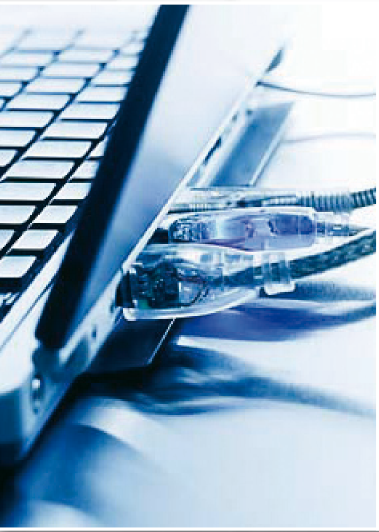
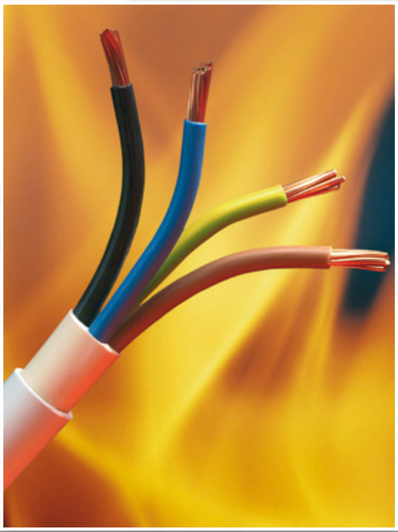
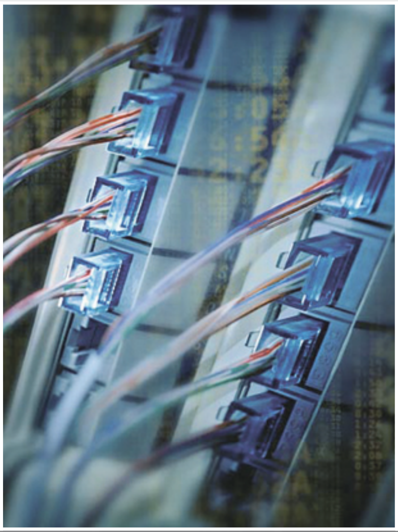
Nabaltec

Know-how for improved safety

FINANCIAL STATEMENTS NABALTEC AG 2007


Balance Sheet of Nabaltec AG, Schwandorf, for 31/12/2007

ASSETS

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

LIABILITIES

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

Income Statement of Nabaltec AG, Schwandorf,
for the period from 01/01/2007 - 31/12/2007

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

Nabaltec AG, Schwandorf

Notes for the Fiscal Year 2007

General Information about the Financial Statements

The annual financial statements were prepared in accordance with the accounting provisions of the German Commercial Code, with due regard for the provisions of the German Stock Corporation Act and Articles of Association. The total cost method was used for the income statement.

Nabaltec AG, Schwandorf, is a large corporation in terms of § 267 para. 3 of the German Commercial Code.

Accounting and Valuation Methods

The following accounting and valuation methods, which are unchanged from the previous year, were applied to the balance sheet and income statement items:

Intangible fixed assets are listed at their acquisition cost, minus scheduled straight-line depreciation. Depreciation in the year of addition was performed on a pro rata basis.

Property, plant and equipment are listed at acquisition or production cost minus scheduled depreciation.

Scheduled depreciation is performed using the straight-line method and typical useful life, based on the maximum allowable tax rates. Independently usable assets of up to EUR 410.00 were fully written-off in the year of addition pursuant to § 6 para. 2 of the Income Tax Act. Depreciation in the year of addition was performed on a pro rata basis. Production costs do not include interest on borrowed funds.

Financial assets are listed at updated acquisition cost. If necessary, they are depreciated to fair value. Once the grounds for the lower valuation no longer exist, a write-up is performed back to the higher value.

Raw materials and supplies, as well as **merchandise,** are listed at acquisition cost, with due regard for the strict lowest-value principle. Acquisition costs are determined using the averaging method. Items whose fair value on the balance sheet date is lower than the acquisition cost are depreciated to the lower fair value.

