ANNUAL FINANCIAL STATEMENTS NABALTEC AG 2011

OUR KNOW-HOW FOR YOUR SAFETY

Nabaltec

NABALTEC AG
2011 Annual Report

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2011

1. OPERATIONS AND GENERAL CONDITIONS

1.1 BUSINESS OPERATION

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide (ATH) and aluminum oxide. The Company belongs to the world's leading suppliers of functional fillers, ceramic raw material and ceramic bodies. The production capacity entails approximately 240,000 tons per annum (t.p.a.) with an export share of nearly 70%.

The range of applications of Nabaltec products is extremely diversified:

- flame retardants for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment
- fillers and additives that pigment and stabilize plastics and that are applied due to their catalyst features or as flame retardant in the electronics industry
- ceramic raw materials applied in the refractory industry, in technical ceramics and abrasives industry
- highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters

Whenever applications require a high degree of quality, safety, environmental friendliness and product duration, Nabaltec products are always preferred. It is the combination of these important characteristics that guarantee Nabaltec products outstanding growth prospects. Particularly in the area of functional fillers, non-halogenated flame retardants, such as Nabaltec products, are increasingly replacing plumbiferous, and thus environmentally hazardous, fillers. The main drivers are the globally increased environmental consciousness, comprehensive international and national regulations and the industry's self-imposed obligation. Flame protection within the plastics and cable & wire industry will continue to grow dynamically in the years to come, which is supported by recent market research results. In order to benefit from this trend disproportionately high and to gain market leadership within this segment, we have specifically expanded our production capacity for ATH-based flame retardant fillers. Today, Nabaltec is one of the world's leading suppliers in this area.

As the world's exclusive supplier of fine precipitated aluminum hydroxide that is used as high-quality, non-halogenated, flame retardant fillers, Nabaltec disposes of production sites in the most important demand-driven markets in Europe and USA (i.e. in Schwandorf and Kelheim, Germany, and in Corpus Christi, USA). This permits Nabaltec to produce cost-efficiently in customer proximity and, therefore, to serve the most significant markets directly.

Also within the business division “Technical Ceramics”, Nabaltec products have excellent growth potential thanks to a wide range of applications and relevant target markets. In the ceramic raw materials segment, the market for reactive alumina is developing over proportionally well due to increasing refractory industry requirements. Markets for technical ceramics and the abrasive industry also continue showing solid growth.

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 at all times. This proximity to our clients is fundamental for the concerted, client-specific development of our products.

1.2 CORPORATE STRUCTURE

Nabaltec, based in Schwandorf, was formed in 1994 and, in 1995, acquired the specialty alumina division of VAW aluminium AG. In September 2006, the Company was transformed into a publicly traded company and has been listed in the Entry Standard of the Frankfurt stock exchange since November 2006.

Nabaltec AG owns a 51% interest in Nashtec LLC (USA) as part of a joint venture. Nabaltec AG does not have any other participations or subsidiaries.

Reflecting the characteristics of the target and buyers' markets, Nabaltec AG's operations are divided into two Company divisions, each in turn comprising of market segments, or respectively, of business divisions. In addition, the Company operates four service departments as profit, respectively, cost centers.

BUSINESS DIVISIONS
Functional Fillers:

- Flame Retardants
- Additives

Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS
Administrative Services
Controlling/Finance
Technical Services
Laboratory Services

1.3 STRATEGY

For the further development of the Company, Nabaltec AG focuses on the following core strategic areas:

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 growing dynamically in the years to come, which is supported by recent market research results. Halogenated flame retardant fillers will consistently be replaced by non-halogenated fillers. In order to benefit from this trend disproportionately high and to gain market leadership within this segment, we have specifically expanded our production capacity for ATH-based flame retardant fillers. Today, Nabaltec is one of the world's leading suppliers in this area.

In the ceramic raw materials segment, the market for reactive alumina is developing over proportionally well due to increasing refractory industry requirements. Markets for technical ceramics and the abrasive industry also continue showing solid growth. Nabaltec responds to this growth by further expanding its facilities for innovative products.

We are already market-leader in readily available ceramic bodies for highly specialized applications in technical ceramics - due to amongst others - the state-of-the-art production facility for granulated ceramic bodies in Schwandorf.

2. **Strategic positioning within growth markets**

Environmentally friendly, non-toxic and highly safe products and processing solutions are globally advancing forward encouraged particularly through regulatory requirements or self-imposed commitments from the industry. With an export share of almost 70%, we already profit from these worldwide trends. The aim of being the one of the world's top three suppliers in the target markets goes hand in hand with the aim of being equally well represented across all global markets. Our focus of attention regarding market expansion measures is currently on North America and Asia.

3. **Continuous improvement of production processes as well as product quality so as to optimize customer benefits**

Through our integrated sales team and application-specific advisory, we are engaged in a constant exchange with our customers. The Company's product and process development activities are continuously geared so as to offer customers processing advantages through simple and faster production processes and, consequently, those benefits relating to lower manufacturing and development costs. To this end, the testing facility in Kelheim and the research and development department at the Schwandorf site are constantly being expanded and the Company collaborates with research institutions.

Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both of which represent major competitive factors. Nabaltec has taken extensive measures in order to minimize energy consumption as well as air and water pollution during operations.

4. **Systematic expansion of our product range**

Nabaltec develops its own product portfolio along three dimensions: Through the improvement of existing products, often in close collaboration with key customers. Examples are additive and boehmites, which are produced and marketed on industrial scale since 2009. Through focused quality development of existent products that meet specific customer requirements as well as through the further development of existent products for the expansion of their application range. So-doing, Nabaltec could not only replace plumbiferous substances in 2011, with the environmentally friendly stabilizer for the PVC industry, ACTILOX® CAHC, but also particularly access new application areas, thereby strengthening its market position in this competitive market environment.

Thanks to the testing facility in Kelheim, Nabaltec disposes over optimal development and production facilities for sample production of several hundred tons and for new product launches on small scale.

5. **Flexible and quick adaption of capacities and cost structures thanks to high-resolution controlling processes**

Nabaltec pursues a margin oriented capacity policy. Fluctuations in demand have to be taken into account as soon as possible if production processes simultaneously should remain profitable, since the production processes in specialty chemistry can only be varied with an imminent delay. Therefore, Nabaltec has developed a much differentiated controlling system that reacts fast; and has at its disposal the appropriate instruments so as to align costs with fluctuations in demand.

6. **Strong financing basis to secure future investments**

In order to take full advantage of market opportunities relating to functional fillers and technical ceramics, further significant investments are necessary. This relatively high investment activity is at the same time a high market entry barrier for potential new suppliers. Such as to ensure the disposal over the required investment capital, Nabaltec focuses on a broad financing basis consisting of equity, bank loans, subsidies as well as corporate bonds emitted in 2010 in the amount of EUR 30.0 million.

1.4 CONTROLLING

Nabaltec AG has implemented a companywide incentive scheme, assigning responsibilities and defining specific objectives for even the smallest units of the Company. The earnings and cost-performance accounting system is an extensive means to analyze the achievement of Company objectives. Variance analyses are available online, indicating need for action at an early stage, and promoting leadership through defined incentives. Variance analyses are performed for all cost centers each month.

Since 1998, the ERP software ‘Navision’ is in use by all commercial departments. The entire administration of the cost-performance accounting system, including the earnings statement, has been performed by Nabaltec on the basis of the controlling software ‘macs’ since 2003. Revenues, contribution margin, EBIT, ROI, period of amortization and cash flows are the central key figures used as a basis for our business economic decisions.

2. COURSE OF BUSINESS IN 2011

2.1 A REVIEW OF THE FINANCIAL YEAR

Despite a year marked by an increasingly difficult economic and market environment, Nabaltec could achieve new record highs regarding the most important financial ratios. Revenue increased by 14.5% amounting to EUR 129.0 million, earnings before interest and tax (EBIT) increased by 124.4% amounting to EUR 9.2 million, while equity grew by 8.5% to EUR 43.4 million.

On Group level, the most recently communicated revenue and earnings forecast for the financial year 2011 were met.

According to Management, Nabaltec AG’s market position could be further improved in 2011. The respective number one positions amongst the top 3 in the relevant target markets were either confirmed or improved. All regions and product areas developed positively in 2011.

The commencement of the 2012 was encouraging for the remainder of the financial year. The purchase retention of many customers that set in the third quarter of 2011 and was still felt in the fourth quarter 2011 - amongst others, due to targeted stock reduction - resided beginning 2012, resulting in an increase in demand. Thanks to corresponding catch-up effects, the first quarter of 2012 took a positive start. With its product range and long term reputation, Nabaltec is optimally equipped for a continued successful financial year 2012.

