# FINANCIAL STATEMENTS (HGB)
# OF NABALTEC GMBH
# AS AT 31 DECEMBER 2003

## Balance Sheet (HGB) as at 31 December 2003

| ASSETS | 31.12.2003 € | 31.12.2003 € | 31.12.2002 k€ | 31.12.2002 k€ |
|---|---|---|---|---|
| **A. FIXED ASSETS** | | | | |
| **I. Intangible Assets** | | | | |
| Industrial and Similar Rights and Assets | | 655,077.84 | | 917 |
| **II. Property, Plant and Equipment** | | | | |
| 1. Land and Buildings | 5,804,182.46 | | 5,357 | |
| 2. Technical Equipment and Machines | 11,421,554.38 | | 8,676 | |
| 3. Other Equipment, Operating and Office Equipment | 665,564.38 | | 794 | |
| 4. Payments on Account and Assets under Construction | 273,584.07 | 18,164,885.29 | 2,556 | 17,383 |
| **III. Financial Assets** | | | | |
| Other Loans | | 10,098.60 | | 19 |
| | | 18,830,061.73 | | 18,319 |
| **B. CURRENT ASSETS** | | | | |
| **I. Inventories** | | | | |
| 1. Raw Materials and Supplies | 4,614,695.46 | | 6,549 | |
| 2. Finished Goods and Merchandise | 4,740,977.21 | 9,355,672.67 | 5,294 | 11,843 |
| **II. Receivables and other Assets** | | | | |
| 1. Trade Receivables | 1,827,426.82 | | 1,730 | |
| 2. Other Assets | 2,192,236.21 | 4,019,663.03 | 2,052 | 3,782 |
| thereof from shareholders € 182,310.68 (PY. k€ -) | | | | |
| **III. Cash in Hand, Cash at Banks** | | 99,908.74 | | 87 |
| | | 13,475,244.44 | | 15,712 |
| **C. PREPAID EXPENSES** | | 6,035.87 | | 14 |
| | | 32,311,342.04 | | 34,045 |

| EQUITY AND LIABILITIES | 31.12.2003 | | 31.12.2002 | |
|---|---|---|---|---|
| | € | € | k€ | k€ |
| **A. EQUITY** | | | | |
| I. Subscribed Capital | 6,000,000.00 | | 6,000 | |
| II. Capital Reserve | 1,824,219.38 | | 1,824 | |
| III. Profit Carried Forward | 91,265.18 | | 66 | |
| IV. Net Income for the Year | 528,997.53 | 8,444,482.09 | 25 | 7,915 |
| **B. SPECIAL ITEM FOR FIXED ASSETS INVESTMENT GRANTS** | | 1,278,874.13 | | 1,500 |
| **C. ACCRUALS** | | | | |
| 1. Accruals for Pensions | 4,485,458.00 | | 3,981 | |
| 2. Tax Accruals | 74,600.00 | | 232 | |
| 3. Other Accruals | 4,619,263.91 | 9,179,321.91 | 3,823 | 8,036 |
| **D. LIABILITIES** | | | | |
| 1. Liabilities to Banks | 9,121,078.96 | | 10,801 | |
| 2. Trade Payables | 3,739,589.38 | | 4,430 | |
| 3. Other Liabilities | 541,301.74 | | 1,363 | |
| thereof from Taxes: € 123,362.32 (PY. k€ 185) | | | | |
| thereof respecting social security: € 257,454.83 (PY. k€ 252) | | | | |
| thereof to shareholders: € - (PY. k€ 14) | | 13,401,970.08 | | 16,594 |
| **E. DEFERRED INCOME** | | 6,693.83 | | — |
| | | 32,311,342.04 | | 34,045 |