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

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

Liquid funds are reported at nominal value.

Prepaid expenses relate to expenses prior to the balance sheet date which represent an expense for a certain time after that date. Reversal is made using the straight-line method in accordance with the passage of time.

Subscribed capital is listed at nominal value.

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

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

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

Liabilities are listed at the repayment or performance amount. Valuation principles remained unchanged from the previous year.

Principles of Currency Translation

Foreign-currency receivables and liquid funds are valued at the selling rate on the date of accrual or the balance sheet date, whichever is lower. Foreign-currency obligations are valued at the buying rate on the date of accrual or the balance sheet date, whichever is higher.

Information About the Balance Sheet

Fixed Assets

The development of the individual fixed asset items in the fiscal year is described on the next page.

Accounts Receivable and Other Assets

Other assets consist primarily of accounts receivable from a factoring company from the sale of receivables (KEUR 2,223), assets foreseen for resale (KEUR 7,062), VAT refund claims (KEUR 953), a petroleum tax refund claim (KEUR 260) and corporation and trade tax refund claims (KEUR 174). All accounts receivable and other assets have a residual term of less than one year.

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

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

Statement of Fixed Assets of Nabaltec AG for the Period from 01/01/2007 - 31/12/2007

	Acquisition/production cost					Accumulated depreciation				Book value	Book value	Depreciation in
	01/01/2007	Addition	Disposal	Transfer	31/12/2007	01/01/2007	Addition	Disposal	31/12/2007	31/12/2007	31/12/2006	financial year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
I. Intangible assets												
1. Conessions, industrial and similar rights and assets and licenses to such rights and assets	1,794	103	0	5	1,902	1,724	35	0	1,759	143	70	35
2. Advance payments	0	118	0	0	118	0	0	0	0	118	0	0
	1,794	221	0	5	2,020	1,724	35	0	1,759	261	70	35
II. Property, plant and equipment												
1. Land, leasehold rights and buildings including buildings on non-owned land	7,650	897	0	2,357	10,904	2,014	289	0	2,303	8,601	5,636	289
2. Technical equipment and machinery	27,187	4,559	160	5,711	37,297	16,942	2,186	104	19,024	18,273	10,245	2,186
3. Other fixtures, fittings and equipment	3,539	980	88	197	4,628	2,925	451	79	3,297	1,331	614	451
4. Advance payments and plant and machinery under construction	9,843	13,810	0	-8,270	15,383	0	0	0	0	15,383	9,843	0
	48,219	20,246	248	-5	68,212	21,881	2,926	183	24,624	43,588	26,338	2,926
III. Financial assets												
1. Shares in affiliated companies	163	0	0	0	163	0	0	0	0	163	163	0
2. Loans to affiliated companies	4,332	2,187	0	0	6,519	183	672	0	855	5,664	4,149	672
3. Other loans	547	99	0	0	646	0	0	0	0	646	547	0
	5,042	2,286	0	0	7,328	183	672	0	855	6,473	4,859	672
	55,055	22,753	248	0	77,560	23,788	3,633	183	27,238	50,322	31,267	3,633

Equity

a) Subscribed capital EUR 8,000,000.00

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

b) Capital from profit participation rights EUR 5,000,000,00

Shareholders' equity includes profit participation capital in the amount of KEUR 5,000. The scheduled term ends in 2012. Until then, the contracting parties have no routine termination right. The profit participation capital meets the requirements in IDW HFA 1/1994 for disclosure as shareholders' equity.