2.2 MACROECONOMIC DEVELOPMENT

Subsequent to an initially rather positive start of the year 2011, the upward global economic trend clearly lost momentum in the course of the year. Reasons for this were in particular the sovereign debt crisis in the euro zone, the uncertainties in the financial markets as well as the fiscal policies in the USA. According to the Kiel Institute for the World Economy (IfW), the growth of the gross domestic product (GDP) in the USA slowed down from 3.0% to 1.7%. Temporary factors, such as the strong rise in raw material prices and the consequences arising from the catastrophe in Japan, also had a noticeable effect on the global economy. Overall, growth in global production slowed down from 5.1% to 3.8%. Economic growth in the emerging markets also weakened in the course of the year. China’s GDP-growth decreased from 10.3% to 9.5% as well as India’s from 10.4% to 6.7%.

The euro zone was marked by a similar development in the course of 2011 as observed in the global economy. An initially strong start was followed by a clear downturn. Beside decreased global demand, the growing debt crisis, the high financial volatility and the continuously worsening consumer as well as company confidence had an encumbering effect. In total the growth of the overall economic production decreased from 1.8% to 1.5%.

Based on information provided by the Federal Bureau of Statistics, Germany again achieved a clear increase, whereby growth was mainly observed in the first half of the year. GDP-growth was approximately 3.0% in 2011 compared to 3.7% in prior year. The most significant drivers were domestic demand and investments in machinery and buildings. Foreign trade as well as the situation in the labor market developed positively.

2.3 INDUSTRY DEVELOPMENT

In 2011, total revenue in the German chemical industry grew by 9% to EUR 186.5 billion (source: German chemical industry association Verband der Chemischen Industrie e.V. (VCI)). In comparison to prior year, exports grew by 10% to EUR 110.2 billion. Domestic revenue increased by 7.5% and reached a volume of EUR 76.3 billion.

Chemical and pharmaceutical prices increased in the past year on average by 5%. Especially increasing raw material costs forced many companies to raise product prices. Within the course of the year, raw material prices slightly decreased again. While demand receded, the price increase came to a standstill in the fourth quarter of 2011.

Due to the rapid recovery of the German chemical industry, companies already abandoned their investment reluctance in 2010. The trend continued in 2011. While the chemical industry already invested approximately EUR 5.8 billion in buildings and equipment in 2010, the VCI assumes that the investments in 2011 amounted to approximately EUR 6.4 billion. This corresponds to an increase of 10%.

The long term trend of increasing demand for non-halogenated, flame retardant fillers and in particular aluminum hydroxide is still intact. Newly issued fire safety regulations around the world continuously propel this development. Independent forecasts assume an annual increase in worldwide demand of 6.5% till 2014 (on the basis of ATH, source: The Freedonia Group, Inc.). This market growth is especially stimulated by the growing public consciousness regarding fire safety as well as the ongoing replacement of potentially hazardous flame retardants with environmentally friendly, halogen-free aluminum hydroxide. This development in demand specifically affects fine precipitated aluminum hydroxide. A strong demand was felt in 2011, especially in the first half of the year. In the third quarter of 2011, a clear slowdown followed, mainly due to a general uncertainty regarding further economic development. In 2011, the fourth quarter was characterized by strong stock reduction along the value chain in the respective target markets. Simultaneously however, demand nevertheless stabilized, which not least indicates new stimuli for 2012. According to Nabaltec AG, the prospects remain good regarding environmentally friendly additives in plastic production as well as regarding boehmite with its numerous applications.

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand within the steel industry. 2011 was marked by dynamic market growth, while demand was relatively stable in the third and fourth quarters of 2011 and despite noticeable uncertainties in the international environment. Market experts also expect an annual growth of 5% for refractory products and approximately 3% for technical ceramics.

2.4 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG

Despite having to face a year within which the market environment continued to prove difficult, Nabaltec AG could achieve another record in 2011. In particular, the first half year was extraordinarily dynamic. This decreased somewhat during the remainder of the year, especially due to a slowdown in the third quarter of 2011, which then stabilized on a reduced level in the fourth quarter 2011. Notwithstanding, Nabaltec could achieve new revenue and operating profits records.

The revenue forecast (on Group level) was met in the financial year 2011.

2.5 DEVELOPMENT OF REVENUE

Nabaltec AG realized EUR 129.0 million revenue in 2011, i.e. an increase of 14.5% compared to EUR 112.7 million in prior year. Turnover volume increased by 6.1% across all business areas. Direct exchange rate effects played a subordinated role in the development of revenues in 2011. The export share of 68.4% in 2011 remained only slightly behind the prior year level of 69.9%.

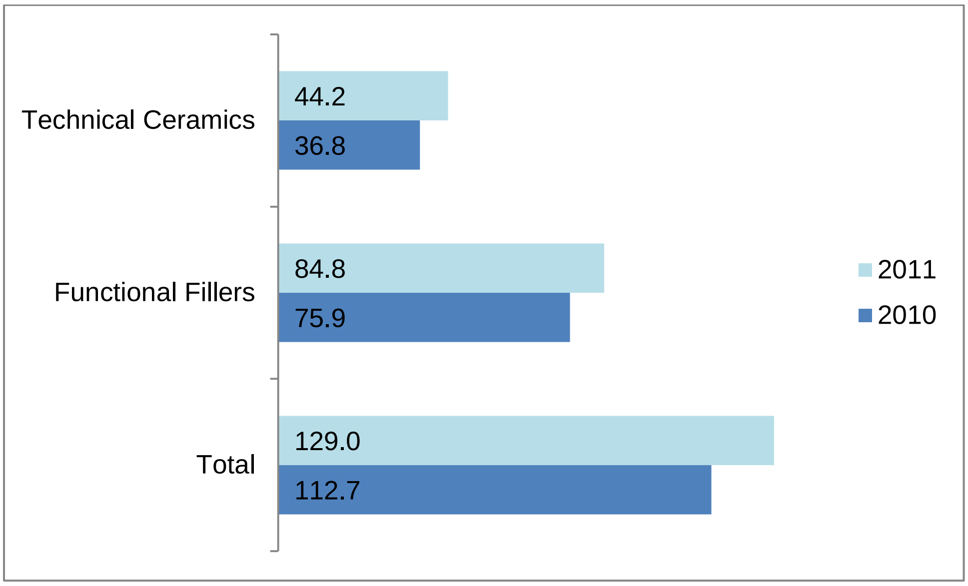
Particularly the first half-year, with the first quarter of 2011 leading the way, was responsible for the surpassing of the revenue all-time high. With revenue amounting to EUR 35.3 million, it is a new quarterly record high in the history of Nabaltec. And, also the subsequent quarter was only just behind with an amount of EUR 34.8 million. In the third quarter of 2011, a slowdown in demand was noticeable. This trend continued on a moderate level in the fourth quarter of 2011. Both the end customers as well as the processing industry reduced their stock levels to a minimum at year end.

Throughout the year, orders amounted to EUR 100.3 million in total. Nabaltec ended the financial year 2011 with an order back-log of EUR 24.6 million.

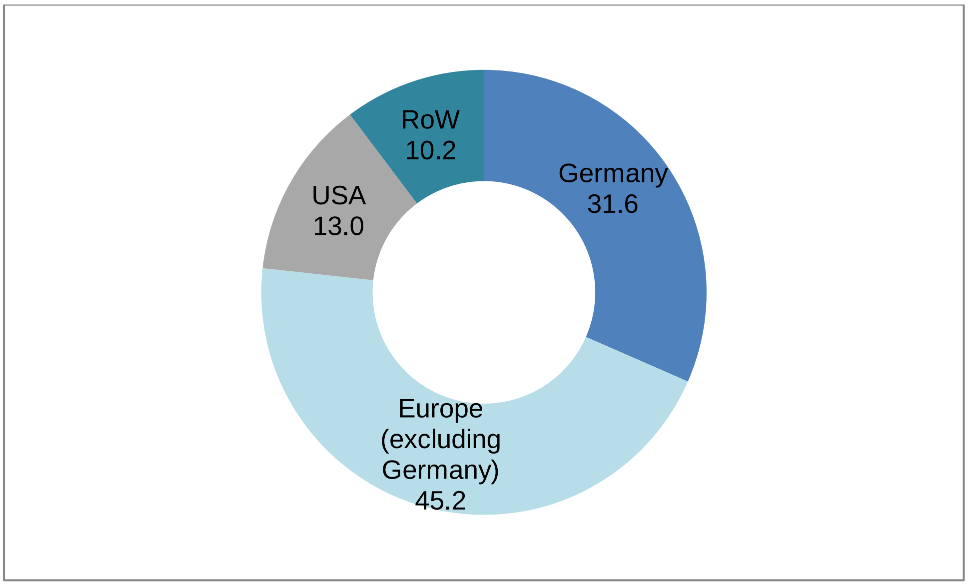
Revenues of the division “Functional Fillers” increased by 11.7%, from EUR 75.9 million in 2010 to EUR 84.8 million in 2011. This growth is based on a stable quantity of sales and an intensified concentration of strong value-added product areas.
The US subsidiary, Nashtec, could further brace her market position, as illustrated by the revenue increase of 19% compared to prior year. The USA continues to be the most important sales region for Nashtec. Moreover, Asia showed an over proportionate increase in revenue compared to 2010.