## Income Statement (HGB) for the Financial Year 2003

| | | 2003 | | 2002 | |
|---|---|---|---|---|---|
| | | EUR | EUR | kEUR | kEUR |
| 1. | Revenues | | 50,064,108.50 | | 43,260 |
| 2. | Decline (PY. Increase) in Finished Goods Inventories | | -561,740.25 | | 404 |
| 3. | Own Work Capitalized | | 157,548.44 | | 113 |
| 4. | Other Operating Income | | 1,426,230.37 | | 1,149 |
| 5. | Cost of Materials: | | | | |
| | a) Cost of Raw Materials and Supplies and of Purchased Merchandise | -25,771,930.36 | | -23,595 | |
| | b) Cost of Purchased Services | -123,447.72 | -25,895,378.08 | -78 | -23,673 |
| 6. | Personnel Expenses: | | | | |
| | a) Wages and Salaries | -9,239,130.24 | | -8,716 | |
| | b) Social Security and other Pension Costs | -2,590,673.23 | | -2,113 | |
| | thereof for Pension Costs EUR 592,488.80 (PY. kEUR 335) | | -11,829,803.47 | | -10,829 |
| 7. | Amortization /Depreciation of Intangible Assets and Property, Plant and Equipment | | -2,414,846.96 | | -1,782 |
| 8. | Other Operating Expenses | | -9,398,346.66 | | -7,679 |
| 9. | Income from Long Term Financial Investments | | 886.98 | | 1 |
| 10. | Other Interest and Similar Income | | 5,491.18 | | 3 |
| 11. | Interest and Similar Expenses | | -835,923.66 | | -780 |
| 12. | **Income from Ordinary Activities** | | 718,226.39 | | 187 |
| 13. | Income Taxes | | -153,706.34 | | -125 |
| 14. | Other Taxes | | -35,522.52 | | -37 |
| 15. | **Net Income for the Year** | | 528,997.53 | | 25 |

## Notes to the Financial Statements of Nabaltec GmbH (HGB) for the Financial Year 2003

### General Disclosures on the Annual Financial Statements

The annual financial statements were prepared in accordance with the accounting provisions of the German Commercial Code (HGB). The provisions of the German Limited Liability Company Act (GmbH Gesetz) were also observed. The type of expenditure format used up to now was again applied to the income statement.

Nabaltec GmbH, Schwandorf, is a large corporation as defined by Section 267 (3) HGB.

### Accounting and Valuation Policies

The following accounting and valuation policies were used concerning balance sheet and income statement items. They have remained unchanged in comparison with the previous year.

*Intangible assets* are stated at acquisition cost, less scheduled straight-line amortization write-downs. The estimated useful life is 4 years. Amortization in the year of addition is recorded on a pro-rata temporis basis.

*Property, Plant and Equipment* are stated at acquisition or production cost, less scheduled depreciation.

Scheduled depreciation is recorded straight-line in accordance with the estimated useful lives established in the business, which are oriented towards the highest admissible tax rates. Assets capable of independent use with values of up to € 410.00 are written down in full in the year of acquisition pursuant to Section 6 (2) EStG. Pro-rata depreciation is recorded in the year of acquisition. Production costs do not include interest on borrowed capital.

*Financial Assets* are stated at continued acquisition cost.

*Raw Materials* and Supplies, and *Merchandise* are stated at acquisition costs, taking the strict lower of cost or market principle into account. Acquisition cost is calculated under the average cost method. Slow-moving items are written down on the basis of the length of storage.

*Finished Goods* are recorded at production costs taking the strict lower of cost or market principle into account. Production costs include direct materials and manufacturing costs, as well as adequate shares of materials and manufacturing overhead costs. Interest on borrowings and general administrative costs were not included in production costs.

*Receivables and Other Assets* are carried at face value. Individual discernible risks are accounted for through individual valuation adjustments.

The general default and credit risk for trade receivables was accounted for by a general allowance for doubtful accounts.

Foreign currency receivables are measured at the buying rate applicable on the transaction date or the buying rate applicable at the balance sheet date.

*Liquid Assets* are stated at face value. Cash holdings denominated in foreign currencies are valued at the lower of the buying rate on the transaction date or the buying rate applicable at the balance sheet date.

*Prepaid Expenses* are stated at face value. The disagio is amortized over the term of the loans.

*Subscribed Capital* is stated at face value.

The *Special Item for Fixed Assets Investment Grants* was reported under equity at the amount of the grant and released over the useful life of subsidized investments on a pro-rata basis.

*Pension Accruals* are recorded in accordance with actuarial principles at accrued values based on an interest rate of 6 %.

*Tax Accruals* correspond to expected payments.

*Other Accruals* were recorded for all discernible risks and uncertain liabilities in the amounts required under prudential business judgment.

*Liabilities* are reported at their repayment or settlement amounts.

Foreign currency liabilities are stated at the selling rate as of the origination date or the selling rate at the balance sheet date, whichever is higher.

## Note Disclosures to the Balance Sheet

### *Fixed Assets*

The development of individual items of fixed assets is presented in the appendix to these Notes.

### *Receivables and Other Assets*

Other assets mainly comprise receivables from a factoring company for purchase price retentions and blocked amounts from customer receivables sold (k€ 1,072), VAT refund claims (k€ 315), and an asset value from reinsurance (k€ 270). Receivables of k€ 270 have a remaining term of more than one year.