c) Authorized capital

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

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

d) Conditional capital EUR 3,000,000.00

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

e) Capital reserve EUR 30,824,219.38

f) Profit carried forward EUR 1,039,275.98

01/01/2007	EUR	1,056,055.18
2006 net income	EUR	783,220.80
Profit distribution	EUR	800,000.00
31/12/2007	EUR	1,039,275.98
		===============

g) Net income for the year EUR 1,883,591.24

Special Item for fixed Assets Investment Grants

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

Accruals

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

Liabilities

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

	Total	Residual terms			Sum backed by security	Type of security
		Less than 1 year	1-5 years	Over 5 years		
	KEUR	KEUR	KEUR	KEUR	KEUR	
Liabilities to banks	13,519	5,472	3,450	4,597	13,519	Land charges, security assignment
Trade payables	8,519	8,519	0	0	0	
Liabilities to affiliated companies	388	388	0	0	0	
Other liabilities	371	371	0	0	0	
	22,797	14,750	3,450	4,597	13,519	

Information about the Income Statement

Revenues

Breakdown of revenue by geographical market:

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

Breakdown of revenue by business divisions:

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

Depreciation on Financial Assets and Marketable Securities

Due to the changed exchange rate, depreciation in the amount of KEUR 672 was performed on loans to affiliated companies in the reporting year pursuant to § 253 para. 2 Sentence 3 of the German Commercial Code in conjunction with § 279 para. 1 Sentence 2 of the German Commercial Code. The book value of loans to affiliated companies is KEUR 5,664.

Other Information

Liability relations and other financial obligations

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

			2007 KEUR	2006 KEUR
1.	Obligations arising from the negotiation and transfer of bills of exchange		0	0
	thereof, in favor of affiliated companies:	KEUR 0		
2.	Obligations arising from guarantees, bills of exchange and check guaranties		0	0
	thereof, in favor of affiliated companies:	KEUR 0		
3.	Obligations arising from warranty contracts		6,908	8,649
	thereof, in favor of affiliated companies:	KEUR 6,908 (previous year: KEUR 8,649)		
4.	Liability arising from securities for third-party obligations		0	0
	thereof, in favor of affiliated companies:	KEUR 0		
	Total		6,908	8,649

The following other financial obligations exist which are of importance for assessment of the financial position:

		31/12/2007 KEUR
a)	Obligations from rental, lease, service and consulting agreements	13,337
	thereof	
	- maturing in less than 1 year	3,118
	- maturing in 1 to 5 years	8,764
	- maturing in over 5 years	1,455
	- thereof to affiliated companies	0
b)	Obligations from investment contracts (orders)	1,428
	- thereof, maturing in less than 1 year	1,428
	Total	14,765

Share Ownership pursuant to § 285 para. 11 of the German Commercial Code

	Share in capital stock		Total shareholders' equity in past fiscal year *) Nashtec		Earnings in past fiscal year *) Nashtec	
Direct holdings	in %	in USD	in USD	in EUR	in USD	in EUR
Nashtec Management Corporation, Texas (USA)	51.0	2,102.65	1)	1)	1)	1)
Nashtec L.P., Texas (USA)	50.5%	208,163.26	-5,498,536.00	-3,736,433.81	-4,717,901.00	-3,442,466.98
Indirect holdings						
Stake in Nashtec Management Corporation:						
Nashtec L.P., Texas (USA)	0.5%	2,102.65	-5,498,536.00	-3,736,433.81	-4,717,901.00	-3,442.466,98

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

1) The disclosure of data as to shareholders' equity and earnings in the past fiscal year is omitted in accordance with § 286 para. 3 Sentence 1 No. 1 of the German Commercial Code due to secondary importance.

Derivative Financial Instruments

In the course of the company's risk management system, derivative financial instruments are used in order to mitigate risks, particularly those arising from fluctuations in interest and exchange rates.

Market values are determined by independent financial services companies.

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

Interest rate hedging

An interest rate swap exists in the nominal value of EUR 5,200,000.00 with a market value of EUR -101,013.63 as of 31 December 2007 and a term until 31 March 2016. The derivative interest rate swaps service to mitigate the interest rate risk. Negative market values were reported as accruals.

Employees

The average number of workers employed during the fiscal year is:

	2007 Number
Industrial workers	162
Employees	102
Marginal workers	7
	271

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

Management and Supervisory Board

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

The members of the **management board** are:

Mr Johannes Heckmann
Economic engineering graduate

Mr Gerhard Witzany
Commercial graduate

The disclosure of the total remuneration of the management board in accordance with § 285, Sentence 1 No. 9a of the German Commercial Code was waived in analogous application of § 286 para. 4 of the German Commercial Code.