The division “Technical Ceramics” achieved an even higher increase in revenues compared to the Group average; 20.1% from EUR 36.8 million to EUR 44.2 million. The somewhat higher revenue growth compared to the division “Functional Fillers” arises from a lower reduction in the second half-year.

<u>Revenue by business segment</u>
(in EUR million)



Revenue by region 2011
(in %)



2.6 RESULTS OF OPERATIONS

Nabaltec AG's total performance grew by 18.3% in 2011 to EUR 132.8 million. Beside revenue growth, the increase in stock levels of finished goods amounting to EUR 3.1 million and capitalized internally generated assets in the amount of EUR 0.6 million contributed toward the increase in total performance.

Other operating income of EUR 1.7 million primarily consists of exchange rate gains and other income from goods and services delivered to third parties. Compared to prior year, other operating income decreased by EUR 1.1 million due to lower insurance income in 2011.

Operational expense ratios compared to total performance		
	2011	2010
Cost of materials	56.5%	57.3%
Personnel expenses	15.9%	15.9%
Other operating expenses	16.5%	19.3%

Compared to prior year, the cost-of-materials-ratio (compared to total performance) could be decreased by 0.8 percentage points to 56.5%. Nabaltec increased the absolute gross profit from EUR 50.6 million in 2010 to EUR 59.5 million in the reporting period. This improvement is attributable to the over proportionate increase in strong value-added products.

In 2011, the personnel-expenses-ratio (compared to total performance) remained stable on prior year level at 15.9% (PY: 15.9%). The number of employees rose from 371 per December 31, 2010 to 399 per December 31, 2011. The increase in manpower needs lies mainly in the further expansion of the production capacity in Schwandorf.

Other operating expenses increased from EUR 21.7 million to EUR 21.9 million. The expense-ratio (compared to total performance) improved, however, from 19.3% to 16.5%. While the distribution-costs-ratio decreased compared to 2010, cost-ratio relating to sales agent commissions and external services and repair services increased slightly in comparison to prior year. General administration, advisory and marketing costs could be reduced compared to 2010.

Earnings before interest, tax and depreciation and amortization (EBITDA) grew from EUR 11.1 million to EUR 16.5 million in 2011, and could therefore clearly be increased. Both divisions contributed equally toward this positive development in EBITDA. The very positive trend prevailing already in 2010 could be further improved particularly in the first half of 2011.

Taking into account the scheduled depreciation in the financial year 2011 in the amount of EUR 7.3 million, the operating result (EBIT) amounts to EUR 9.2 million compared to EUR 4.1 million in prior year. The significant improvement of EUR 5.1 million is primarily due to the expansion of sales in connection with higher value-added. The development of EBITDA and EBIT exhibit the intact and sustainable earnings power of Nabaltec AG on operational level.

The result of ordinary business activity amounted to EUR 3.9 million (PY: EUR -0.2 million).This includes the financial result 2011 of EUR -5.3 million, consisting of EUR 5.9 million interest expenses, EUR 0.4 million interest income and EUR 0.2 million income from loans. Prior year, the financial result amounted to EUR -4.2 million. The increase in interest expenses results mainly from the interest arising from the corporate bonds expiring in October 2015. Simultaneously, initial positive effects could be realized from the restructuring of bank payables in 2011. These measures will comprehensively be felt in 2012.

Extraordinary expenses amounting to EUR 0.3 million are attributable to the successive adjustment of the retirement benefit obligation in respect of the German Act on the Modernisation of Accounting Regulations (“Bilanzrechtsmodernisierungsgesetz”, also referred to as “BilMoG”).

The reported tax expenditure for 2011 in the amount of EUR 0.3 million includes income tax of EUR 0.2 million.

Net profit for the year amounted to EUR 3.4 million compared to a net loss of EUR 0.5 million in prior year.

2.7 FINANCIAL POSITION

2.7.1 FINANCIAL MANAGEMENT

The Management Board is responsible for financial management, concentrating on managing Nabaltec's capital structure, cash flow management, interest rate as well as currency hedging and financing. The US subsidiary, Nashtec, is incorporated in the Group’s liquidity management.

Thanks to the Company’s own production in the USA through her subsidiary, Nashtec, Nabaltec was able to eliminate the exchange rate effects derived from fluctuations between US dollar and euro to a considerable degree. Nabaltec pursues a thorough currency hedging policy regarding any residual exchange rate risks, should market volatility or the volume of business transactions denominated in foreign currency require such measures.

Nabaltec has secured the Company's long term financing needs, not least in regards to the extensive investment plan implemented in the last years. As of the balance sheet date, Nashtec was provided EUR 9.3 million (PY: EUR 9.1 million) in funds. Interest rates and contract terms correspond to those standards used for middle-sized enterprises. In the case of debt financing with variable interest, Nabaltec avails itself of various interest rate hedging instruments with a middle and longer term fixed interest period (e.g. interest swaps).

Nabaltec's growth is primarily financed through long term bank loans, and since October 2010, also through corporate bonds in the amount of EUR 30.0 million. The bonds have a term of five years and expire in October 2015. The interest payment, with a coupon of 6.5% p.a., takes place once a year. Moreover, Nabaltec disposes of subsidies from the government of Upper Palatinate for investment projects. In the second half-year, Nabaltec could restructure a significant part of the current long term bank loans. The conditions have been considerably improved compared to the previous credit agreements. Therefore, Nabaltec disposes of a balanced debt financing structure.

2.7.2 FINANCIAL ANALYSIS

Shareholders' equity increased from EUR 40.0 million to EUR 43.4 million as of 31 December 2011. This increase is primarily due to the net profit for 2011, which was partially used for the reversal of the decreases in the profit participation capital over the last two years. Consequently, the calculated equity ratio increased from 30.0% to 32.8%. This capital base can continue to be considered as sound compared to the industry.

Liabilities decreased in the reporting period from EUR 81.2 million to EUR 75.5 million. This includes Nabaltec AG's corporate bonds in the amount of EUR 30.0 million. Payables to banks decreased by EUR 17.7 million in accordance with scheduled repayments as well as the early redemption of loans. New loans in the amount of EUR 14.0 million were taken out, with a significantly improved interest rate structure. The retirement benefit obligation increased by EUR 1.2 million due to the annual additions 2011. Trade payables could be decreased from EUR 9.5 million in 2010 to EUR 8.6 million in 2011.

Selected balance sheet items as a percentage of total assets

	December 31, 2011	December 31, 2010
Shareholders' equity	32.8%	30.0%
Provisions	10.1%	9.1%
Accounts payable	57.1%	60.9%

2.7.3 OTHER OFF-BALANCE SHEET FINANCING INSTRUMENTS

Nabaltec sold various technical equipment and machinery as part of a sale-and-lease-back transaction. The remaining lease term amounts to one to five years. Furthermore, Nabaltec continuously uses factoring in connection with trade receivables, also to minimize potential default risks. Nabaltec AG does not use any other financial engineering instruments.

2.7.4 INVESTMENTS

In the reporting period, the Nabaltec Group invested a total amount of EUR 14.8 million including the portion of the investment grant (PY: EUR 7.0 million). Again, investments focused on the business division “Functional Fillers”, assuming round 80% of total investments, while 20% of the investments flowed into the business division “Technical Ceramics”. Investments were focused on the expansion of capacity relating to fine hydroxide, the optimization of production processes and logistics. Additionally, investment measures were taken in infrastructure and energy optimization.

2.8 ASSET POSITION

Nabaltec AG’s total assets decreased as at December 31, 2011 from EUR 133.3 million to EUR 132.3 million.

Major asset items as a percentage of total assets

	December 31, 2011	December 31, 2010
Non-current assets	66.2%	60.1%
of which: tangible assets	59.0%	53.0%
Current assets	33.7%	39.6%
of which: inventories	18.3%	14.4%

Due to the investment activities, assets were characterized by a clear shift from current assets toward non-current assets.

3. NON-FINANCIAL PERFORMANCE INDICATORS

3.1 EMPLOYEES

End 2011, Nabaltec AG employed in total 399 employees (December 31, 2010: 371). All employees work in Germany. This figure includes 49 apprentices (December 31, 2010: 48). Nabaltec sets a high value on sound professional training. Therefore, also in 2011, the rate of apprentices of 12.3% traditionally presents a remarkably large portion of the workforce. This rate remained more or less stable in comparison to prior year and far exceeded the industry average. Nabaltec apprentices regularly count to the best of their class. The Company currently has vacancies relating to training positions for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

Nabaltec AG regularly belongs to the 100 best employers in the German middle market, according to the national multi-sector company comparison, ‘TOP JOB’ - again in 2012. Such distinctions indicate how seriously the Company takes its responsibility toward her employees. Nabaltec’s central concern is to offer her employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees’ corporate identity, commitment and involvement.

