loss carry forwards	742	1,285
3. Tax effects from prior years	−9	95
4. Non-deductible expenses	81	66
5. Other	0	−4
6. Tax effects from currency translation differences recognized directly in equity	117	−251
Tax expenses presented in the income statement	**1,223**	**512**

The deferred tax assets and liabilities are presented in the table below.

	CONSOLIDATED BALANCE SHEET		CONSOLIDATED INCOME STATEMENT	
	12/31/2008 EUR 000	12/31/2007 EUR 000	**2008** EUR 000	2007 EUR 000
Deferred tax assets				
Pension provisions	921	1,036	−115	−282
Other provisions	344	164	180	35
Liabilities from finance lease	663	955	−292	−702
Loss carry forward	1,840	1,138	702	903
Other	0	0	0	−42
Total deferred tax assets – gross	**3,768**	**3,293**	**475**	**−88**
Deferred tax assets not recognized	**1,127**	**496**	**631**	**357**
Total deferred tax assets – net	**2,641**	**2,797**	**−156**	**−445**
Deferred tax liabilities				
Non-current assets	5,998	5,571	−427	1,438
Inventories	266	320	54	13
Other	320	291	−29	−91
Total deferred tax liabilities	**6,584**	**6,182**	**−402**	**1,360**
	3,943	**3,385**	**−558**	**915**

Nashtec L.P. is not regarded as a taxable entity according to U.S. tax law for federal tax and state tax. In the United States, the Group carried tax loss carry-forwards in the amount of EUR 5,413 thousand (PY: EUR 3,346 thousand). In general, tax losses can be applied retroactively for two years and carried forward for no more than 20 years on the federal level in the United States. Deferred tax assets and liabilities in the USA have been netted with deferred tax assets from tax loss carry forwards. The remaining deferred tax assets on tax loss carry forwards were not recognized as up to now the company in the USA could not show a positive taxable result. The tax loss carry forwards in the USA are significantly higher than the actual losses due to advantageous tax-related depreciation rules.

	2008 EUR 000	2007 EUR 000
Expiration date within		
1 year	0	0
2 to 5 years	0	0
6 to 10 years	0	0
11 to 20 years	5,413	3,346

The distribution of dividends by Nabaltec AG to shareholders did not give rise to income tax effects on the level of Nabaltec AG in 2008 or in 2007.

6. NOTES TO THE BALANCE SHEET

6.1. Intangible assets

For more information about the changes in intangible assets, please refer to the statement of changes in non-current assets.

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

Intangible assets were not assigned by way of collateral as of December 31, 2008, likewise prior year.

6.2. Property, plant and equipment

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

As of December 31, 2008, the carrying amounts of technical plant and equipment and of operational and business equipment held in connection with finance leases agreements amounted to EUR 4,634 thousand (PY: EUR 5,056 thousand). During the financial year like in the prior year, no additions were posted. The leased assets serve as security for the respective obligations under the finance leases or rent-purchase agreements.

Assets amounting to EUR 44,282 thousand (PY: EUR 43,468 thousand) are pledged as securities for bank loans.

Land charges in favor of the owner amounting to EUR 10,440 thousand as of December 31, 2008 (PY: EUR 10,440 thousand) were assigned by way of collateral for bank loans.

The company was not subject to significant obligations to purchase property, plant and equipment.

6.3. Inventories

The inventories break down as follows:

	12/31/2008 EUR 000	12/31/2007 EUR 000
Raw materials and supplies	16,552	10,003
Unfinished goods	569	284
Finished products and merchandise	11,287	7,562
Total	**28,408**	**17,849**

All items of inventories were assigned by way of collateral for liabilities against banks.

The write downs of inventories, which were recognized as expenses, amounted to EUR 145 thousand (PY: EUR 420 thousand).

6.4. Trade receivables

The trade receivables break down as follows:

	12/31/2008 EUR 000	12/31/2007 EUR 000
Trade receivables – gross	1,591	3,060
Individual valuation allowance	−288	−277
Total	**1,303**	**2,783**

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

For more information on the development of the valuation allowance account and the age structure of receivables, please refer to section 7.2 Disclosures regarding financial instruments.

6.5. Income tax claims

The income tax claims with a carrying amount of EUR 174 thousand of prior year consisted of tax refund claims due from German taxation authorities and from Stadtkasse Schwandorf, which resulted from corporate income tax, the solidarity surtax, and trade tax.

6.6. Other assets

The other assets break down as follows:

	12/31/2008 EUR 000	12/31/2007 EUR 000
Receivables from factoring	833	2,223
Positive fair value of interest rate swap	453	303
Insurance compensation	0	433
Other	447	376
Other financial assets	**1,733**	**3,335**
VAT (value added tax) receivables	1,308	1,004
Prepaid expenses	175	190
Other non-financial assets	**1,483**	**1,194**
Total	**3,216**	**4,529**

The receivables from factoring in the amount of EUR 833 thousand (PY: EUR 2,223 thousand) presented at December 31, 2008, consisted of the purchase price retention related to factoring arrangements.

Other assets are due in less than one year.

6.7. Cash and cash equivalents

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

	12/31/2008 EUR 000	12/31/2007 EUR 000
Bank balances	1,941	1,674
Cash on hand	1	2
Total	**1,942**	**1,676**

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

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

The cash and cash equivalents are not subject to restrictions.