### *Prepaid Expenses*

Prepaid expenses include a disagio of k€ 2.

### *Shareholders' Equity*

The subscribed capital of Nabaltec GmbH, Schwandorf, amounts to k€ 6,000 and is fully paid in.

### *Special Item for Fixed Assets Investment Grants*

The special item is released in accordance with the useful life of the subsidized investments. Due to insufficient investment, part of the entitlement to the investment grant of k€ 451 already received was forfeited in the 2003 financial year. k€ 450 of this amount had already been recognized in the 2002 annual financial statements as release of the special item.

### *Accruals*

Tax accruals include corporation tax including solidarity surcharge (k€ 36) and trade tax (k€ 39).

Other accruals relate mainly to cleanup and waste disposal costs, personnel commitments and anticipated losses from incomplete contracts.

### *Liabilities*

The classification of liabilities and residual maturities including disclosure of collateral provided is shown in the schedule of liabilities:

| | Total Amount | With Residual Maturities up to 1 Year | With Residual Maturities 1 to 5 Years | With Residual Maturities More than 5 Years | Collateral Provided | Type of Collateral |
|---|---|---|---|---|---|---|
| | k€ | k€ | k€ | k€ | k€ | |
| Liabilities to Banks | 9,121 | 5,362 | 3,759 | — | 9,121 | Mortgage, Assignments as Security |
| | (10,801) | (4,915) | (5,886) | (— ) | (10,801) | |
| Trade Payables | 3,740 | 3,740 | — | — | — | |
| | (4,430) | (4,430) | (— ) | (— ) | (— ) | |
| Other Liabilities | 541 | 541 | — | — | — | |
| | (1,363) | (1,363) | (— ) | (— ) | (— ) | |
| | 13,402 | 9,643 | 3,759 | — | 9,121 | |
| | (16,594) | (10,708) | (5,886) | (— ) | (10,801) | |

(In parentheses: previous year)

**Other Financial Commitments**

The following other financial commitments are significant for the assessment of the financial position:

| | | 31.12.2003 | 31.12.2002 |
|---|---|---|---|
| | | k€ | k€ |
| a) | Commitments from Rental, Lease, Service and Consulting Agreements | 2,123 | 227 |
| | thereof with a term of | | |
| | - up to 1 year | 462 | 227 |
| | - from 1 to 5 years | 1,406 | — |
| | - of more than 5 years | 255 | — |
| b) | Commitments (Outstanding purchases) from Investment Orders | 111 | 323 |
| | thereof due up to 1 Year | 111 | 323 |

**Disclosures on the Income Statement**

***Sales Revenues***

The classification of sales revenues according to activity areas and geographic markets is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | k€ | % | k€ | % |
| Germany | 15,886 | 31.7 | 15,031 | 34.7 |
| Rest of Europe | 23,174 | 46.3 | 20,433 | 47.2 |
| North America | 8,288 | 16.6 | 5,794 | 13.4 |
| South America | 135 | 0.3 | 15 | — |
| Asia | 2,868 | 5.7 | 2,307 | 5.3 |
| Africa | 279 | 0.5 | 232 | 0.5 |
| Australia | 3 | — | 13 | — |
| | 50,633 | 101.1 | 43,825 | 101.3 |
| *Less* | | | | |
| Discounts and Rebates | -569 | -1.1 | -565 | -1.3 |
| | 50,064 | 100.0 | 43,260 | 100.0 |

***Other Operating Income***

Other operating income of k€ 182 is attributable to other financial years. This principally comprises gains on the disposal of fixed assets (k€ 75) and income from the release of accruals (k€ 56).

In contrast to the previous year, the income from the utilization of the special item for fixed assets investment grants was not offset against depreciation/amortization but reported under other operating income. The disclosure in the income statement therefore corresponds to the gross presentation of fixed assets and special items in the balance sheet.

**Other Disclosures**

***Human Resources***

The average number of personnel employed in the financial year was as follows:

| | 2003 | 2002 |
|---|---|---|
| | Number | Number |
| Industrial Employees | 143 | 143 |
| Salaried employees | 75 | 78 |
| Trainees | 29 | 33 |
| Persons under Minor Employment Contracts | 16 | 14 |
| | 263 | 268 |

***Management***

Mr. Johannes Heckmann, Technical Managing Director

Mr. Gerhard Witzany, Commercial Managing Director

The Managing Partner, Mr. Gerhard Witzany, was granted a loan of k€ 150 based on Agreement dated 22 May 2003. The loan principal bears annual interest of 5.0 % and must be repaid at equal instalments of k€ 30 each year starting on 30 June 2005. The loan may be repaid early at any time.