3.2 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. An essential element within the research and development strategy is the close collaboration with customers and our joint development efforts. In all our business divisions, the focus is clearly on offering customers superior quality and processing advantages so as to support them in securing their competitive advantage. As a leading supplier of highly specialized products, we consider research and development to be one of our core competencies.

Close collaboration with customers is incorporated throughout all our divisions and processes. Hands-on application-oriented marketing is required to define our clients' specific needs and to ensure that these are directly taken into account in our development activities. The same holds for client feedback regarding new product developments, but also regarding existing products; this feedback also directly finds consideration in our development activities. Through the technically oriented sales, Nabaltec is in the position to at the same time quickly identify and actively promote new trends.

Parallel, Nabaltec has set the goal within the research and development activities of continuously optimizing her own production processes and, thereby, forming a basis for the improvement of her market position; an example of which is the optimization of energy consumption as a fundamental driver for manifold research and development projects.

Our historically grown 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 Process Engineering (IVT) at RWTH Aachen University, the German Plastics Institute in Darmstadt, the Saechsische Textilforschungsinstitut e.V., the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the Technical University of Dresden and the research institute for inorganic materials – glass/ceramic in Höhr-Grenzhausen. Additionally, Nabaltec emphasizes innovation by participating in various projects of the German Federation of Industrial Research Associations and the Federal Ministry of Economics and Technology in both of our divisions.

Our strong commitment to research and development is expressed in various national and international awards and distinctions. For example, the Company already as much as five times belonged to Germany's top 100 innovative medium sized companies and was distinguished for her innovative energy.

Currently, the focus of our research and development activities lies above all in further developing and enhancing existing products and processes. The requirements are defined by the continuously changing customer and market demands. It is of utmost importance to meet these requirements and thereby simultaneously expand and realign the boundaries of our own product range within our target markets.

The research and development focus on additives and boehmites in the last years will be intensively continued even after the product launch. The central focal points will be the further development of grades as well as the identification and acquisition of new fields of operation. Not least, Nabaltec has the objective of becoming world leader in quality in both new business areas.

In 2011, the following developments played a central role in the "Functional Fillers" division:

The market for non-halogenated flame retardants still has considerable growth potential, particularly for innovative and environmentally friendly products. Halogenated products are being replaced by non-halogenated, and large companies in the consumer-electronics sector emphasize the environmental friendliness of their products through pertinent marketing slogans. So doing, these companies publicly avow themselves to such products and promote this trend. An additional trend is the promotion of flame retardants in the area of transportation of passengers such as public transport, which up till today are not all equipped with such fire protection.

In the field of classical mineral flame retardants, such as APYRAL®, existing products are modified in coordination with our customers as well as in accordance with new application requirements, e.g. in the cable & wire industry. An example of such projects is the optimization of the grain size distribution. In this regard, special attention is always given to achieving optimal characteristics of finished products with improved fire protection.

In order to access new areas of application, additional special fillers are being developed on submicron level, such as ACTILOX® AS. Research and development goals entail achieving anti-settling properties and fire protection synergies in unsaturated polyester resins.

Nabaltec AG developed new APYRAL® products for the innovative RTM (Resin Transfer Molding) process engineering. The process performance of these new products can be ideally adjusted, permitting the Company to attend to this future market accordingly.

In the field of the electrical and electronics industry (E&E industry), Nabaltec has intensively forged the development of applications. For instance, customer approvals were recently obtained in the area of conductor boards through precision tuning of new APYRAL®-AOH products. Further approvals are currently in preparation or are already in process.

Nabaltec AG introduces new special fine grades of APYRAL® AOH und ACTILOX® B (boehmite) for technical thermoplastics, in which mineral flame retardants have to date not been applied. Regarding new trends in environmental engineering, Nabaltec AG is currently in the process of developing new resources for alternative energy storage as well as electro mobility. Furthermore, special products based on aluminum hydroxide as well as boehmite are increasingly being applied for catalysis and cleaning of waste gas emitted by power stations.

In the reporting period, the following developments played a central role in the “Technical Ceramics” division:

In the area of reactive NABALOX® aluminum oxides, various projects aim at continuously improving products as well as at optimizing the related production processes. The application of reactive aluminum oxides by Nabaltec lies mainly in the refractory industry, where the products primarily contribute toward the new development and optimization of monolithic feeds. Furthermore, the work performed by the NABALOX® product group is directed at identifying, evaluating and optimizing innovative finishing processes for aluminum oxides for the application in the manufacturing of ceramic and polishing agents.

In addition to the SYMULOX® product group, Nabaltec aspires to develop a new high-quality sintering product, which – due to its modified phase distribution, in comparison to existing grades – will result in an even further improved heat resistance of products in the intended refractory applications. Moreover, the development of this product shall in the long term support the aim of launching of material cycles regarding refractory materials. The developments in the SYMULOX® product group relating to special ceramic applications will be set forth.

Amongst others, development was conducted in the areas of organic plasticization and spray granulation for the fundamental enhancement in the performance of various GRANALOX® products in existing applications. As a consequence, products with improved processing and application properties could be introduced. Work relating to transformed aluminum oxide that already commenced earlier was set forth. Next to customer-specific internal developments, Nabaltec is also involved in theoretic research and publicly sponsored projects.

3.3 CUSTOMER RELATIONS

During and especially subsequent to the economic crisis, Nabaltec could again strengthen and clearly parlay its own market standing. Imperative arguments in collaboration with customers are proven delivery reliability and quality consistency. We have demonstrated that we are a very reliable partner for long term and trusting collaboration. These attributes pose an important competitive advantage in the current market environment.
Prerequisite for our market success are products of the ongoing highest quality, developed, optimized and delivered in large number of units over a long period of time based on specific customer needs. The Company's products are continuously geared so as to help our customers make safer, environmentally friendlier, more robust and competitive products and simultaneously optimize customer production processes. Therefore, joint development projects as well as business relations result in long term supply contracts and sustainable co-operations. Particularly regarding to new products, Nabaltec often has to go through a long and thorough release-process with her customers. In most cases, the successful conclusion results in long term supply agreements on the basis of reliable conditions and quantities.

3.4 MANAGEMENT SYSTEM

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and trade association requirements, the Company already decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001, respectively, ISO 14001, to introduce a health and safety management system in compliance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series). In 2011, an extensive monitoring audit for the existing management system based on ISO 9001, ISO 14001, BS OHSAS 18001 and EN 16001 was conducted. On the site in Corpus Christi, the quality management system (ISO 9001) was also successfully audited. In 2011, the certification of the energy management system based on EN 16001 was conducted by TÜV SÜD Management Service GmbH for the site in Kelheim. In addition, Nabaltec AG's laboratory services are accredited under the DIN EN ISO/IEC 17025 standard.

3.5 ENVIRONMENTAL PROTECTION

We require our own products to significantly contribute toward environmental protection and toward the improvement of the eco balance of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. For instance, they replace heavy metal-based additives, such as lead, and halogenated flame retardant components, such as bromine, in plastics. In this respect, it is of central importance that research and development, production as well as up and downstream logistics are conducted as environmentally friendly as possible. The conservation of natural resources is of central concern for Nabaltec and a prerequisite for the social acceptance of the Company. Nabaltec AG actively accepts responsibility for the environment; a commitment that extends well beyond her own sites.

Nabaltec places special emphasis on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2011, this area was invested in. Through joint efforts with external partners, we have developed techniques requiring much less process energy, leading to a substantial reduction in CO_2 emissions. By participating in the task force energy management of "Bayern Innovativ GmbH", this path is being systematically pursued. Here, Nabaltec participates in a network of medium-sized enterprises. The goal is to transfer and receive innovations relating to continuous improvement processes to and from other enterprises. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec's energy needs are covered by renewable energy.
In general, we endeavor to develop production processes with a closed-circuit for all production facilities. One of the milestones in this regard is the CAHC facility in Schwandorf that operates entirely without any production wastewater and has a closed water circuit. Also, regarding the handling of chemicals, e.g. sodium hydroxide solution, which is required for the production of fine hydroxide, it is consequently sought to prevent the dispersion thereof into the environment. Rather, we ensure that such chemicals can be completely used for the re-employment in an entirely closed production cycle.

3.6 CAPITAL MARKET

Since the initial public offering in 2006, Nabaltec disposes of intact access to the capital market. Access to the capital market, maintained by transparent and reliable communication at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively by the sales market. In 2010, Nabaltec was one of the first companies to successfully issue SME bonds in the value of EUR 30 million.