6.8. Assets of a disposal group classified as held for sale

In financial year 2008, the company sold assets with a total carrying amount of EUR 7,872 thousand (PY: EUR 981 thousand) under sale-and-leaseback transactions. Basically the related assets are technical equipment and machines of the segment "Functional Filler". Regarding the leaseback contract please refer to the information on operate leases provided in section 7.1 Other financial obligations. No gain or loss resulted from the transaction. The carrying amount of sold assets as of December 31, 2007, equaled EUR 7,062 thousand. As of December 31, 2008, no assets have been classified as held for sale.

6.9. Equity

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

Subscribed capital

At the balance sheet date, the fully paid-in capital (capi-

tal stock) amounted to EUR 8,000 thousand (PY: EUR 8,000 thousand). It consisted of 8,000,000 no-par bearer shares, each representing an imputed proportion of capital stock in the amount of EUR 1.00.

Authorized capital

By resolution of the annual shareholders' meeting of October 23, 2006, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions in the time until October 22, 2011, by up to EUR 3,000 thousand through the issuance up to 3,000,000 no-par bearer shares (no-par shares) and also to decide on any exclusion of subscription rights in connection with such issues (Authorized Capital 2006/I).

Conditional capital

By resolution of the annual shareholders' meeting of October 23, 2006, the capital stock was increased conditionally by the issuance of up to 3,000,000 no-par bearer shares (no-par shares) (Conditional Capital 2006/I). The Conditional Capital only serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants that were issued by the company with the authorization of the annual shareholders' meeting of October 23, 2006.

Capital reserve

At December 31, 2008, capital reserve amounted to EUR 29,764 thousand (PY: EUR 29,764 thousand). The capital reserve basically resulted from the issuance of 2,000,000 no-par bearer shares at a price of EUR 15.50 per no-par share holding an interest of EUR 1.00 per no-par share in subscribed capital causing a premium of EUR 14.50 per no-par share or rather EUR 29,000 thousand in total.

Earnings reserves

At December 31, 2008, earnings reserves amounted to EUR 9,707 thousand (PY: EUR 9,707 thousand). The earnings reserves result from the first time adoption of IFRS.

	2008 EUR 000	2007 EUR 000
Dividends resolved and distributed during the financial year;		
Dividend for 2007 on common shares: EUR 0.10 (2006: EUR 0.10)	800	800
Proposed for approval at the annual shareholders meeting (at December 31, not recognized as a liability):		
Dividend for 2008 on common shares: EUR 0.00		

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

Accumulated other comprehensive expenses

Any differences arising on currency translation and any changes in the market value of derivative financial instruments for which hedge accounting is applied as well as arising tax effects in this context are recognized directly in equity and presented separately in equity within the item of accumulated other comprehensive income/expenses. As of December 31, 2008 accumulated other comprehensive expenses amounted to EUR −934 thousand (PY: EUR −486 thousand).

Minority interests

The minority interests consisted of the minority interests in the equity of Nashtec L.P. .

As amendments of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements", both issued in 2008, were applied in the consolidated financial statements as of December 31, 2008, negative minority interests were presented in the Group's income statement as well as in equity on the face of the balance sheet.

As the endorsement process has not been finalized until the preparation of the Group's financial statements an off-setting of negative minority interests at an amount of EUR −4,006 thousand as of December 31, 2008 (PY: EUR −1,850 thousand) with the result of the period or rather with the profit / loss carried forward attributable to shareholders would have been required, according to the regulations of the Standards prior to amendments. The total amount of equity would have remained unchanged. The result after tax attributable to shareholders would have been EUR −182 thousand (actual presentation: EUR 1,126 thousand) or rather profit / loss carried forward attributable to the shareholders of the parent company EUR −316 thousand (actual presentation: EUR −170 thousand). The adjustment of prior year would have been for the result after tax attributable to shareholders of the parent company EUR 659 thousand (actual presentation: EUR 2,364 thousand) or rather profit / loss carried forward attributable to shareholders of the parent company EUR −315 thousand (actual presentation: EUR −170 thousand). Finally earnings per share would have been EUR −0.02 (actual presentation: EUR 0.14) and for prior year EUR 0.08 (actual presentation: EUR 0.30)

6.10. Current and non-current provisions

The changes in provisions are presented in the tables below:

Financial year 2008	Balance at 01/01/2008 EUR 000	Addition EUR 000	Utilization EUR 000	Reversal EUR 000	**Balance at 12/31/2008** EUR 000
Provisions for personnel	416	187	70	0	**533**
Provisions related to ecological / decommissioning obligations	694	78	511	24	**237**
Provisions for contingent losses	327	63	327	0	**63**
Other	91	96	90	0	**97**
Total	**1,528**	**424**	**998**	**24**	**930**

Financial year 2007	Balance at 01/01/2007 EUR 000	Addition EUR 000	Utilization EUR 000	Reversal EUR 000	**Balance at 12/31/2007** EUR 000
Provisions for personnel	445	62	72	19	**416**
Provisions related to ecological / decommissioning obligations	1,115	284	674	31	**694**
Provisions for contingent losses	139	327	139	0	**327**
Other	73	90	72	0	**91**
Total	**1,772**	**763**	**957**	**50**	**1,528**

Pension provisions

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

The expenses recognized for pension benefits in the income statement and the amounts recognized for the respective pension plans in the balance sheet are presented in the tables below.:

Expenses for pension benefits	**2008** EUR 000	2007 EUR 000
Current service cost	349	335
Interest expenses	534	503
Expected return from plan assets	−12	−6
Other	−55	0
Expenses for pension benefits	**817**	**831**
Actual return from plan assets	12	6

Assets/ liabilities under defined benefit obligations	**2008** EUR 000	2007 EUR 000
Defined benefit obligation	10,395	10,253
Fair value of plan assets	−752	−647
	9,643	**9,606**
Unrecognized actuarial gains/ losses	0	0
Unrecognized past service cost	0	0
Defined benefit obligation	**9,643**	**9,606**

The changes in the present value of the defined benefit obligations are presented in the table below.

