

Our Know-How for Your Safety

Annual Financial Statements Nabaltec AG 2008

Nabaltec AG
2008 Annual Report

MANAGEMENT REPORT NABALTEC AG 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.

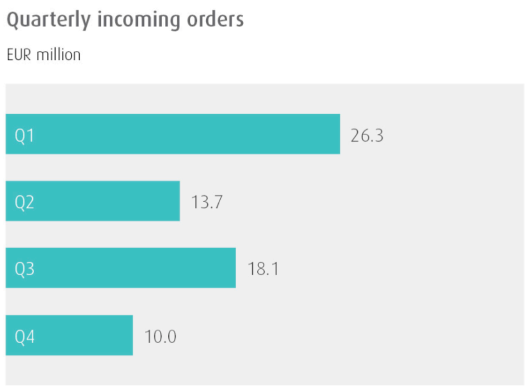
Corporate data is presented and discussed each month by senior management, and possible actions are then discussed and implemented. The structure is consistent with that employed for planning. A projection is made at the conclusion of each quarter.

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

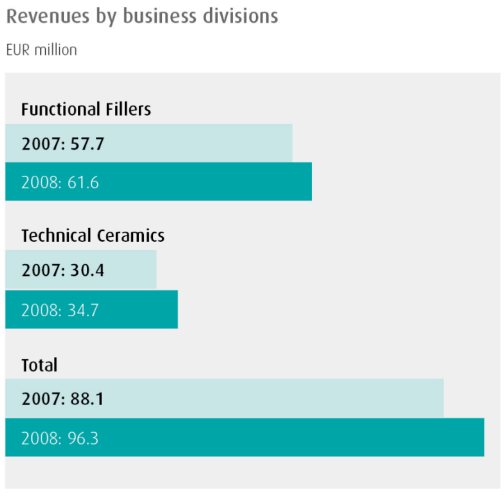
2.1 Orders and Revenues

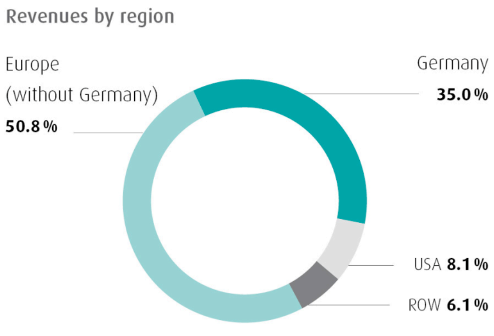
After a promising start and powerful revenues growth continuing well into the third quarter, Nabaltec's business took a turn for the worse towards the end of the year, as demand fell in the fourth quarter for both the "Functional Fillers" and "Technical Ceramics" divisions. The "Flame Retardants" unit 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.



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'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 site and at the subsidiary Nashtec in Corpus Christi.





Despite the global economic slowdown in the fourth quarter of 2008, Nabaltec's 2008 revenues were very solid, with 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

Company revenues grew by 9.3% in 2008, to EUR 96.3 million. Given the EUR 3.7 million change in inventories of finished products, total performance actually grew by 11.7%, to EUR 100.2 million, i.e. at a slightly higher pace than net revenues.

The EUR 2.4 million in other operating income (up from EUR 1.3 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	58.5%	56.9%
Personnel expenses	17.4%	17.2%
Other operating expenses	18.1%	18.8%

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. Nabaltec AG's cost of materials includes merchandise expenses for Nashtec materials (sale proceeds minus sales margin). The gross margin was 44.0% and nearly on the level of the year before (44.6%). In absolute figures, gross profit increased by EUR 4.1 million, to EUR 44.1 million.

Other operating expenses increased from EUR 16.9 million to EUR 18.1 million but the other operating expense ratio improved from 18.8% in 2007 to 18.1% in 2008.

The personnel expense ratio remained largely constant, at 17.4%, compared to 17.2% the year before.

Nabaltec AG's earnings were stable in the reporting year despite the difficult environment. Operating earnings (EBIT) decreased minimally, from EUR 4.7 million to EUR 4.4 million. The EBIT margin (EBIT as a percentage of total performance) was therefore 4.4% in 2008. Given the fact that net financial income fell to EUR -1.9 million in 2008 from EUR -1.4 million in 2007, the result from ordinary business activity was EUR 2.5 million, down from EUR 3.4 million in 2007. Nabaltec AG's net income was EUR 1.8 million, almost as much as the year before (EUR 1.9 million). The Management Board will recommend carrying forward the distributable result in order to strengthen the company's equity base and create additional financial breathing space for upcoming investment projects.