4. REPORT ON RISKS AND OPPORTUNITIES

4.1 RISK MANAGEMENT

For Nabaltec AG, the relevance of risk management is derived from the entrepreneurial activities as well as the global activities within the corresponding international competitive and regulatory environments and the complexities of the global economy. This inseparably goes hand in hand with risks and opportunities. Our success considerably depends on recognizing such risks and opportunities as well as dealing with these consciously and on bringing risks under control. Effective risk management is a core element for securing the Company long term, its economic success in international markets and for its successful, sustainable future development.

We unremittingly take measures to further develop the risk management within Nabaltec. The continuous further development of risk prevention instruments across all fields enables the early identification and elimination of business risks. Integral elements consist of risk management as an ongoing process, risk controlling, extensive communication and documentation as well as an internal monitoring system. All discernible internal and external risks are, as far as possible, captured, documented, evaluated and embedded in a risk matrix. This risk matrix represents the basis for the assessment of potential risks and for the identification of key risks.

The starting point of the actual risk management processes at Nabaltec is the identification and evaluation of various types of risks and risk profiles that are monitored and controlled by Controlling. Reports on business risks as well as continuous status reports are prepared for and discussed by Management. An important component is also the comprehensive operational budget including targets, regularly supplemented with forecasts.

Nabaltec has implemented a strategic planning system in order to take advantage of medium and long term opportunities and to 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 in accordance with international standards, constant improvements to facilities and processes, the development of new and the improvement of existing products as well as involvement in international professional committees.

Risk management also includes routinely testing the efficiency of applied hedging instruments and the reliability of controlling systems. There is insurance coverage for casualty and liability risks, thus limiting the financial consequences for the Company's liquidity, financial position and earnings as well as preventing situations that could jeopardize the continued existence of the Company.

4.2 RISKS AND OPPORTUNITIES REGARDING FUTURE DEVELOPMENT

Sales Market

The international economic crisis 2008/2009 showed that a corresponding shock in demand can have far-reaching consequences, also in Nabaltec AG’s target markets. In spite of a more flexible and adjustments within the cost structure and capacities, high fluctuations in demand can implicate noticeable quantity and margin risks. Additional sales risks include the potential loss of significant key accounts, loss of market share due to technological innovation or the advancing of competitors. Due to our strong market position as innovation and quality leader as well as the continuous monitoring of target markets, such risks can be confined and the corresponding market mechanisms can, at the same time, be used as an opportunity within global competition.

Procurement Market

We monitor our suppliers’ economic situation very closely and deliberately build up alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of medium and long term contracts. The supply of the most important media, electricity, gas and vapor for the production process is also secured by long term agreements. The accrediting of the energy management system in accordance with EN 16001 underlines these efforts. In the case of strong growth, Nabaltec disposes of alternative scenarios and preliminary considerations to cover rising energy needs at attractive conditions. An additional risk is the more disproportional increase in logistics costs. On the one hand, Nabaltec can counter this risk by passing on logistics costs to customers, and on the other hand, by finding a balanced logistics mix. For example, we dispose of our own railway siding, which makes transport per rail very attractive.

Financial Market
If necessary, exchange rate risks are specifically restricted by hedging instruments covering risks arising from US dollar exposure. In the case of medium term financing, interest risks are hedged by swaps or credit agreements with fixed interest rates are entered into. Nabaltec AG as well as her USA subsidiary have at their disposal a detailed financial and liquidity budget. Variance analyses are performed periodically. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. Interest rate fluctuations are partially covered by hedge instruments. Credit agreements are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period, covenants valid as at December 31, 2011 were adhered to. Given the successful placement of the corporate bonds in October 2010, Nabaltec AG’s financing situation has further improved, respectively; independence from lending banks has increased.

In 2011, factoring contributed towards increasing the secured portion of receivables and improving the Company’s liquidity.

Personnel
Particularly the fluctuation of employees in key positions gives rise to personnel risks. We respond to these risks through various measures: intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, an employee substitution ruling that governs the temporary replacement of key employees, and early advance plans for successors. Furthermore, the Company offers good job prospects and training possibilities. For Nabaltec, personnel opportunities result from the recruitment of proven experts. Our market position, the earned reputation in the industry, the high degree of reliability and the well-known focus in our research and development activities contribute toward making Nabaltec an attractive employer within its own market segments and region.

Production, Process and IT
Nabaltec disposes of an integrated quality management system with ISO 9001 accreditation that is put to practice companywide. Therefore, Nabaltec considers the production-specific risks as manageable. Regarding IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundant design of high-quality hardware. Through regular verification of the access structure, data protection is guaranteed. Data security is based on appropriate, well-established procedures. Compliance with the privacy policy based on the most recent legal framework is guaranteed at all times within the Company and is additionally monitored by an external privacy policy officer since 2010.

Environmental Protection
Environmental risks can arise from the transgression of admissible thresholds for noise and dust exposure or through the emission of hazardous substances. Nabaltec mitigates these risks by means of extensive environmental management based on ISO 14001, which is accredited and is periodically further developed and audited. Nabaltec’s production processes are based on closed circuits, e.g. for water and lye.

Technological Development
Potential technological risks could result from customers substituting Nabaltec products due to a change in technology, from the disuse of newer technology or from not recognizing technological development. As the innovation leader, we try to minimize these risks by engaging in continuous and intensive research and development efforts, by maintaining customer proximity and by integrating marketing and research and development structures. Nabaltec considers technological development as a source of opportunity to generate a competitive edge with product quality by accessing new markets through fast-pace product adjustments and by generating process and quality advantages together with our clients; thereby, setting the stage for economic success.

Legal Framework
Changes within the legal framework, could lead to risks for Nabaltec. Currently, regulatory changes provide additional market opportunities - and this trend is not expected to reverse in the medium and long term. This trend is underlined by the sustained global enforcement of environmentally friendly products, such as Nabaltec's, whose cycle of materials does not include environmentally harmful materials.

4.3 OVERALL ASSESSMENT
Due to our continuous surveillance of relevant markets, as described above, as well as our constant efforts to improve our products and adapt to the needs of existing and potential customers, the Company's future development is currently not exposed to any significant risks. In general, the Company's risks are well-managed and their potential impact is therefore limited. The Company's future existence is secured.

5. DECLARATION OF CORPORATE GOVERNANCE
The activities of Nabaltec AG's executive and supervisory committees are governed by the principles of responsible management. Since the Company is listed in the Entry Standard of the Frankfurt stock exchange, the Management Board voluntarily reports on the corporate management and governance in the form of a Declaration of Corporate Governance in accordance with Section 289a Paragraph 1 of the German Commercial Code (HGB). The declaration is published on the Company's website www.nabaltec.de under Investor Relations/Corporate Governance.

6. SUBSEQUENT EVENTS
There are no events to report that occurred subsequent to December 31, 2011 that might have a significant effect on the net assets, financial position or earnings of the Nabaltec Group.

7. OUTLOOK
7.1 OVERALL ASSESSMENT OF THE PROSPECTIVE TREND
For her own products, Nabaltec also foresees intact sales markets across the board in 2012, as well as stable demand, if the environment does not change fundamentally. The Company has taken a top international position within its markets. Thanks to the further expansion of her market position in 2011 and the long term reputation, Nabaltec sees good future prospects for its key products.

7.2 ECONOMIC ACTIVITY & INDUSTRY

The Deutsche Bank anticipates global economic growth of 3.3% for 2012. The over proportional growth in Asia (excluding Japan) shall weaken only slightly to 6.9%, while a plus of 2.5% is expected for the USA.

For the euro zone, but also for the global economy, combating the debt crisis will prove decisive for the actual development. To date, the Deutsche Bank anticipates an economic recess of 0.5% in the euro zone. Italy and France shall significantly contribute toward this development with -1.3% and, respectively, -0.3%.

DB Research foresees the German economy to stagnate. On the contrary, the Kiel Institute for the World Economy (IfW) expects the German GDP to grow slightly (by 0.5%). Their basic assumption, however, is that the financial markets will stabilize and that a solution for the debt crisis in Europe will be found.

GDP Growth Forecast		
in % compared to prior year	2012	2013
World	3.3	4.0
USA	2.5	3.0
euro area	-0.5	1.0
Germany	0.0	1.0
France	-0.3	1.2
Italy	-1.3	0.3
Great Britain	0.0	1.5
Japan	0.7	1.1
China	8.3	8.6
India	7.3	8.0

Source: Deutsche Bank - DB Research, “Aktueller Ausblick für die Weltwirtschaft”, January 19, 2012

The German chemical industry association Verband der Chemischen Industrie e.V. (VCI) expects a continued upward trend in the German chemical industry in 2012, although somewhat more moderate than in prior year. The association forecast an increase in the German chemical production of 1.0% in 2012. Sales prices shall increase to the same degree. Regarding revenue, a plus of 2.0% is anticipated.
Even though the unresolved debt crisis in the EU and the USA will have a dampening effect on the chemical business in 2012, the VCI deems the industry to be free from the mood of crisis.