	EUR 000
Defined benefit obligations at January 1, 2007	9,653
Interest expenses	503
Current service cost	335
Benefits paid	–159
Actuarial gains/ losses	–79
Defined benefit obligations at December 31, 2007	**10,253**
Interest expenses	534
Current service cost	349
Benefits paid	–179
Actuarial gains/loss	–507
Other	–55
Defined benefit obligations at December 31, 2008	**10,395**

The covered amount of the defined benefit obligation by liability insurances amounts to EUR 2,060 thousand (PY: EUR 1,911 thousand). For 2009 benefit payments are expected at an amount of EUR 199 thousand.

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

	EUR 000
Fair value of plan assets at January 1, 2007	547
Expected return	6
Employer contributions	94
Benefits paid	0
Actuarial gains/ losses	0
Fair value of plan assets at December 31, 2007	**647**
Expected return	12
Employer contributions	94
Benefits paid	0
Actuarial gains/ losses	0
Fair value of plan assets at December 31, 2008	**752**

Plan assets recognized in the balance sheet comprise the positive value of a liability insurance, which falls under the scope of IAS 19.7 (b) and thus has to be accounted for as a plan asset. For financial year 2009, the Group expects to pay contributions to defined benefit pension plans in the amount of EUR 94 thousand.

The basic assumptions applied in calculating the pension obligations and the post-employment healthcare benefit obligations are presented below:

	2008 %	2007 %
Discount rate	5.25	5.25
Salary trend	3.00	3.50
Pension trend	2.00	2.20
Fluctuation	0.56	0.56
Mortality rates after retirement of pensioners aged 65 according to Heubeck - Richttafeln 2005G.		

6.11. Current and non-current liabilities

Carrying amounts		Carrying amount EUR 000	thereof due in < 1 year	thereof due in 1 - 5 years	thereof due in > 5 years
Liabilities due to banks	12/31/2008	37,613	10,236	15,551	11,826
	12/31/2007	27,164	6,790	9,313	11,061
Profit participation capital	12/31/2008	4,902		4,902	
	12/31/2007	4,878		4,878	
Trade payables	12/31/2008	9,497	9,497		
	12/31/2007	11,401	11,401		
Liabilities from finance lease	12/31/2008	2,362	1,093	1,269	
	12/31/2007	3,399	1,037	2,362	
Liabilities for income taxes	12/31/2008	608	608		
	12/31/2007	439	439		
Other liabilities	12/31/2008	17,612	13,245	4,367	
	12/31/2007	7,729	7,729		
Total	**12/31/2008**	**72,594**	**34,679**	**26,089**	**11,826**
	12/31/2007	**55,010**	**27,396**	**16,553**	**11,061**

Liabilities due to banks

Liabilities due to banks basically comprise non-current loans borrowed under commercially available interest rates. Fair value of the loans equals the inherent carrying amounts.

The loan agreements of Nabaltec AG are partly subject to covenants, which are partially based on leverage coverage ratios as well as based on the equity ratio. The loan creditor has the right in case of default of the covenants to increase interest margins or has the right to call given extraordinary notice.

In financial year 2008 a default of covernants occurred, and for 2009 a default may occur. The Management Board in the process of intense talks with the related bank and expcts based on current results no significant sanctions to be imposed by the bank.

Profit participation capital

The scheduled term of the profit participation capital with an amount of EUR 5,000 thousand will end in the year 2012. Prior to this time, there is no ordinary call right. The profit participation right grants only creditor claims against the company and no shareholder rights are constituted. The company is obligated to pay interest of 8.10 % per year on the nominal amount by the end of the term; quarterly advance payments are made on the interest obligation. Under certain conditions, the advance payments can be deferred; in such cases, the interest rate would increase. At the end of the term, the profit participation right must be repaid at the nominal amount, less any participation in the company's losses.

Trade payables

The trade payables are due in no more than 30 days.

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

Liabilities from finance lease

The minimum lease payments for 2008 and the future minimum lease payments from financial leasing are reconciled with their present values as follows:

In EUR 000	Lease payments	Interest portion	Present value of minimum lease payments
< 1 year	1,223	130	1,093
1 to 5 years	1,334	65	1,269
Total	**2,557**	**195**	**2,362**

For more information on the rental and lease expenses in financial years 2008 and 2007, please refer to the breakdown of other operating expenses in section 5.8 Other operating expenses. The financial leases have terms between 3 and 6 years and do not contain price adjustment clauses. They are partly subject to call options.

Liabilities for income taxes

Those comprise outstanding trade tax and corporate income tax (including solidarity surtax) liabilities in Germany for previous years.