The disclosure of the total remuneration of the Company's Managing Directors was omitted in accordance with Section 286 (4) HGB.

**Profit Appropriation Proposal**

A proposal has been submitted to the Partners' Meeting to distribute an amount of € 300,000.00 from the net income for 2003 and the profit carried forward from the previous year totaling € 620,262.71 and to carry forward the remaining amount of € 320,262.71 to the new accounting period.

Schwandorf, 31 March 2004

Nabaltec GmbH

The Management

Johannes Heckmann Gerhard Witzany

## Schedule of Fixed Assets
## (Attachment to the Notes)

| | Acquisition/Production Cost | | | | | Depreciation/Amortization | | | | Book Value | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance Carried Forward 01.01.2003 | Additions | Reclassifications | Disposals | Balance 31.12.2003 | Balance Carried Forward 01.01.2003 | Depreciation for the Financial year | Disposals | Balance 31.12.2003 | 31.12.2003 | 31.12.2002 |
| | € | € | € | € | € | € | € | € | € | € | € |
| **I. Intangible Assets** | | | | | | | | | | | |
| Industrial Rights and Similar Rights and Assets | 1,642,694.49 | 28,423.68 | 31,281.50 | — | 1,702,399.67 | 725,466.99 | 321,854.84 | — | 1,047,321.83 | 655,077.84 | 917,227.50 |
| **II. Property, Plant and Equipment** | | | | | | | | | | | |
| 1. Land and Buildings | 6,601,690.89 | 66,427.46 | 580,951.84 | — | 7,249,070.19 | 1,244,505.81 | 200,381.92 | — | 1,444,887.73 | 5,804,182.46 | 5,357,185.08 |
| 2. Technical Equipment and Machines | 18,896,583.50 | 2,379,085.68 | 1,935,021.76 | — | 23,210,690.94 | 10,220,367.08 | 1,568,769.48 | — | 11,789,136.56 | 11,421,554.38 | 8,676,216.42 |
| 3. Other Equipment, Operating and Office Equipment | 3,132,049.60 | 187,699.71 | 8,100.00 | 280,249.02 | 3,047,600.29 | 2,338,436.56 | 323,840.72 | 280,241.37 | 2,382,035.91 | 665,564.38 | 793,613.04 |
| 4. Payments on Account and Assets under Construction | 2,555,355.10 | 273,584.07 | -2,555,355.10 | — | 273,584.07 | — | — | — | — | 273,584.07 | 2,555,355.10 |
| | 31,185,679.09 | 2,906,796.92 | -31,281.50 | 280,249.02 | 33,780,945.49 | 13,803,309.45 | 2,092,992.12 | 280,241.37 | 15,616,060.20 | 18,164,885.29 | 17,382,369.64 |
| **III. Financial Assets** | | | | | | | | | | | |
| Other Loans | 19,420.32 | 136.26 | — | 9,457.98 | 10,098.60 | — | — | — | — | 10,098.60 | 19,420.32 |
| | 32,847,793.90 | 2,935,356.86 | — | 289,707.00 | 35,493,443.76 | 14,528,776.44 | 2,414,846.96 | 280,241.37 | 16,663,382.03 | 18,830,061.73 | 18,319,017.46 |

## Management Report for the Financial Year 2003

### General Economic Situation

The anticipated global economic recovery did not materialize to the extent expected during the reporting year. Domestic demand did not show any recovery compared with the previous year, but a positive trend was evident in foreign demand, particularly in the area of cable compounds for telecommunication and data processing systems. Ceramic and refractory industries remained at a low level worldwide.

The growing strength of the Euro compared to the US Dollar and British Pound led to deterioration in revenues from sales invoiced in these currencies (USA, Great Britain, and Asia). Due to the weak economic situation and the competitive environment, price increases that would fully offset the currency changes could not be implemented.

### Situation in the Industry

The reorganization of the industry is in progress. Following the closure of an oxide plant in Great Britain in 2002, further ownership changes and regrouping among some competitors can be expected.

Prices of primary materials (smelter grade oxide, aluminum hydroxide) continued to increase due to plant closures or energy problems. Shortages, however, are not expected.

The growing demand for non-halogenated, flame retardant fillers (aluminum hydroxide) continues. It will be supported on a global level by new fire protection regulations. The utilization of existing capacities led to stabilization of price levels.