In 2012, the market trend regarding functional fillers and intermediary products for technical ceramics will be characterized by a stable competitive structure with constant to slightly higher prices, from Nabaltec’s point of view. The principle drivers and triggers have remained intact. Political requirements have globally resulted in additional stimuli for environmentally friendly flame retardants. Therefore, Nabaltec expects growth across all regions in the financial year 2012.

In Nabaltec's opinion, the prospects in the most important target markets are quite positive. The German and European construction industry is rather stable. The automotive industry has consistently benefited from a strong demand. Consumer electronics could meet a better environment in 2012 than it had in the past. Particularly, this holds for so called "green electronic" of renowned manufacturers, who increasingly place value on environmentally friendly components. The cable industry benefits from temporary booms, e.g. the expansion of the electricity network, specifically through the connection of locally generated renewable energy, such as wind and solar power. The cable industry will therefore increasingly demand high-quality, halogen-free, flame retardant solutions - Nabaltec AG's domain.

7.3 OUTLOOK ON THE COURSE OF BUSINESS

For 2012, Nabaltec expects further revenue growth, albeit at a slower rate than in 2011. The order backlog as at December 31, 2011 amounted to EUR 24.6 million. The financial year 2012 commenced on a positive note. Although prior year sales all-time highs could not yet be repeated, the momentum once again shows an upward trend after a moderate third and fourth quarter in 2011. In the second half of 2011, customers systematically reduced their stock levels to a minimum. Initial catch-up effects can be seen at the start of 2012. Additionally, a general recovery in Nabaltec's target markets is recognizable, whereby mainly an increase in quantities is expected for 2012. Nevertheless, the economic development in the coming year still has to be awaited.

In the business division "Functional Fillers", the product range relating to fine hydroxide will continue to be a substantial growth driver in 2012 as in 2011. By taking into operation another fine hydroxide line in 2012 at the Schwandorf site, a production level of 114,000 t.p.a. could be reached on Group level, relating to fine hydroxide in the product mix. With its patented CD technology, Nabaltec AG is extremely well-positioned for future development in the market for non-halogenated fire protection. The positive properties of fine precipitated ATH have begun to capture the industry's attention in recent years and are gradually resulting in the substitution of other materials. And, they have led to changeovers in product development and production in the downstream industry.

The Company's product range, which is based on CD technology, is being further expanded in order to offer processing advantages to customers in additional processing areas and target markets. The cable & wire and insulation markets, the principal consumers of the fine hydroxides produced by the "Functional Fillers" division, are dependent on the construction sector. Positive growth impulses are expected for 2012 relating to the application segments in the low voltage range, in telecommunication and in IT. There are discernible signs of continued growth in the markets for non-halogenated fire protection. These expectations are supported by the development in legislation and the ever stricter fire protection regulations that are expediting the changeover from halogenated to non-halogenated flame retardants in the industry.

In 2011, Nabaltec entered into cooperation with Sumitomo Chemical Co., Ltd. in both the aluminum oxide as well as the aluminum hydroxide segments. As first step, both companies agreed that Nabaltec would exclusively supply Sumitomo Chemical with a special fine hydroxide grade, effective December 1, 2011. Sumitomo Chemical distributes these special grades in East Asia. Nabaltec expects the first revenues and contribution margins from this cooperation in 2012. Furthermore, Nabaltec will examine whether cooperation projects, such as with Sumitomo in Asia or with Sherwin Alumina within the joint venture Nashtec in the USA, are adequate measures to move closer to the important sales markets and customers.

In the rather new product line of additives for the plastics industry, 2012 will be a key year. After a start in 2012 that did not meet expectations, Nabaltec will also offer her additives for new application areas.

Further growth is also planned for the business division ‘Technical Ceramics’. An additional market penetration primarily with new grades is intended.

7.4 EXPECTED EARNINGS AND FINANCIAL POSITION

The on-going sovereign debt crisis as well as the financial crisis in Europe and the USA, and the lower expected global GDP growth has resulted in high uncertainties and volatility in capital markets. The considerable scale of these uncertainties momentarily makes it difficult to make a reliable forecast for 2012. Assuming that the economic development will not worsen, Nabaltec anticipates further revenue growth for 2012, albeit at an overall slower rate than in 2011. Given a stable economic environment, growth of more than 5% should be possible. For the financial year 2012, the Company expects a similar margin as in the past financial year with regards to the result from ordinary operations (EBIT).

For the financial year 2013, Nabaltec expects further revenue growth as well as an increase in the result from ordinary operations (EBIT) compared to 2012.

Nabaltec will continue with the reduction of payables to banks in 2012.

In 2012, investments in the low two-digit million-euro-range have been planned. Primarily, the expansion of capacities as well as new processes to produce additional grades will be invested in. Nabaltec AG’s depreciation expenses will increase according to plan in 2012, reflecting investments.

Note with respect to uncertainties in the outlook:
The statements and information with respect to future developments stated above are based on current expectations as well as certain assumptions. They therefore involve several risks and uncertainties. A large number of factors, a significant part of which is not under the Group’s control, affect future sales and earnings. As a result, actual results may deviate from the statements and forecasts made in this report.

Schwandorf, March 2, 2012

Nabal*tec* AG
The Management Board

Johannes Heckmann Gerhard Witzany

Balance Sheet as of December 31, 2011, Nabaltec AG, Schwandorf

A S S E T S

	12/31/2011 EUR '000	12/31/2010 EUR '000
A. NON-CURRENT ASSETS		
I. Intangible Assets		
1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	188	105
2. Advance payments	1	71
	189	176
II. Property, Plant and Equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	14,646	15,123
2. Technical equipment and machinery	49,682	50,242
3. Other fixtures, fittings and equipment	2,131	2,000
4. Advance payments as well as plant and machinery under construction	11,527	3,353
	77,986	70,718
III. Financial Assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	9,271	9,079
	9,434	9,242
	87,609	80,136
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	12,891	11,080
2. Finished goods and purchased products	11,263	8,118
	24,154	19,198
II. Accounts Receivable and other Assets		
1. Trade receivables	2,237	1,596
2. Other assets	2,827	13,361
	5,064	14,957
III. Cash and cash equivalents	15,356	18,672
	44,574	52,827
C. PREPAID EXPENSES	68	334
	132,251	133,297

E Q U I T Y & L I A B I L I T I E S

	12/31/2011 EUR '000	12/31/2010 EUR '000
A. SHAREHOLDERS' EQUITY		
I. Subscribed capital Conditional capital EUR 3,000 thousand (PY: EUR 3,000 thousand)	8,000	8,000
II. Capital reserve	30,824	30,824
III. Profit participation capital	4,588	1,211
IV Accumulated profits	0	0
	43,412	40,035
B. NON-CURRENT ASSETS INVESTMENT GRANTS	35	42
C. PROVISIONS		
1. Retirement benefit obligation and similar provisions	9,892	8,738
2. Accrued taxes	190	16
3. Other provisions and accrued liabilities	3,253	3,302
	13,335	12,056
D. ACCOUNTS PAYABLE		
1. Liabilities arising from corporate bonds	30,000	30,000
1. Payables to banks	35,026	38,589
2. Trade payables	8,592	9,534
3. Payables to affiliated companies	459	248
4. Other payables	1,392	2,793
- thereof relating to taxes EUR 203 thousand (PY: EUR 174 thousand)		
- thereof relating to social securities: EUR 22 thousand (PY: EUR 20 thousand)		
	75,469	81,164
	132,251	133,297

Income Statement, Nabaltec AG, Schwandorf
for the period January 1 to December 31, 2011

		01/01 - 12/31/2011		01/01 - 12/31/2010	
		EUR '000	EUR '000	EUR '000	EUR '000
1.	Revenue		129,022		112,701
2.	Change in finished goods		3,133		-756
3.	Other capitalized own services		609		308
Total performance			132,764		112,253
4.	Other operating income		1,699		2,787
			134,463		115,040
5.	Cost of materials:				
	a) Cost of raw materials and supplies and purchased goods	74,223		63,933	
	b) Cost of purchased services	763	74,986	510	64,443
Gross profit			59,477		50,597
6.	Personnel expenses:				
	a) Wages and salaries	17,449		14,410	
	b) Social security and other pension costs - thereof for pension costs: EUR 673 thousand (PY: EUR 665 thousand)	3,606		3,375	
7.	Amortization/Depreciation of intangible assets and property, plant and equipment	7,313		7,023	
8.	Other operating expenses	21,894	50,262	21,722	46,530
			9,215		4,067
9.	Income from securities and loans (financial assets) - thereof from affiliated companies: EUR 176 thousand (PY: EUR 190 thousand)	176		190	
10.	Interest and similar income	431		99	
11.	Interest and similar expenses - thereof for profit participation rights capital: EUR 405 thousand (PY: EUR 405 thousand)	5,905		4,526	
Financial result			-5,298		-4,237
12.	**Result from ordinary operating activities**		3,917		-170
13.	Exceptional expenditures	267		320	
14.	Exceptional result		267		320
			3,650		-490
15.	Income taxes	192		16	
16.	Other taxes	81	273	13	29
17.	**Net result for the year**		3,377		-519
18.	Profit carried forward		0		0
19.	Addition/Withdrawal profit participation capital		-3,377		519
20.	**Accumulated profit**		0		0