Other liabilities

The current other liabilities break down as follows into financial and non-financial liabilities:

	12/31/2008 EUR 000	12/31/2007 EUR 000
Loan due to minority shareholder	8,835	5,593
Excess payment factor	1,323	0
Negative fair value of interest rate swap	1,076	101
Employer's Liabilitiy Insurance association	266	230
Financial statement and audit	112	95
Negative fair value of foreign exchange contract	6	0
Other	235	209
Other current financial liabilities	**11,853**	**6,228**
Outstanding vacation claims	528	556
Bonuses and other success dependant compensation	500	460
Other consumption tax	182	323
Liabilities due to taxation authorities	166	149
Liabilities due to social security	16	13
Other current non-financial liabilities	**1,392**	**1,501**
Current liabilities (total)	**13,245**	**7,729**

The liabilities for bonuses and other success dependant compensation are dependant on the fulfillment of the underlying objectives. The liabilities for outstanding vacation claims were recognized on the basis of individual employees.

The liabilities due to the taxation authority resulted from payroll and church taxes for the past financial year which had not yet been transferred at the balance sheet date.

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

The other non-current liabilities with a carrying amount of EUR 4,367 thousand comprise an investment grant for planned investments received from the government of Upper Palatinate (Oberpfalz) for which none investments are applicable. These items consisted exclusively of other financial liabilities. The carrying amount is approximitaly equal to its fair value. In the financial year EUR 1,633 thousand of the received grants have been deducted in arriving at the carrying amount of the applicable non-current assets.

7. OTHER DISCLOSURES

7.1. Other financial obligations

Obligations under operating leases – Group as lessee

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

In the current financial year, an amount of EUR 1,093 thousand (PY: EUR 411 thousand) was recognized as expenses under operating leases.

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

	12/31/2008 EUR 000	12/31/2007 EUR 000
Minimum lease payments due in 1 year or less	2,183	1,876
Minimum lease payments due between 1 and 5 years	7,273	6,321
Minimum lease payments due in more than 5 years	0	1,455
Total	**9,456**	**9,652**

Contingent liabilities

At the balance sheet date, there were no significant contingent liabilities or pending litigation for which no provisions had been recognized. At December 31, 2008, the company was subject to firm order obligations for capital expenditure projects in the amount of EUR 8,476 thousand (PY: EUR 1,428 thousand). In January the Group acquired financial liabilities from a minority shareholder at an amount of USD 1,417 thousand.

7.2. Disclosures regarding financial instruments

Carrying amounts, valuation category, fair values by measurement categories

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

	Category in accordance with IAS 39	Carrying amount		Fair value	
		2008 EUR 000	2007 EUR 000	**2008** EUR 000	2007 EUR 000
FINANCIAL ASSETS					
Trade receivables	LaR	1,303	2,783	1,303	2,783
Receivables and other financial assets					
Other non-derivative receivables and financial assets	LaR	1,280	3,032	1,280	3,032
Positive fair value interest rate derivatives (not in a hedging relationship)	HfT / FVtPL	453	0	453	0
Positive fair value interest rate derivatives (designated in an effective cash flow hedge)	-	0	303	0	303
Cash and cash equivalents	LaR	1,942	1,676	1,942	1,676
FINANCIAL LIABILITIES					
Financial liabilities at amortized cost					
Liabilities due to banks	FLaC	37,613	27,164	37,613	27,164
Profit participation capital	FLaC	4,902	4,878	4,902	4,878
Trade payables	FLaC	9,497	11,401	9,497	11,401
Liabilities from finance lease	-	2,362	3,399	2,362	3,399
Other financial liabilities					
Other non-derivative financial liabilities	FLaC	10,771	6,127	10,771	6,127
Negative fair value interest rate derivatives (not in a hedging relationship)	HfT / FVtPL	0	101	0	101
Negative fair value interest rate derivatives (designated in an effective cash flow hedge)	-	1,076	0	1,076	0
Negative fair value forward foreign exchange derivatives (not in a hedging relationship)	HfT / FVtPL	6	0	6	0

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

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

Net gain / loss by measurement categories

The following table provides the applicable positions of income and expenses from financial instruments according to measurement categories of IAS 39:

Measurement categories in accordance with IAS 39		**FROM SUBSEQUENT MEASUREMENT**				
		From interest	At Fair Value	Currency translation	Impairment / allowance	Net gain / loss 2008
Loans and Receivables	LaR	24	-	−23	−11	−10
Held for Trading	HfT	-	447	-	-	447
Other Liabilities	FLaC	−3,341	-	−169	-	−3,510
Total 2008		**−3,317**	**447**	**−192**	**−11**	**−3,073**

Measurement categories in accordance with IAS 39		**FROM SUBSEQUENT MEASUREMENT**				
		From interest	At Fair Value	Currency translation	Impairment / allowance	Net gain / loss 2007
Loans and Receivables	LaR	135	-	−99	10	46
Held for Trading	HfT	-	−59	-	-	−59
Other Liabilities	FLaC	−2,647	-	−408	-	−3,055
Total 2007		**−2,512**	**−59**	**−507**	**10**	**−3,068**

Interest income or rather - expenses from financial instruments are presented in the income statement within the positions interest and similar income or rather expenses. Interest income from financial assets according to the measurement category loans and receivables mainly comprise interest income from current accounts and short term deposits. Interest expenses from financial liabilities according to the measurement category other liabilities basically comprise interest expenses due to banks or rather profit participation capital.

Net gains / losses from subsequent measurement due to derivative financial instruments of the measurement category held for trading include interest - as well as foreign currency translation effects. The related amounts are presented within the positions interest and similar income or rather expenses. On the other hand effects from subsequent measurements of interest rate derivatives in an effective cash flow hedging relationship are recorded directly in equity. Recognition through profit or loss of an ineffective portion was not applicable.