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 Joint Venture Nashtec's start of production in the US, which was part of a company-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		
	31 December 2008	31 December 2007
Shareholders' equity	48.4%	57.2%
Provisions and accrued liabilities	11.6%	14.3%
Accounts payable	39.8%	27.9%

On the liabilities side of the balance sheet, shareholders' equity rose from EUR 46.7 million to EUR 47.7 million. Nabaltec AG's equity ratio was therefore 48.4%, down from 57.2% the year before due to the rise in total assets. Total liabilities rose by EUR 16.4 million in the reporting year. Accounts payable to banks increased by EUR 12.0 million. 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."

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 AG does not use any other financial engineering instruments.

2.3.4 Investment Analysis

Nabaltec AG made a total of EUR 21.5 million in investments in Financial Year 2008. After deducting the 2008 portion of the investment grant, there were a total of EUR 19.9 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 22.8 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 cash flow statement showed cash flow from operating activities of EUR 3.8 million in Financial Year 2008 (year before: EUR 19.3 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 -17.5 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 21.4 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. Investments in financial assets amounted to EUR 1.2 million. Cash flow from investing activities was EUR -29.3 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 13.9 million in the reporting period. In addition to the dividends pay-out in the amount of EUR 0.8 million, a total of EUR 0.9 million in rendered payments for financial loans were made in 2008. During the same period, Nabaltec received EUR 10.0 million in new borrowings and EUR 7.9 million from sale-and-lease-back transactions. Net interest payments amounted to EUR 2.3 million. Cash flow from financing activities was EUR 0.9 million in Financial Year 2007.

Nabaltec AG's total cash as a sum of cash on hand and in banks as of 31 December 2008 amounted to EUR 1.7 million, up from EUR 1.4 million at the beginning of Financial Year 2008.

2.4 Assets Position

Nabaltec AG's total assets increased from EUR 81.7 million on 31 December 2007 to EUR 98.6 million on 31 December 2008.

Major asset items as a percentage of total assets		
	31 December 2008	31 December 2007
Fixed assets	67.3%	61.6%
Therein: Property, plant and equipment	58.8%	53.4%
Current assets	32.2%	38.2%
Therein: Inventories	26.6%	19.8%

On the assets side, property, plant and equipment grew by EUR 14.4 million, or 33.0%, to EUR 58.0 million. This increase is attributable to investments in technical equipment and machinery, infrastructure and production process optimization.

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 9.3% 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 AG had 314 employees at the end of 2008 (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 21.5 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 AG'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 improving 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 AG 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 company'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 company 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

Balance Sheet of Nabaltec AG, Schwandorf, for 31 December 2008

ASSETS

	31/12/2008 KEUR	31/12/2007 KEUR
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

	31/12/2008 KEUR	31/12/2007 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	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: KEUR 166 (PY: KEUR 149) - thereof for social security: KEUR 16 (PY: KEUR 13)	6,107	371
	39,221	22,797
	98,614	81,675

Income Statement of Nabaltec AG, Schwandorf
for the period of 1 January 2008 to 31 December 2008

	01/01/2008 - 31/12/2008		01/01/2007 - 31/12/2007	
	KEUR	KEUR	KEUR	KEUR
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: KEUR 809 (PY: KEUR 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: KEUR 323 (PY: KEUR 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

Nabaltec AG, Schwandorf

Notes for the Fiscal Year 2008

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 150.00 were fully written-off in the year of addition pursuant to § 6 para. 2 of the Income Tax Act. Assets whose value exceeds this amount but is still less than EUR 1,000.00 are disclosed in a single item and are depreciated at a rate of 20% a year. 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. Assets are measured on the balance sheet date using a discounted cash flow (DCF) method. The projections of the subsidiary underlying the valuation assume that the company will continue to exist and that internal medium- and long-term revenue and earnings targets will be met, as well as positive free cash flow. The projects cite revenue and earnings margins which are based on the current goals and assumptions of Nabaltec AG's management board with respect to course of business in the years to come. No depreciation was disclosed on the balance sheet date. In the event of changes to planning assumptions, the continued existence of the subsidiary or material adverse changes in the subsidiary's business, Nabaltec AG may have to write down the value of financial assets in future financial statements, which may affect Nabaltec AG's financial, earnings and liquidity position.

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 833), VAT refund claims (KEUR 1,308), a petroleum tax refund claim (KEUR 242) and a ZMS steam annual account refund claim (KEUR 113). All accounts receivable and other assets have a residual term of less than one year.

Prepaid Expenses

Prepaid expenses consist of KEUR 388 in loan discounts and KEUR 140 in prepaid expenses for next fiscal year.