### Sales Revenues and Results

In the “Flame Retardant Fillers” business unit, Nabaltec is focusing on the following market segments with the APYRAL® product range:

- with granular crystalline hydroxides and mixed hydroxides as sealing compounds in the electro-technical area on the cast resins market, and in the area of constructive elements on the market for resins
- with fine hydroxides on the market for cable coating and insulation
- with boehmite qualities on the market for catalytic materials

The objective of this concentration is to attain quality leadership in the represented areas and to maintain a global market position among the three leading suppliers.

In the granular crystalline hydroxide segment, revenue increased by 22 %; in the fine hydroxides product area, volumes and revenues posted in the previous year were exceeded by 32 %. The boehmite market was characterized by high volume orders from our main customer and posted volume growth above 69 %; in contrast, revenue grew by only 52 % due to the weak dollar.

Due to redefinition of qualities and target markets, volumes and revenues for the APYMAG® product saw an increase of more than 200 %.

This business unit closed the year with a 32 % revenue increase, which brought its share in total revenue to 59 %.

In 2003, the **“Ceramic Materials”** business unit was characterized by the conversion to the use of smelter grade oxide as the primary material. In addition to independence in provision of primary materials, this revised raw materials basis offers significant cost advantages in logistics and energy consumption. However, during the course of the process change, practically all products had to be redefined and, in some cases, re-sampled and released. Improving our qualities served to further accommodate the focus on more refined products.

Despite the cost burden from product conversion, revenues concerning oxides were up by 5 %, while the continuing weak economic situation allowed only for slight price increases. The leading market position in polishing oxides could be maintained with NABALOX®. In the Refractory market segment, global economic weakness continued to be noticeable; the position with SYMULOX® could be maintained at the previous year level. In the reporting year, too, increased energy costs remained at a high level and could not be compensated for through price development.

In the **“Ceramic Masses”** business unit, Nabaltec holds the leading market position worldwide for over-the-counter ceramic masses for technical ceramics with the GRANALOX® product range, which was also expanded through collaborative developments with customers. This results in a very close customer/supplier relationship. A volume increase of 15 % was achieved here; revenues, however, fell by 8 % due to portfolio shiftings on the par of customers.

Overall, **Nabaltec GmbH** earned sales revenues of k€ 50,064, thereby exceeding the prior year’s value by 16 %. Income before tax of k€ 718 further established the positive earnings trend despite reorganization measures.

The capital ratio could be further strengthened by the net income for the year; the balance sheet total reflects lower tied-up capital respecting materials and supplies and reduced bank liabilities.

### Sourcing and Production

Medium-term supply contracts ensured the supply of materials and energy at all times. Dependence upon individual raw material qualities no longer exists due to the development projects carried out in the past.

The capacity for fine hydroxides was extended to 40,000 t with the investment in the second production line of APYRAL® 40 CD. Customers acknowledge our qualitative market leadership in this product area, and the plant was fully utilized from the start of production.

The long term outlook for ceramic raw materials and continuing cost pressures prompted Nabaltec to execute a conversion to the use of smelter grade oxides in oxide production in the previous year. The advantages of this production change are in increased independence from primary materials suppliers, clearly lower logistics costs and significantly less warehousing and tied-up capital. This conversion involved a complete redefinition of products, a process completed in mid-April 2003. Further developments in production engineering are necessary in order to produce oxide specialties in the previous amount in a cost efficient manner in the future as well.

The project for introduction of an integrated data processing system designed for data management and recording in the production areas was further implemented.

### Organization and Human Resources

Since 1 January 1 2003, Nabaltec GmbH is classified into three business units and three service areas:

### Business Units

- Fillers
- Ceramic Materials
- Ceramic Masses

### Service Areas

- Commercial Services
- Technical Services
- Analysis Center

The classification of employees is clearly defined by technical area and area of responsibility. The areas of responsibility were appropriately structured and defined. Internal reporting presents business units as individual companies to ensure transparency of the cost and profitability structures, and also reflect the possibilities each employee to exert an influence on the respective field of activity. This organization structure aims at improving the preciseness of market presentation and a the continuous improvement of the Nabaltec GmbH market position through transparent cost structures and an increase in responsibility of the individual areas.

Nabaltec provides for the qualification of young people at a higher than average rate of 12 % by means of training programs for industrial and IT administrators and laboratory and chemical assistants. Last year, graduates of Nabaltec's training programs were again represented in the district chamber of commerce best of class.

The personnel decreased slightly to 265 employees as at 31 December 2003.

**Environmental Protection**

With the successful completion of the repeat audit in accordance with ISO 14001 through the Technical Inspection Agency [TÜV] of Bavaria, Nabaltec GmbH underscores its commitment to active environmental protection.