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

Net gains / losses from impairment / allowance mainly include additions and reversals of individual valuation allowances of trade receivables. The related amounts are recorded within the positions other operating income and expenses.

Hedging relationships

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

At the inception of the hedge the hedging relationship as well as management risk objectives and strategies of the Group are formally designated and documented for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

IAS 39 requires for hedges accounted for under the regulations set out for hedge accounting the designated hedges to be effective. Therefore hedging relationships and the inherent changes in the fair value of the hedging instrument are offsetting the changes in the fair value of the hedged item prospectively and retrospectively in a range within 80 % and 125 %. The effective portion of a hedge within the above presented range is recorded directly in equity whereas the ineffective portion is immediately recognized through profit or loss.

In the financial year as well as in the previous year a cash flow hedge has been designated in compliance with the risk management strategy existing of a variable interest bearing loan and an interest rate swap. Based on the interest rate swap the variable interest bearing loan is economically converted into a fixed interest bearing loan. Thus monthly interest payments until maturity of the loan as of May 31, 2016 are economically fixed regarding the amount.

Default risk

The Group is exposed to default risks primarily through its trade receivables. In order to reduce these risks factoring transactions are used. By contractual agreements the illiquidity risk of the debtor except for a security deposit is transferred to the contracting party. The related carrying amounts are derecognized and not further carried as trade receivables. This does not include trade receivables which are not accepted by the factor e.g. because of exceeding a credit limit. Additionally trade receivables are secured by means of credit default insurance. As of December 31, 2008 trade receivables amounting to EUR 833 thousand (PY: EUR 2,223 thousand) were sold in the scope of factoring. Due to overpayments by the factor a liability is recognized at an amount of EUR 1,323 thousand (PY: EUR 0 thousand).

The amounts presented in the balance sheet are net of valuation allowances for tentatively uncollectible receivables, as estimated by the management on the basis of past experience and the current economic environment. Specific valuation allowances are charged as soon as there is an indication that those receivables may be uncollectible. Such indications are gathered through intensive contacts in connection with the company's receivables management.

In case of counterparty default, the maximum default risk of the Group's financial assets, which comprise trade receivables, cash and cash equivalents and other assets, is equal to the carrying amounts of the corresponding instruments. The Group is not subject to any significant concentration of default risks because they are distributed over a large number of counterparties and customers. As in the previous year, the Group's assets are not subject to any restrictions on title or disposal.

The changes in value adjustments on trade receivables are summarized in the table below.

	2008 EUR 000	2007 EUR 000
Balance at 01/01/	**277**	**287**
Additions recognized as expenses in the income statement	11	
Reversal	0	10
Balance at 12/31/	**288**	**277**

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

	Carrying amount	neither past due nor value-adjusted	past due, but not value-adjusted			
			< 3 months	3 to 6 months	6 to 12 months	> 12 months
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
12/31/2008	**1,303**	**1,220**	**0**	**0**	**0**	**0**
12/31/2007	2,783	2,783	0	0	0	0

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

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

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

Liquidity risk

The Group continually monitors the risk of liquidity shortfalls. For this purpose, the Group monitors the maturities of financial assets and liabilities and the expected cash flows from operating activities, among other things. Objective of the Group is by usage of current accounts, loans and financial

leases to continually cover the financial resources required and guarantee a maximum flexibility at the same time.

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

Cash outflows (undiscounted)		Total EUR 000	thereof < 1 year	thereof 1 to 5 years	thereof > 5 years
Liabilities due to banks	12/31/2008	38,000	10,236	15,551	12,213
	12/31/2007	27,164	6,790	9,313	11,061
Profit participation capital	12/31/2008	5,000		5,000	
	12/31/2007	5,000		5,000	
Trade payables	12/31/2008	9,497	9,497		
	12/31/2007	11,401	11,401		
Liabilities from finance lease	12/31/2008	2,557	1,223	1,334	
	12/31/2007	3,799	1,243	2,556	
Other financial liabilities	12/31/2008	16,220	11,853	4,367	
	12/31/2007	6,228	6,228		
Total (financial liabilities)	**12/31/2008**	**71,274**	**32,809**	**26,252**	**12,213**
	12/31/2007	**53,592**	**25,662**	**16,869**	**11,061**

In financial year 2008, the company received cash proceeds of EUR 7,872 thousand from the sale of technical equipment under the terms of a sale-and-leaseback transaction.

Foreign currency risk

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

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

	Rate change	Effect on profit before taxes EUR 000
2008		
USD	+5 %	63
USD	−5 %	−63
2007		
USD	+5 %	138
USD	−5 %	−138

Interest rate risk

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

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

	Increase/ decrease in basis points	Effect on profit before taxes EUR 000	Effect on shareholders' equity* EUR 000
2008			
Europe	+10	−76	0
USA	+10	−49	38
Europe	−10	76	0
USA	−10	49	−38
2007			
Europe	+10	−31	0
USA	+10	−64	40
Europe	−10	31	0
USA	−10	64	−40

* Disregarding the effects on profit before taxes

Besides the risk of a parallel shifting of the interest structure curve the Nabaltec Group is exposed to a risk resulting from an increase or rather flattening of the interest structure curve. This risk is basically caused through a spread swap. An extension of the spread between the 2-year and the 30-year rate by 10 basic points would have an effect on profit of EUR 141 thousand (PY: EUR 137 thousand).