Supervisory Board

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

Dr. Leopold von Heimendahl (supervisory board chairman)
Retired physicist

Dr. Dieter J. Braun (deputy chairman)
Retired chemist

Prof. Dr.-Ing. Jürgen G. Heinrich
Professor of engineering ceramics

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

Schwandorf, 3 March 2008

***Nabal**tec* AG
The Management Board

Johannes Heckmann Gerhard Witzany

Management Report for the Fiscal Year 2007

1. Business and Operating Environment

1.1 Macroeconomic situation

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

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

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

1.2 Industry situation

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

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

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

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

1.3 Business activity

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

1.4 Corporate structure

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

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

Business Divisions

Functional Fillers:
- Flame Retardants
- Additives

Technical Ceramics:
- Ceramic Raw Materials
- Ceramic Bodies

Service Centers

- Administrative Services
- Technical Services
- Laboratory Services

1.5 Strategy

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

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

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

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

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

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

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

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

3. **Systematic product range expansion**

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

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

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

1.6 Controlling

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

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

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

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

2. Course of business in 2007

2.1 Revenue performance

Nabaltec AG’s revenue improved by 23.0% in 2007 (previous year: 16.8%), as the revenue growth of recent years continued to accelerate. Revenue improved from EUR 71.6 million in the fiscal year 2006 to EUR 88.1 million. Both divisions contributed to this positive trend: revenue in the "Functional Fillers" divisions increased from EUR 46.2 million to EUR 57.7 million while revenue in the "Technical Ceramics" division improved from EUR 25.4 million to EUR 30.4 million. The percentage of foreign revenue increased from 65.8% in 2006 to 68.3% in the reporting year, as Nashtec supplied the USD markets.

2.2 Net assets, financial position and earnings situation

2.2.1 Net assets

The total assets of Nabaltec AG increased from EUR 72.3 million as of 31 December 2006 to EUR 81.7 million as of 31 December 2007.

On the assets side, property, plant and equipment rose by a clear EUR 17.3 million. This increase is mainly attributable to the acquisition of new technical equipment and machinery in order to expand production capacity at Schwandorf. In current assets, accounts receivable from the factoring company decreased significantly by EUR 9.0 million due to the transition from maturity factoring to financing factoring. At the same time, current assets increased by EUR 7.1 million for assets acquired in the course of sale and lease back transactions, which are slated for resale in 2008. Cash on hand and in banks decreased by EUR 9.1 million.

On the liabilities side, shareholders' equity increased from EUR 45.7 million to EUR 46.7 million, resulting in an equity ratio of 57.2% (previous year: 63.2%). Total accounts payable increased from EUR 15.7 million to EUR 22.8 million in the reporting year. Accounts payable to banks increased by EUR 5.9 million.

2.2.2 Financial position

The cash flow statement showed an operating cash flow of EUR 19.7 million in 2007 (previous year: EUR -6.6 million). A major reason for this improvement was the reduction in accounts receivable from the factoring company by EUR 9.0 million due to the transition from maturity factoring to financing factoring. In addition, short-term current account liabilities increased by EUR 4.2 million.

Net cash flow from investment activity was EUR -30.3 million, clearly above 2006's value, EUR -13.9 million. This includes EUR 8.0 million in investments as part of sale and lease back transactions, and investments in the amount of EUR 0.9 million have already been resold in 2007. Net cash flow from financing activity came to EUR 1.9 million in the reporting period. In addition to EUR 0.8 million in dividends, a total of EUR 4.1 million in loan principal was repaid in the past year. At the same time, the company received EUR 5.9 million in loans. By comparison, net cash flow from financing activity amounted to EUR 30.2 million in 2006. The difference is above all a result of the net issue proceeds from the company's successful IPO in November 2006, in the amount of EUR 28.9 million. Cash and cash equivalents at the end of the reporting period amounted to EUR 1.4 million.