Statement of Fixed Assets of Nabaltec AG for the Period from 1 January 2008 to 31 December 2008

	Acquisition / production cost					Accumulated depreciation							
	01/01/2008	Addition	Disposal	Transfer	31/12/2008	01/01/2008	Addition	Appreciation	Disposal	31/12/2008	Book Value 31/12/2008	Book Value 31/12/2007	Depreciation in financial year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
I. Intangible assets													
1. Concessions, industrial and similar rights and assets and licenses to such rights and assets	1,902	97	0	38	2,037	1,759	66	0	0	1,825	212	143	66
2. Advance payments	118	20	0	0	138	0	0	0	0	0	138	118	0
	2,020	117	0	38	2,175	1,759	66	0	0	1,825	350	261	66
II. Property, plant and equipment													
1. Land, leasehold rights and buildings including buildings on non-owned land	10,904	1,042	0	2,318	14,264	2,303	422	0	0	2,725	11,539	8,601	422
2. Technical equipment and machinery	37,297	4,810	175	13,681	55,613	19,024	3,291	0	119	22,196	33,417	18,273	3,291
3. Other fixtures, fittings and equipment	4,628	762	186	65	5,269	3,297	350	0	176	3,471	1,798	1,331	350
4. Advance payments and plant and machinery under construction	15,383	11,967	0	-16,102	11,248	0	0	0	0	0	11,248	15,383	0
	68,212	18,581	361	-38	86,394	24,624	4,063	0	295	28,392	58,002	43,588	4,063
III. Financial Assets													
1. Shares in affiliated companies	163	0	0	0	163	0	0	0	0	0	163	163	0
2. Loans in affiliated companies	6,519	1,116	0	0	7,653	855	0	287	0	568	7,067	5,664	0
3. Other loans	646	106	0	0	752	0	0	0	0	0	752	646	0
	7,328	1,222	0	0	8,550	855	0	287	0	568	7,982	6,473	0
	77,560	19,920	361	0	97,119	27,238	4,129	287	295	30,785	66,334	50,322	4,129

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 2008, 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 3,000,000.00 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	2,122,867.22
1 January 2008	EUR	1,039,275.98
2007 net income	EUR	1,883,591.24
Profit distribution	EUR	800,000.00
31 December 2008	EUR	2,122,867.22
g) Net income for the year	EUR	1,753,234.22

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 1,770), clean-up and disposal expenses (KEUR 498) and outstanding invoices (KEUR 986).

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	KEUR
Liabilities to banks	25,470	8,442	8,533	8,495	25,470	Land charges, security assignment
Trade payables	7,620	7,620	0	0	0	
Liabilities to affiliated companies	23	23	0	0	0	
Other liabilities	6,107	1,740	4,367	0	0	
	39,220	17,825	12,900	8,495	25,470	

Some of Nabaltec AG's loan contracts are subject to covenants which are tied to leverage coverage ratios or the equity ratio. If the covenants are breached, the lender has the right to increase the interest margin or exercise extraordinary termination of the contract. The covenant was breached in the 2008 reporting year, and another may be breached in 2009. The management board is negotiating with the relevant bank and, based on the course of the discussions thus far, does not expect the bank to take any fundamentally harmful measures.

Other Accounts Payable

In accordance with HFA 1/1984, grants received by not yet invested, in the amount of KEUR 4.367, are disclosed as other accounts payable. This sum will be disclosed as other accounts payable until it is used in accordance with the terms of the grant.

Information about the Income Statement

Revenues

Breakdown of revenue by geographical market:

	2008		2007	
	KEUR	%	KEUR	%
Germany	33,717	35.0	27,947	31.7
Rest of Europe	48,854	50.8	48,360	54.9
United States of America	7,757	8.1	6,010	6.8
ROW	5,949	6.1	5,792	6.6
	96,277	100.0	88,109	100.0

Breakdown of revenue by business divisions:

	2008		2007	
	KEUR	%	KEUR	%
Functional Fillers	61,608	64.0	57,715	65.5
Technical Ceramics	34,669	36.0	30,394	34.5
	96,277	100.0	88,109	100.0

Attributions on Financial Assets and Marketable Securities

KEUR 287 in write-ups were performed in the reporting year on loans to affiliated companies pursuant to § 280(1) Sentence 1 of the Commercial Code due to changes in the currency parity, following the write-downs performed last year pursuant to § 253(2) Sentence 3 of the Commercial Code in conjunction with § 279(1) Sentence 2 of the Commercial Code.

The book value of loans to affiliated companies is KEUR 7,067.