**Quality Management**

With the successful completion of the repeat audit in accordance with ISO 9001:2000 through the Technical Inspection Agency [TÜV] of Bavaria, Nabaltec GmbH supports their claim to a high level of quality in all areas of operation.

Internal audits ensure the improvement and maintenance of the quality management system.

**Research and Development**

Research and development activities are focused on the areas of

- process development,
- further development of the existing product range and
- new product development.

In addition to product quality improvements, process development is targeted towards efficient use of various primary materials and the most targeted production of our special products with the lowest amount of commodity products.

The potential for innovation, product quality and market proximity of Nabaltec GmbH was rated as above average in an independent market study conducted for the flame retardant fillers business unit.

Conversion to the use of smelter grade oxide as primary material for the entire oxide production was completed successfully. Further qualification of oxide suppliers will increase our independence from single suppliers of primary materials.

The development of zirconium mullite (SYMULOX® Z) initiated in the previous year as a complement to our synthetic mullite resulted in initial customer contracts, and facilitates the tapping of previously closed market segments in the fire resistant industry.

Further developments in the ceramic mass product range in combination with important key customers were once again contributing factors to the volume expansion of this business.

The further development of the product range is being advanced in all areas in collaboration with customers as well as institutes and plant manufacturers, with a view to providing our customers with quality and processing advantages through the materials produced by Nabaltec.

Nabaltec's innovative power is underscored by the participation in the "NEREFITE" EU research project. This project is aimed at the development of highly technical textile fibers based on non-halogenated mineral flame retardant.

**Outlook**

Public discussions are in favor of equipping plastics and synthetic resins with non-halogenated flame retardant fillers, a practice which is ever more becoming the standard in EU legislation, in the USA and also in Asia. In particular, this development contributes to increased use of aluminum hydroxide, which today is already the dominant non-halogenated flame retardant filler in terms of quantity. For this reason, continued dynamic growth is expected. A high level of capacity utilization was achieved through the introduction of the CD quality, which led to further targeted investments in the fine hydroxide segment with the aim of maintaining the balance between supply and demand.

Jointly with the partner BPU, the prerequisites for the formation of a joint venture in the USA were created with the objective of building a production facility in Corpus Christi (Texas), bordering the partner’s aluminum oxide plant, for the manufacture of 22,500 t fine aluminum hydroxide per year. The plant is to commence operations in 2005. As a consequence, Nabaltec will have the opportunity to further expand its position as Number 2 in this market and become the only seller to provide customers with production locations in both consumption centers.

Following volume stabilization in 2003, the economic situation gives rise to expectations of slight growth within the ceramics and refractory industries and revenue improvements are expected due to the industry situation. The conversion to oxide use is accompanied by a qualitative change in the product portfolio so that a significant development effort still has to be undertaken in collaboration with the customers in individual areas. The cost advantage gained from the conversion to the use of oxide substantiates the expectations of long-term income improvements.

Given the development in 2003, Nabaltec GmbH anticipates significant growth in both volume and revenue in 2004 as well. This will be accompanied by further improvement and stabilization of the income level. The provision with materials and supplies continues to be assured over the long term.

**Risk Management**

Global innovative activities in the highly competitive markets are associated with business risks. Consistent risk management and ongoing development of risk management instruments in all areas are a means to ensure that significant risks are recognized and eliminated. The starting point for risk management is the identification and evaluation of various types and profiles of risks, which are monitored and reviewed by the controlling function. Reports on business risks and current status reports are prepared for Management and discussed at management level. Comprehensive operational planning with target agreements including regular forecast calculations is an important element of risk management.

Nabaltec introduced a strategic planning system in order to take advantage of medium- and long-term opportunities and recognize risks. The strategy determination process includes all relevant areas. By involving experts, Nabaltec counteracts risks arising from competition, antitrust, fiscal and environmental laws and guidelines from the outset. Quality assurance measures serve to limit the product and environmental risks. Among those are, for example, certification of our activities under international standards, ongoing improvements of plants and procedures, development of new products and further development on existing products, and involvement in international expert panels.

Risk management also includes periodic reviews concerning the effectiveness of hedging tools used and the reliability of control systems. Damage and liability risks are covered by appropriate insurance policies aimed at limiting the financial impact on liquidity, financial position and the income situation and at ruling out risks relating to the Company’s existence as a going concern. With the introduction of factoring in 2002, the share of insured receivables was increased and the Company’s liquidity was significantly improved. Exchange rate risks are limited through specific exchange rate hedging measures. Demand fluctuations are counteracted to the extent necessary in close coordination with employee representatives within the scope of flexible work time regulations as stipulated in the chemical industry’s collective wage agreements

At present, future development risks do not exist due to the ongoing observation of relevant markets as described above, the continuous development of our products and adaptation to the needs of current and potential customers.