2.2.3 Earnings situation

Nabaltec AG's revenue showed clear improvement over the previous year, rising to EUR 88.1 million. Other operating income was EUR 1.3 million and thus just above previous year's value of EUR 1.2 million. Cost of materials as a percentage of total performance rose to 56.9% in 2007 from 53.6% in the previous year. The cost of materials reported by Nabaltec AG includes merchandise expenditures for Nashtec materials at sale proceeds minus sales margin. As a result, the growth in revenue from Nashtec over the previous year caused the cost of materials ratio to rise. In addition, there was a sharp increase in the cost of electricity at the Schwandorf site compared to 2006. Other operating expenses increased from EUR 13.6 million to EUR 16.9 million. The rise in the freight costs, which was particularly attributable to the shipment of products by air to supply Nashtec's customers (EUR 0.4 million), contributed substantially to this change. Currency-related depreciation expenses for a loan from Nabaltec to Nashtec affected the financial result to the amount of EUR 0,7 million. Due to the growth of Nabaltec AG and the resulting expansion of its work force and increase in collective wages, the company's personnel expenses rose by EUR 1.5 million over the previous year, to EUR 15.4 million. However, personnel expenses as a percentage of total performance decreased from 19.2% in 2006 to 17.2% in 2007.

Nabaltec AG's earnings figures present a two-sided picture in the reporting year: while earnings before interest, taxes, depreciation and amortization (EBITDA) improved from EUR 7.4 million to EUR 7.7 million, earnings before interest and taxes (EBIT) amounted to EUR 4.7 million, just below EUR 5.0 million in the previous year. Accordingly, the resulting EBIT margin (relating to total performance) decreased to 5.2% (previous year: 6.9%). Earnings after taxes reached EUR 1.9 million as of 31 December 2007 (previous year: EUR 0.8 million, including extraordinary expenses for the IPO in November 2006 to the amount of EUR 2.1 million).

2.3 Employees

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

Nabaltec AG had an average of 302 employees, including management board and trainees (previous year: 277).

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

2.4 Orders on hand

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

2.5 Research and development

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

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

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

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

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

2.6 Investments

In the fiscal year 2007, Nabaltec AG invested EUR 30.8 million, up from EUR 13.9 million in the previous year. Of this sum, EUR 8.0 million was invested in objects as part of sale and lease back transactions, which are nevertheless listed as current assets (cf. net assets and financial position). The company's investment activity focused above all on increasing production capacity for the APYRAL® CD qualities, ceramic bodies and reactive aluminum oxides. The company also invested in improving infrastructure and in energy supply.

3. Outlook

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

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

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

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

4. Risk report

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

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

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

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

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

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

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

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

5. Supplement report

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

Schwandorf, 3 March 2008

Nabal*tec* AG
The Management Board

Johannes Heckmann   Gerhard Witzany

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Nabaltec AG for the business year from January 1, 2007 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the shareholder agreement are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Article 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating 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, based on the findings of our audit, the annual financial statements of Nabaltec AG comply with the legal requirements and supplementary provisions of the shareholder agreement and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 13 March 2008

AWT Horwath GmbH
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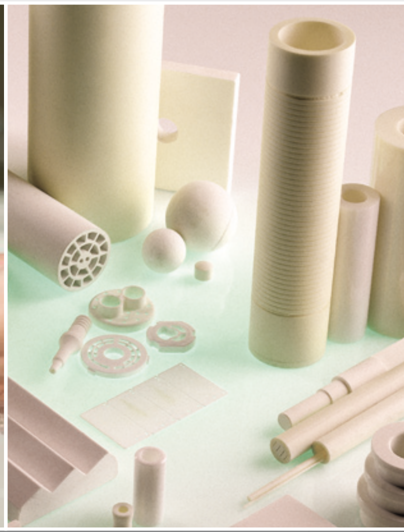
Wirtschaftsprüfer

Manuel Rauchfuss
Wirtschaftsprüfer



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