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:

			2008 KEUR	2007 KEUR
1.	Obligations arising from the negotiation and transfer of bills of exchange thereof, in favor of affiliated companies:	KEUR 0	0	0
2.	Obligations arising from guarantees, bills of exchange and check guaranties thereof, in favor of affiliated companies:	KEUR 0	0	0
3.	Obligations arising from warranty contracts thereof, in favor of affiliated companies:	KEUR 6,417 (previous year: KEUR 6,908)	6,417	6,908
4.	Liability arising from securities for third-party obligations thereof, in favor of affiliated companies:	KEUR 0	0	0
	Total		6,417	6,908

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

		31/12/2008 KEUR
a)	Obligations from rental, lease, service and consulting agreements thereof	11,906
	- maturing in less than 1 year	3,399
	- maturing in 1 to 5 years	8,507
	- maturing in over 5 years	0
	- thereof to affiliated companies	0
b)	Obligations from investment contracts (orders)	8,476
	- thereof, maturing in less than 1 year	8,476
	Total	20,382

An additional USD 1.876 million in funding was provided this year to Nabaltec's subsidiary, Nashtec L.P. Nabaltec AG estimates that another TSUD 700 will be needed in Fiscal Year 2009.

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	-11,334,033.00	-8,041,043.05	-3,881,996.00	-2,652,999.89
Indirect holdings						
Stake in 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

*) 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

As part of the company's risk management system, derivative financial instruments are used in order to mitigate risks, particularly risks arising from interest and exchange rate fluctuations.

Market values are determined by independent financial services companies.

The nominal and market values of the financial instruments as of 31 December 2008 were as follows:

Interest rate hedging

An interest rate swap exists in the nominal value of EUR 5,037.500.00 with a market value of EUR 452,873.21 as of 31 December 2008 and a term until 31 March 2016.
The interest rate swap serves to mitigate the interest rate risk. Positive market value was not taken into account.

Currency-related contracts

	31 December 2008		31 December 2007	
	Par value	Market value	Par value	Market value
	EUR	EUR	EUR	EUR
Futures USD	137,532.66	-5,727.52	0	0

Currency hedging contracts are measured based on reference prices, taking into account mark-ups and mark-downs. A provision for imminent losses from pending transactions was formed in the amount of the negative market value. Positive market values were not considered.

Employees

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

	2008
	Number
Industrial workers	179
Employees	114
Marginal workers	12
	305

In addition, an average of 31 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 2008.

Schwandorf, 31 March 2009

Nabaltec AG
The Management Board

Johannes Heckmann   Gerhard Witzany

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

AUDITOR'S OPINION

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, 2008 to December 31, 2008. 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, earnings and financial position 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, 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 books and records, the annual financial statements and the management report are examined in the course of the audit, primarily on a test basis. 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 statutory requirements and supplementary provisions of the shareholder agreement and give a true and fair view of the Company's net assets, earnings and financial position 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, as well as the opportunities and risks of future development.

Munich, April 24, 2009

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

Signed, ppa. Chr. Bayer
Auditor

Signed, M. Rauchfuss
Auditor

Nabaltec AG
2008 Annual Report: 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

Declaration of Compliance with the German Corporate Governance Code for the 2009 Financial Year

The management and supervisory boards of Nabaltec AG, with registered office in Schwandorf, declare as follows, pursuant to § 161 of the German Stock Corporation Act:

Nabaltec AG has complied with the recommendations of the German Corporate Governance Code (the "Code") in financial years 2007 and 2008, with the exceptions cited in the Declarations of Compliance for those years. Beginning in financial year 2009, the company will comply with the recommendations of the German Corporate Governance Code as amended on 6 June 2008 and published in the electronic Bundesanzeiger [Federal Gazette] on 8 August 2008, with the following exceptions:

- The company will not be sending notification of the convening of the general meeting or the convention documents to financial service providers, shareholders or shareholder associations by electronic means (No. 2.3.2 of the Code).
- The supervisory board will not appoint a management board chairman or spokesman for the time being (No. 4.2.1 of the Code).
- Management board remuneration will not be broken down and disclosed, citing each individual by name; the Corporate Governance Report does not include a compensation report (Nos. 4.2.4 and 4.2.5 of the Code).
- No age limit has been specified for members of the management board (No. 5.1.2 of the Code).
- The supervisory board will not form committees, including an audit committee and a nomination committee, as long as it consists of only three members (Nos. 5.3.1, 5.3.2 and 5.3.3 of the Code).
- Supervisory board members will receive only fixed compensation and session allowances, no performance-based compensation; deputy chairmanship of the supervisory board will not affect the compensation amount. Supervisory board compensation will not be broken down and disclosed, citing each individual by name (No. 5.4.6 of the Code).
- The company will make consolidated financial statements publicly accessible within four months after the end of the financial year and interim reports will be publicly accessible within 60 days after the end of the reporting period (7.1.2 of the Code).

Schwandorf, 13 March 2009

The Management Board:	The Supervisory Board:
Johannes Heckmann	Dr. Leopold von Heimendahl
Gerhard Witzany	Dr. Dieter J. Braun
	Professor Dr.-Ing. Jürgen G. Heinrich

Nabaltec AG

Alustraße 50 - 52
92421 Schwandorf
Germany
Phone +49 9431 53-0
Fax +49 9431 53-260
www.nabaltec.de