Nabaltec AG, Schwandorf

Notes for the financial year 2011

General Information on the financial statements

The annual financial statements were prepared in accordance with the accounting provisions of the German Commercial Code (hereafter referred to as “HGB”) subsequent to the German Act on the Modernisation of Accounting Regulations (“Bilanzrechtsmodernisierungsgesetz”, also referred to as “BilMoG”) effective May 25, 2009. The amended provisions were adopted for the first time to the financial year 2010. Additionally, the provisions of the German Stock Corporation Act and Articles of Association were complied by. The total cost method was applied for the income statement.

Nabaltec AG, Schwandorf, is a large corporation in terms of Section 267 Paragraph 3 HGB.

Basic principles, methods and significant accounting policies

The financial statements of the Company have been prepared according to the following accounting and valuation principles:

Intangible assets are carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over their estimated useful lives and pro rata in the year of acquisition.

Property, plant and equipment are carried at cost less accumulated depreciation.

Scheduled depreciation is recognized on a straight-line basis over the assets’ estimated useful lives based on the maximum rates permitted by the German Income Tax Act (hereafter referred to as “EStG”). Items with a value of up to EUR 150.00 are completely recorded as operating expenses in the year of acquisition in accordance with Section 6 Paragraph 2a EStG. A compound item is recognized for all assets with a value between EUR 150.00 and EUR 1,000.00 and depreciated based on 1/5 p.a. Depreciation is recognized pro rata in the year of acquisition. Acquisition costs contain interest on borrowed capital.

Financial assets are carried at cost. If necessary, the carrying amount of the financial asset is reduced by the impairment loss to the lower net realizable value (fair value). To the extent that the reason for impairment no longer exists, the impairment is reversed to the amount of the higher fair value.

Raw material, supplies and tradable goods are stated at the lower of cost and net realizable value. Costs are determined on the basis of the average cost method. Items with a value below cost as per the balance sheet date are written-off to the lower net realizable value.

Finished goods are stated at the lower of cost and net realizable value. Production costs include direct material and production costs as well as a proportionate share of material and production overhead costs. Interest on borrowed capital and general administrative costs are not accounted for in the production costs. Finished goods are allocated to valuation units in compliance with the compound valuation as set out in Section 240 Paragraph 4 HGB. Production costs of similar products are not allocated to each item individually, but rather to the respective valuation unit based on a weighted average.

Receivables and other assets are stated at nominal values. Allowances for doubtful debts are recognized for receivables based on estimated individual, irrecoverable amounts. An allowance reflecting the general default risk of trade receivables was not recognized in the reporting period.

Cash and cash equivalents are carried at nominal values.

Prepaid expenses relate to payments made prior to the balance sheet date that represent expenses for a certain period of time subsequent to the balance sheet date. Prepayments are written-down periodically.

Deferred taxes are determined for temporary differences arising between commercial and tax valuation of assets, liabilities and accruals. The determination of deferred taxes is based on the combined income tax rate of currently 28.08%. The combined income tax rate encompasses corporate tax, trade tax and solidarity surcharge. An overall tax burden would be presented as deferred tax liability in the balance sheet. In the case of an overall tax relief, the corresponding right of choice to capitalize such a tax relief was not exercised. In the financial year, a deferred tax asset (not capitalized) arose.

Issued capital is carried at nominal value.

Non-current assets investment grants are stated at the nominal value of the grant and written-down in accordance with the useful lives of the subsidized assets.

The **retirement benefit obligation** is determined based on the projected-unit-credit method (PUC) by applying actuarial principles with an interest rate of 5.13% p.a. on the basis of the mortality table 2005 G of Prof. Heubeck. By virtue of the right of choice according to Article 67 Paragraph 1 Sentence 1 EGHGB, and as in prior year, EUR 267 thousand was transferred to the retirement benefit obligation in the financial year (i.e. 1/15 of the balance determined as at January 1, 2010). The Company has pension plan reinsurance, which is pledged to the pensioners. Correspondingly, the liabilities and the asset value of the pension plan reinsurance are presented as a net amount in accordance with Section 246 Paragraph 2 HGB.

Other provisions are recognized for remaining obligations such as identifiable risks and contingencies based on amounts dictated by prudent business judgment.

Payables are measured at their amounts repayable.

Currency translation principles

Liabilities denominated in foreign currency with a remaining term to maturity not exceeding one year are measured at the mean rate of exchange prevailing on the balance sheet date. All other liabilities denominated in foreign currency are measured at the higher of the exchange rate prevailing upon the transaction or the mean rate of exchange prevailing on the balance sheet date.

Receivables denominated in foreign currency with a remaining term to maturity not exceeding one year are measured at the mean rate of exchange prevailing on the balance sheet date. All other receivables denominated in foreign currency are measured at the lower of the exchange rate prevailing upon the transaction or the mean rate of exchange prevailing on the balance sheet date.

Derivative financial instruments are each measured at fair value as at the balance sheet date. Underlying transactions are measured as a unit with their corresponding hedging transactions if the prerequisite conditions for measurement based on a valuation unit are met.

Notes to the balance sheet

Non-current assets

The statement of changes in non-current assets is presented in the enclosures to these notes.

In the reporting period, interest on borrowed capital in the amount of EUR 302 thousand was included in the acquisition costs.

Receivables and other assets

Other assets consist mainly of receivables from factoring (EUR 1,177 thousand), VAT-return claims (EUR 836 thousand), a petroleum tax-return claim (EUR 352 thousand), an electricity tax-return claim (EUR 275 thousand) as well as a capital gains tax-return claim (EUR 127 thousand). Receivables and other assets have a term to maturity of less than one year.

Prepaid expenses

Prepaid expenses amounting to EUR 67 thousand consist of amounts paid in advance for the coming financial year. The accrued loan discounts in prior year were released through the income statement in 2011, since the corresponding loan was fully redeemed on September 30, 2011.

Statement of changes in non-current assets, Nabaltec AG

for the period January 1 to December 31, 2011

	Historical Cost					Cumulative Depreciation/Amortization							
	January 1, 2011	Additions	Disposals	Transfers	December 31, 2011	January 1, 2011	Additions	Appreciation	Disposals	December 31, 2011	Book Value December 31, 2011	Book Value December 31, 2010	Depreciation/Amortization for the year
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets													
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,082,391.88	87,467.14	34,100.49	70,603.15	2,206,361.68	1,977,025.55	75,733.12	0.00	34,094.88	2,018,663.79	187,697.89	105,366.33	75,733.12
2. Advance payments	70,603.15	1,210.00	0.00	-70,603.15	1,210.00	0.00	0.00	0.00	0.00	0.00	1,210.00	70,603.15	0.00
	2,152,995.03	88,677.14	34,100.49	0.00	2,207,571.68	1,977,025.55	75,733.12	0.00	34,094.88	2,018,663.79	188,907.89	175,969.48	75,733.12
II. Property, plant and equipment													
1. Land, leasehold rights and buildings on non-freehold land	19,020,176.15	201,278.50	0.00	568,49	19,222,023.14	3,896,939.84	679,262.36	0.00	0.00	4,576,202.20	14,645,820.94	15,123,236.31	679,262.36
2. Technical equipment, plant and machinery	82,768,561.65	3,023,411.88	367,855.76	2,514,116.06	87,938,233.85	32,526,766.34	6,097,671.07	0.00	367,833.83	38,256,603.58	49,681,630.27	50,241,795.31	6,097,671.07
3. Other fixtures, fittings and equipment	6,215,235.08	636,663.03	888,517.09	2,553.03	5,965,934.05	4,215,003.62	460,373.76	0.00	840,711.07	3,834,666.31	2,131,267.74	2,000,231.46	460,373.76
4. Advance payments as well as plants and machinery under construction	3,352,466.84	10,692,466.64	0.00	-2,517,237.60	11,527,695.88	0.00	0.00	0.00	0.00	0.00	11,527,695.88	3,352,466.84	0.00
	111,356,439.72	14,553,820.05	1,256,372.85	0.00	124,653,886.92	40,638,709.80	7,237,307.19	0.00	1,208,544.90	46,667,472.09	77,986,414.83	70,717,729.92	7,237,307.19
III. Financial assets													
1. Shares in affiliated companies	162,930.73	0.00	0.00	0.00	162,930.73	0.00	0.00	0.00	0.00	0.00	162,930.73	162,930.73	0.00
2. Loans to affiliated companies	9,393,644.93	176,732.86	161,117.08	0.00	9,409,260.71	314,748.66	0.00	176,999.02	0.00	137,749.64	9,271,511.07	9,078,896.27	0.00
	9,556,575.66	176,732.86	161,117.08	0.00	9,572,191.44	314,748.66	0.00	176,999.02	0.00	137,749.64	9,434,441.80	9,241,827.00	0.00
	123,066,010.41	14,819,230.05	1,451,590.42	0.00	136,433,650.04	42,930,484.01	7,313,040.31	176,999.02	1,242,639.78	48,823,885.52	87,609,764.52	80,135,526.40	7,313,040.31