7.3. Additional disclosures regarding capital management

Nabaltec AG conducts a sound capital management program with the goal of enabling the Group to continue on a course of growth as well as ensuring the ability to meet the

financial obligations. In this regard, particular emphasis is given to preserving a balanced ratio of equity to debt over the long term.

The equity and debt positions of Nabaltec AG at December 31, 2008 and 2007, monitored for purposes of the Group's capital management, are presented in the table below.

	12/31/2008 EUR 000	12/31/2007 EUR 000	Change in %
Equity	**45,051**	**47,329**	**−4.81**
in % of total capital	45.62	53.56	−14.84
Non-current financial liabilities	33,548	27,614	21.49
Current financial liabilities	20,164	13,420	50.25
Debt[3]	**53,712**	**41,034**	**30.90**
as % of total capital	54.38	46.44	17.11
Total capital for capital management purposes	**98,763**	**88,363**	**11.77**

In the financial year the equity was reduced by EUR 2,278 thousand to EUR 45,051 thousand basically due to starting losses in the U.S. operations.

In the financial year debt increased by EUR 12,678 thousand to EUR 53,712 thousand due to borrowings of a non-current loan (EUR 10,000 thousand) amongst others.

All together, the capital measures conducted in 2008 reduced the equity ratio (as a percentage of the total capital) to 45.62 % compared to previous year 53.56 %. The ratio of debt to total capital according to the definition applied for capital management purposes rose from 46.44 % as of December 31, 2007 to 54.38 % as of December 31, 2008.

As part of the company's continued development, the Group plans to further optimize its financial management, accompanied by continuous monitoring and management of its equity ratio.

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

Nabaltec AG is not subject to any capital requirements imposed by its Articles of Incorporation. Regarding covenants from loan agreements please refer to section 6.11 Current and non-current liabilities.

7.4. Related party transactions

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

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

- Members of the Management Board (see section 7.8 Governing bodies of the company) and their family members;
- Members of the Supervisory Board (see section 7.8 Governing bodies of the company) and their family members;

3 The Group defines debt as liabilities due to banks, liabilities from profit participation capital, liabilities from finanical leasing, and liabilities due to minority shareholders.

- Companies that are controlled directly or indirectly by members of the Management Board or Supervisory Board.

The members of the Management Board received short-term compensation of EUR 873 thousand (PY: EUR 825 thousand) in financial year 2008. In addition, post-employment expenditures of EUR 137 thousand (PY: EUR 79 thousand) were made.

The members of the Supervisory Board received short-term compensation of EUR 45 thousand (PY: EUR 45 thousand) in financial year 2008.

At December 31, 2008 and 2007, there were receivables and payables due from or to related parties as followed:

	RECEIVABLES		PAYABLES	
	12/31/2008 EUR 000	12/31/2007 EUR 000	**12/31/2008** EUR 000	12/31/2007 EUR 000
Entities controlled by members of the Supervisory Board				
Entities controlled by members of the Management Board	4	3		

At December 31, 2008 or in financial year 2008 and at December 31, 2007 or in financial year 2007, there were no allowances for doubtful receivables or expenses for uncollectible receivables or doubtful receivables due from related parties.

In financial years 2008 and 2007, the following expenses and income with related parties were recognized in addition to the compensation granted to the members of the Management Board:

	INCOME		EXPENSES	
	2008 EUR 000	2007 EUR 000	**2008** EUR 000	2007 EUR 000
Entities controlled by members of the Supervisory Board			5	5
Entities controlled by members of the Management Board	34	23	153	584

Transactions with entities controlled by members of the Management Board comprise services related to human resources management (income amounting to EUR 34 thousand, in previous year EUR 23 thousand), engineering services (expenses amounting to EUR 25 thousand, in previous year EUR 387 thousand), investment in sewage works (expenses amounting to EUR 124 thousand, in previous year EUR 186 thousand), and IT services (expenses amounting to EUR 4 thousand, in previous year EUR 11 thousand).

The expenses of members of the Supervisory Board resulted from research and development works of one member regarding ceramic process engineering.

7.5. Earnings per share

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

	2008	2007
Common shares outstanding at 01/01	8,000,000	8,000,000
There were no transactions in the financial year		
Common shares outstanding at 12/31	8,000,000	8,000,000
Undiluted weighted average number of common shares outstanding	**8,000,000**	**8,000,000**

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

In accordance with IAS 33 "Earnings Per Share", the effects of potential common shares are also taken into account for determining the diluted earnings per shareNo dilutive effects apply for Nabaltec AG.

The earnings per share so calculated are presented in the table below.

	2008	2007
Profit after tax – Shareholders of Nabaltec AG EUR 000	**1,126**	2,364
Undiluted weighted average number of common shares outstanding	**8,000,000**	8,000,000
Earnings per share EUR	**0,14**	0,30

For additional information please refer to section 6.9.

7.6. Disclosures regarding the cash flow statement

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

The net funds presented in the cash flow statement comprise the item of cash and cash equivalents presented in section 6.7 Cash and cash equivalents.

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

7.7. Segment reporting

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

Business segments

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

The "Functional Fillers" segment produces and distributes halogen-free flame retardant fillers for the plastics – and the cable & wire industry as well as additives.

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

The column "other" includes assets and liabilities which cannot be matched to the individual segments.

The transfer prices applied between the business segments are fundamentally determined on the basis of the customary market terms that would be charged in an arm's-length transaction. The segment income, expenses and result include transfers between the business divisions, which are eliminated as part of the consolidation process. In the financial years 2007 and 2008 no inter-segment transactions between the business divisions incurred.