The Company is not exposed to any discernible risks that would endanger the going concern assumption during this reporting period or in the future

**Events of Special Significance after the Balance Sheet Date**

No events of special significance occurred after the balance sheet date.

Schwandorf, 31 March 2004

NABALTEC GMBH

| | |
|---|---|
| Johannes Heckmann<br>Management | Gerhard Witzany<br>Management |

## AUDITOR'S REPORT

We audited the annual financial statements of Nabaltec GmbH, Schwandorf, including the accounting system and the management report for the financial year from 1 January 2003 to 31 December 2003. The accounting system and preparation of the annual financial statements and the management report in accordance with the provisions defined in the German Commercial Code is the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements including the accounting system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with the provisions of Section 317 HGB in conformity with German auditing standards promulgated by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer / IDW). These German audit standards require that we plan and perform the audit to obtain reasonable assurance that misstatements and irregularities, which could significantly affect the fair presentation of net assets, financial position and results of operation in the Company's annual financial statements in accordance with generally accepted accounting principles and the management report, are detected. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes an evaluation of the accounting principles applied and significant management estimates, as well as an assessment of the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German accounting principles. As a whole, the management report provides a suitable understanding of the Company's position and suitably presents the opportunities and risks of future developments.

Regensburg, 16 April 2004

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

| | |
|---|---|
| Rupprecht | Dräxler |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

## Cash Flow Statement (HGB) for the Financial Year 2003

| | 01.01. - 31.12.2003 | 01.01. - 31.12.2002 |
|---|---|---|
| | k€ | k€ |
| Period Result | 529 | 25 |
| Depreciation of (+) /Write-Ups (-) on Fixed Assets | 2,415 | 1,994 |
| Increase (+) / Decrease (-) in Accruals | 1,143 | 273 |
| Other Non-Cash Expenses (+) / Income (-) | - 220 | - 177 |
| Income (-) / Loss (+) from the disposal of Fixed Assets | - 75 | - 35 |
| Increase (-) / Decrease (+) in Inventories, Trade Receivables and Other Assets not attributable to Investing or Financing Activities | 2,257 | 3,939 |
| Increase (+) / Decrease (-) in Trade Payables and other Liabilities not attributable to Investing or Financing activities | -2,835 | -1,216 |
| **Cash Flow from Operating Activities** | **3,214** | **4,803** |
| Payments received from Disposal of Property, Plant and Equipment Items | 75 | 35 |
| Payments made for Investments in Property, Plant and Equipment | -2,907 | -3,410 |
| Payments made for Investments in Intangible Assets | - 29 | - 68 |
| Payments received from the disposal of Financial Assets | 10 | 17 |
| Payments made due to Repayment Obligation for Investment Grant | 0 | - 450 |
| **Cash Flow from Investing Activities** | **-2,851** | **-3,876** |
| Payments to Company Owners | 0 | - 100 |
| Payments received from the raising of Finance Loans | 1,706 | 700 |
| Payments for Repayment of Finance Loans | -2,056 | -1,484 |
| **Cash Flow from Financing Activities** | **- 350** | **- 884** |
| Change in Cash and Cash Equivalents | 13 | 43 |
| Cash and Cash Equivalents at Beginning of Period | 87 | 44 |
| **Cash and Cash Equivalents at End of Period** | **100** | **87** |

Cash and Cash Equivalents are comprised of cash at banks and cash in hand.

## Segment Reporting (HGB) for the Financial Year 2003

In line with its internal organization and reporting structure, Nabaltec is comprised of the business units Functional Fillers and Technical Ceramics. The segment results selected for reporting purposes are Earnings before Interest and Taxes (EBIT) and Earning before Interest, Taxes and Depreciation/Amortization (EBITDA).