Financial year ended December 31, 2008	Functional Fillers EUR 000	Technical ceramics EUR 000	Other EUR 000	Nabaltec Group EUR 000
Revenues Revenues from external customers	61,608	34,669		96,277
Segment result EBITDA	3,729	5,589		9,318
EBIT	330	3,798		4,128
Assets and liabilities Segment assets	89,295	40,924	1,942	132,161
Segment liabilities	13,199	6,004	67,908	87,111
Other segment information Capital expenditures				
- Property, plant and equipment	14,022	4,619		18,641
- Intangible assets	48	69		117
Depreciation and amortization				
- Property, plant and equipment	3,373	1,761		5,134
- Intangible assets	26	30		56

Financial year ended December 31, 2007	Functional Fillers EUR 000	Technical ceramics EUR 000	Other EUR 000	Nabaltec Group EUR 000
Revenues Revenues from external customers	57,715	30,394		88,109
Segment result EBITDA	4,425	3,926		8,351
EBIT	1,403	2,573		3,976
Assets and liabilities Segment assets	79,465	35,543	1,850	116,858
Segment liabilities	10,510	4,554	54,465	69,529
Other segment information Capital expenditures				
- Property, plant and equipment	13,525	6,904		20,429
- Intangible assets	107	114		221
Depreciation and amortization				
- Property, plant and equipment	3,005	1,339		4,344
- Intangible assets	17	14		31

Information by region

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

Financial year ended December 31, 2008	Germany EUR 000	Rest of Europe EUR 000	USA EUR 000	Rest of World EUR 000	Total EUR 000
Revenues					
Revenues from external customers	33,717	48,854	7,757	5,949	96,277
Other segment information					
Segment assets	109,729		22,432		132,161
Capital expenditures					
- Property, plant and equipment	18,581		60		18,641
- Intangible assets	117				117

Financial year ended December 31, 2007	Germany EUR 000	Rest of Europe EUR 000	USA EUR 000	Rest of World EUR 000	Total EUR 000
Revenues					
Revenues from external customers	27,947	48,360	6,010	5,792	88,109
Other segment information					
Segment assets	94,339		22,519		116,858
Capital expenditures					
- Property, plant and equipment	20,246		183		20,429
- Intangible assets	221				221

In financial years 2007 and 2008, no customer accounted for more than 10 % of total revenues.

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

7.8. Governing bodies of the company

Management Board

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

Supervisory Board

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

7.9. Significant events after the balance sheet date

In January the Group acquired liabilities from a minority shareholder at an amount of USD 1,417 thousand. There were no other significant events after the balance sheet date.

Schwandorf, March 31, 2009
The Management Board

AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by Nabaltec AG, comprising the balance sheet, income statement, statement of shareholders' equity, cash flow statement and notes, as well as the consolidated management report for the business year from January 1, 2008 to December 31, 2008. Preparation of the consolidated financial statements and consolidated management report in accordance with the IFRS as applied in the EU, as well as supplementary provisions of commercial law applicable in accordance with Article 315a Par. 1 HGB ("German Commercial Code") are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated 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, earnings and financial position in the consolidated financial statements in accordance with applicable accounting rules and in the consolidated management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, as well as expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal controlling system and the evidence supporting the disclosures in the consolidated financial statements and consolidated management report are examined in the course of the audit, primarily on a test basis. 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 applied by the Group and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and consolidated management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations, with the following qualification:

In accordance with the revised IAS 27, which was published in January 2008, the Company disclosed negative minority interests in the amount of TEUR –4,006 in 2008 (year before: TEUR –1,850). The revised IAS 27 standard applies to annual reporting periods beginning on or after July 1, 2009, although it may be applied before that date as well. The EU has yet to endorse this revised standard. EU endorsement is expected in the second quarter of 2009, at which point early application of the revised IAS 27 standard would become permissible. Under the standard currently in effect, negative minority interests would have to be offset against the profit carry-forward in the amount of TEUR –2,698 (year before: TEUR –145) and consolidated after-tax earnings, in the amount of TEUR –1,308 (year before: TEUR –1,705). Net shareholders' equity is unaffected. As a result, earnings per share is actually EUR –0.02 (year before: EUR 0.08) rather than the EUR 0.14 (year before: EUR 0.30) which is reported in the consolidated financial statements. For further explanations, we refer to the statements in the notes, Marginal No. 6.9.

With this qualification, the consolidated financial statements of Nabaltec AG comply, in our assessment, with the IFRS as applied in the EU, as well as supplementary provisions of commercial law applicable in accordance with Article 315a Para. 1 HGB and give a true and fair view of the Group's net assets, earnings and financial position in accordance with those rules. The consolidated management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position, as well as the opportunities and risks of future development.

Munich, April 24, 2009

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

Signed, ppa. Chr. Bayer	Signed, M. Rauchfuss
Auditor	Auditor

Annual Financial Statements

Abridged version for the financial year 2008

Balance Sheet of Nabaltec AG, Schwandorf

AT DECEMBER 31, 2008

ASSETS	12/31/2008 EUR 000	12/31/2007 EUR 000
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions, industrial property rights and similar rights and assets, as well as licenses for such rights and assets	212	143
2. Advance payments	138	118
	350	**261**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on non-owned land	11,539	8,601
2. Technical equipment and machinery	33,417	18,273
3. Other fixtures, fittings and equipment	1,798	1,331
4. Advance payments and plant and machinery in process of construction	11,248	15,383
	58,002	**43,588**
III. Financial assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	7,067	5,664
3. Other loans	752	646
	7,982	**6,473**
	66,334	**50,322**
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	15,355	8,872
2. Finished products and merchandise	10,875	7,320
	26,230	**16,192**
II. Accounts receivable and other assets		
1. Trade receivables	1,282	2,724
2. Other assets	2,565	10,820
	3,847	**13,544**
III. Cash and cash equivalents	**1,674**	**1,427**
	31,751	**31,163**
C. DEFERRED EXPENSES AND ACCRUED INCOME	**529**	**190**
	98,614	**81,675**

LIABILITIES	**12/31/2008** EUR 000	12/31/2007 EUR 000
A. SHAREHOLDERS' EQUITY		
I. Subscribed capital Conditional capital: (EUR 000) 3,000 (PY: 3,000)	8,000	8,000
II. Profit participation capital	5,000	5,000
III. Capital reserve	30,824	30,824
IV. Profit carry-forward	2,123	1,039
V. Net income	1,753	1,884
	47,700	**46,747**
B. INVESTMENT GRANTS TO FIXED ASSETS	**300**	**424**
C. PROVISIONS AND ACCRUED LIABILITIES		
1. Provisions for pensions and similar obligations	7,118	6,564
2. Accrued taxes	608	439
3. Other provisions and accrued liabilities	3,667	4,704
	11,393	**11,707**
D. ACCOUNTS PAYABLE		
1. Accounts payable to banks	25,471	13,519
2. Trade payables	7,620	8,519
3. Accounts payable to affiliated companies	23	388
4. Other accounts payable - thereof from taxes: (EUR 000) 166 (PY: 149) - thereof for social securities: (EUR 000) 16 (PY: 13)	6,107	371
	39,221	**22,797**
	98,614	**81,675**

Income Statement

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

		2008 01/01/ - 12/31/		2007 01/01/ - 12/31/
	EUR 000	EUR 000	EUR 000	EUR 000
1. Revenues		96,277		88,109
2. Increase in finished products		3,676		980
3. Other own work capitalized		253		562
Total performance		**100,206**		**89,651**
4. Other operating income		2,439		1,335
		102,645		**90,986**
5. Cost of materials: a) Cost of raw materials and supplies and purchased goods	57,850		50,625	
b) Cost of purchased services	731	58,581	383	51,008
Gross profit		**44,064**		**39,978**
6. Personnel expenses: a) Wages and salaries	14,087		12,604	
b) Social security and other pensions costs - thereof for pension costs: (EUR 000) 809 (PY: 661)	3,324		2,780	
7. Amortization/Depreciation of intangible assets and property, plant and equipment	4,129		2,961	
8. Other operating expenses	18,137	39,677	16,884	35,229
		4,387		**4,749**
9. Income from long term financial investments - thereof from affiliated companies: (EUR 000) 323 (PY: 378)	323		378	
10. Other interest and similar income	29		319	
11. Depreciation on financial assets and marketable securities	0		672	
12. Interest and similar expenses	2,282		1,418	
Financial result		**−1,930**		**−1,393**
13. Income from ordinary business activities		**2,457**		**3,356**
14. Extraordinary expenses	0		0	
15. Extraordinary result		0		0
		2,457		**3,356**
16. Income taxes	664		1,428	
17. Other taxes	40	704	44	1,472
18. Net income		**1,753**		**1,884**
19. Profit carried forward		2,123		1,039
20. Net profit		**3,876**		**2,923**

APPROPRIATION OF DISTRIBUTABLE PROFIT

The management board proposes that the distributable profit of the 2008 financial year, amounting to EUR 3,876,101.44 will be carried forward.

Schwandorf, April 2009

The Management Board
Johannes Heckmann, Gerhard Witzany

FINANCIAL CALENDAR

26 May 2009	Interim Report 1/2009
10 June 2009	Annual General Meeting
25 August 2009	Interim Report 2/2009
24 November 2009	Interim Report 3/2009

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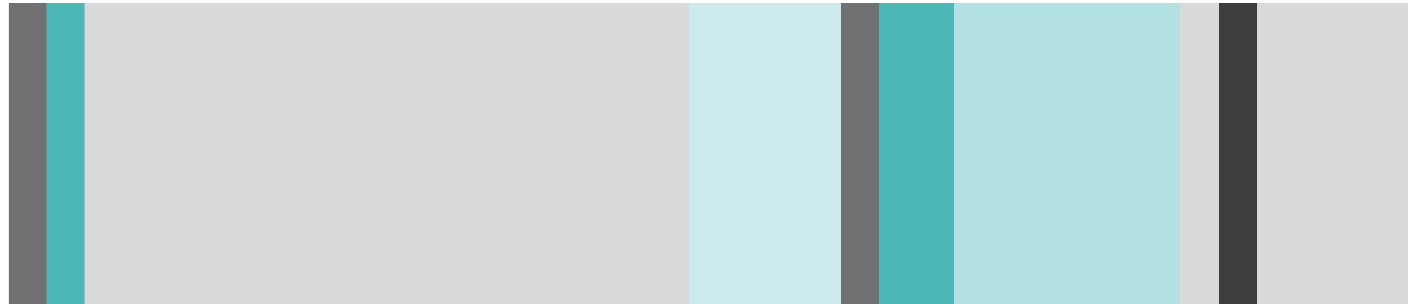

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