In addition, a presentation according to regions for the segments Functional Fillers and Technical Ceramic is provided. Regions were defined for Germany, Rest of Europe, USA and Rest of World (RoW).

| | Fillers 2003 | Ceramics 2003 | Nabaltec 2003 |
|---|---|---|---|
| **Segments according to Units** | | | |
| in k€ | | | |
| Sales Revenues | 29,599 | 20,465 | 50,064 |
| **Segment Results** | | | |
| EBITDA | 2,429 | 1,535 | 3,964 |
| EBIT | 1,107 | 442 | 1,549 |
| Depreciation/Amortization | 1,322 | 1,093 | 2,415 |
| Other Non-Cash Items | 546 | 377 | 923 |
| Assets*) | 19,252 | 12,954 | 32,206 |
| Investments in Fixed Assets | 2,238 | 697 | 2,935 |
| Liabilities | 8,381 | 5,021 | 13,402 |
| **Segments according to Regions** | | | |
| in k€ | | | |
| **Sales Revenues** | | | |
| Germany | 4,558 | 10,959 | 15,517 |
| Rest of Europe | 15,011 | 7,794 | 22,805 |
| USA | 7,108 | 1,165 | 8,273 |
| RoW | 2,922 | 547 | 3,469 |
| Total | 29,599 | 20,465 | 50,064 |
| **Assets*)** | | | |
| Germany | 19,252 | 12,954 | 32,206 |
| Rest of Europe | 0 | 0 | 0 |
| USA | 0 | 0 | 0 |
| RoW | 0 | 0 | 0 |
| Total | 19,252 | 12,954 | 32,206 |
| **Investments in Fixed Assets** | | | |
| Germany | 2,238 | 697 | 2,935 |
| Rest of Europe | 0 | 0 | 0 |
| USA | 0 | 0 | 0 |
| RoW | 0 | 0 | 0 |
| Total | 2,238 | 697 | 2,935 |

*) Fixed and current assets, exclusive of liquid assets.

## Statement of Changes in Shareholders' Equity (HGB) for the Financial Year 2003

| | Subscribed Capital | Capital Reserve | Result Balance Carried Forward | Equity |
|---|---|---|---|---|
| | € | € | € | € |
| Balance at 1 January 2002 | 6,000,000.00 | 1,824,219.38 | 165,854.53 | 7,990,073.91 |
| Distribution | | | - 100,000.00 | - 100,000.00 |
| Period Result | | | 25,410.65 | 25,410.65 |
| Balance at 31 December 2002 | 6,000,000.00 | 1,824,219.38 | 91,265.18 | 7,915,484.56 |
| Balance at 1 January 2003 | 6,000,000.00 | 1,824,219.38 | 91,265.18 | 7,915,484.56 |
| Period Result | | | 528,997.53 | 528,997.53 |
| Balance at 31 December 2003 | 6,000,000.00 | 1,824,219.38 | 620,262.71 | 8,444,482.09 |

**AUDIT CERTIFICATE**

To Nabaltec GmbH, Schwandorf:

We have audited the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and Segment Reporting of Nabaltec GmbH, Schwandorf, for the financial year from 1 January 2003 to 31 December 2003 derived from the annual financial statements for the financial year from 1 January 2003 to 31 December 2003 and the related accounting records. The Statement of Changes in Shareholders' Equity, the Cash Flow Statement and Segment Reporting supplement the annual financial statements of Nabaltec GmbH, Schwandorf, for the financial year from 1 January 2003 to 31 December 2003, prepared in accordance with the provisions of the German Commercial Code.

The preparation of the Statement of Changes in Shareholders' Equity, Cash Flow Statement and Segment Reporting for the financial year from 1 January 2003 to 31 December 2003 in accordance with the provisions of the German Commercial Code are the responsibility of the Company's Management.

Our responsibility is to express an opinion as to whether the Statement of Changes in Shareholders' Equity, Cash Flow Statement and Segment Reporting for the financial year from 1 January 2003 to 31 December 2003 were appropriately derived from the annual financial statements for the financial year from 1 January 2003 to 31 December 2003 and the underlying accounting records in accordance with generally accepted accounting principles in Germany. The scope of our engagement did not extend to the audit of the underlying annual financial statements and accounting records.

We planned and performed our audit in conformity with IDW Auditing Instruction: Audit of Additional Financial Statement Elements (Prüfung von zusätzlichen Abschlusselementen) (IDW PH 9.960.2) to obtain reasonable assurance that material errors in the derivation of the Statement of Changes in Shareholders' Equity, Cash Flow Statement and Segment Reporting from the annual financial statements and the underlying accounting records could be detected.

In our opinion, based on the findings of the audit, the Statement of Changes in Shareholders' Equity, Cash Flow Statement and Segment Reporting for the financial year from 1 January 2003 to 31 December 2003 were appropriately derived from the annual financial statements for the financial year from 1 January 2003 to 31 December 2003 and the underlying accounting records in accordance with generally accepted accounting principles in Germany.

Munich, 15 September 2006

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

M. Rauchfuss
Wirtschaftsprüfer

ppa. Chr. Bayer
Wirtschaftsprüfer