Equity

a) Issued capital	EUR	8,000,000.00

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

b) Authorized capital

As of December 31, 2011, the following capital was authorized (Expires June 8, 2016)	EUR	4,000,000.00

By resolution of the annual shareholders' meeting of October 23, 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 October 22, 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). The Authorized Capital 2006/I was not used and was nullified per the resolution of the annual shareholders' meeting held on June 9, 2011.

By resolution of the annual shareholders' meeting of June 9, 2011, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions until June 8, 2016, by up to EUR 4,000 thousand through the issuance of up to 4,000,000 non-par bearer shares (non-par shares), whereby the increase in the number of shares shall maintain the relation of the increase of the capital stock and the Management Board is also authorized, with the consent of the Supervisory Board, to decide on any exclusion of subscription rights in connection with such issues (Authorized Capital 2011/I).

c) Conditional capital	EUR	3,000,000.00

By resolution of the annual shareholders' meeting of October 23, 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 that were issued by the Company with the authorization of the annual shareholders' meeting of October 23, 2006. The Conditional Capital was not used and was nullified per the resolution of the annual shareholders meeting held on June 9, 2011.

By resolution of the annual shareholders' meeting of June 9, 2011, the capital stock was increased conditionally by the issuance of up to 4,000,000 non-par bearer shares (non-par shares) (Conditional Capital 2011/I). The Conditional Capital only serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants that were issued by the Company with the authorization of the annual shareholders' meeting of June 9, 2011. According to the conditions of the corporate bonds, the Conditional Capital also serves to issue shares to holders of convertible bonds foreseen with conversion obligations.

d) Capital reserve	EUR	30,824,219.38

As of December 31, 2011, the capital reserve amounts to EUR 30,824 thousand (PY: EUR 30,824).

With the consent of the Supervisory Board and until June 8, 2016, the Management Board is authorized to issue on one or more occasions convertible and/or respectively warrant bearer bonds amounting in total EUR 100,000 thousand with a term of maximum 15 years (the "convertible and/or warrant bearer bonds") and grant holders of convertible bearer bonds conversion rights of maximum 4,000,000 bearer Company shares in accordance with the terms and conditions of the warrant and, respectively, convertible bonds (bond conditions) to be specified by the Management Board and approved by the Supervisory Board.

e) Profit participation capital	EUR	4,588,283.59

Equity includes profit participation capital with a nominal amount of EUR 5,000 thousand. The term ends in 2013, without any due rights of termination for the contract parties. The profit participation capital meets the requirements set out by the Institute of Public Auditors in Germany, Incorporated Association (IDW HFA 1/1994) for the classification as equity.

According to the contract governing profit participation capital, the redemption amount shall be reduced by the net annual loss from the past years to the extent that this loss was not covered by a profit carried forward and may only be increased again to the original amount as far as it is covered by committed equity. Committed equity consists of the issued capital and the capital reserve. Given that the current year resulted in a net annual profit of EUR 3,377,456.05, the profit participation capital was increased accordingly.

f) Profit carried forward	EUR	0.00
January 1, 2011	EUR	0.00
Net annual profit 2011	EUR	3,377,456.05
Transfer to profit participation rights capital	EUR	3,377,456.05
December 31, 2011	EUR	0.00
		================

Non-current assets investment grants

The special balance sheet item non-current assets investment grants has been written-down in accordance with the useful lives of the subsidized assets.

Retirement benefit obligation

The retirement benefit obligation has been measured in accordance with the provisions set out by BilMoG. The measurement took place on the basis of recognized actuarial principles based on the so called projected-unit-credit (PUC) method. The mortality table 2005 G of Prof. Heubeck was used as biometric basis for actuarial calculations. Further, the following parameters were used in the calculation: interest rate p.a. 5.13%, salary increase p.a. 2.75% and pension increase p.a. 2.00%. The interest rate used for discounting is based on the average market interest rate determined by the Bundesbank (German Central Bank) with an assumed remaining term to maturity of 15 years.

The revaluation of the retirement benefit obligation as at January 1, 2010 results in a balance of EUR 4,009 thousand; in the reporting period, an amount of EUR 267 thousand (1/15 according to Article 67 Paragraph 1 Sentence 1 EGHGB) was transferred to the retirement benefit obligation as in prior year, the remaining shortfall as at December 31, 2011, therefore amounts to EUR 3,474 thousand.

Pension plan reinsurances have been pledged, hence, direct commitments regarding the pension scheme are secured from other creditors. Therefore, the liabilities can be netted against the corresponding assets as well as the expenses can be netted against the corresponding income. Insofar, the asset value of the pension plan reinsurance amounting to EUR 1,106 thousand has been netted with the repayable amount of the provision in the amount of EUR 10,998 thousand, resulting in a net amount in the balance sheet of EUR 9,892 thousand as per the balance sheet date. The line item interest and similar expenses includes gains arising from the reinsurance in the amount of EUR 125 thousand. The fair value of the pension plan reinsurances corresponds to the asset value. The asset value includes the current payment of contributions as well as gains arising from the return on the pension plan reinsurance, which develops in line with the investment performance of the insurer.

Other provisions

Other provisions primarily consist of personnel obligations (EUR 1,939 thousand) and invoices not yet received (EUR 896 thousand). Provisions for operating expenses that were formed as at January 1, 2010 - following the rights to do so according to Article 67 Paragraph 3 EGHGB pursuant to Section 249 Paragraph 2 HGB (prior to BilMoG) - were either completely used or released due to the low probability of being used as at December 31, 2011.

Anniversary provisions are measured based on the PUC method applying an interest rate of 5.13% p.a. and salary increase of 2.75% p.a.

Payables

Payables and their remaining terms to maturity as well as the type of collateralization relating to each payable, if applicable, are specified in the table below:

(Prior year figures in parentheses)

	Total amount	Term to maturity			Collateralized amounts	Type of collateralization
		< 1 year	1 – 5 years	> 5 years		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	
Liabilities arising from corporate bonds	30,000 (30,000)	0 (0)	30,000 (30,000)	0 (0)	0 (0)	
Payables to banks	35,026 (38,589)	6,280 (6,520)	28,746 (26,344)	0 (5,725)	35,026 (38,589)	Land charges, security assignment
Trade payables	8,592 (9,534)	8,592 (9,534)	0 (0)	0 (0)	0 (0)	
Intercompany payables	460 (248)	460 (248)	0 (0)	0 (0)	0 (0)	
Other payables	1,392 (2,793)	1,392 (2,793)	0 (0)	0 (0)	0 (0)	
	75,470 (81,164)	16,724 (19,095)	58,746 (56,344)	0 (5,725)	35,026 (38,589)	

On October 15, 2010, Nabaltec AG successfully issued her initial corporate bonds in the amount of EUR 30 million. The security disposes of a term to maturity ending October 14, 2015, and a fixed interest rate of 6.50% p.a. The redemption price amounts to 100.00%.

Intercompany payables result completely from the deliverance of goods and services.

In accordance with HFA 1/1984, grants received but not yet invested, in the amount of EUR 523 thousand, are classified as other payables. This amount shall be presented as other payables until it is used in line with the terms of the grant.

Notes to the income statement

Revenue

Revenue by geographical location is specified below:

	2011		2010	
	EUR '000	%	EUR '000	%
Germany	40,722	31.5	33,938	30.1
Rest of Europe	58,283	45.2	51,411	45.6
USA	16,764	13.0	16,752	14.9
RoW	13,253	10.3	10,600	9.4
	129,022	100.0	112,701	100.0

Revenue by business division:

	2011		2010	
	EUR '000	%	EUR '000	%
Functional Fillers	84,822	65.7	75,916	67.4
Technical Ceramics	44,200	34.3	36,785	32.6
	129,022	100.0	112,701	100.0

Other operating income

Due to the changed currency parity in the loans to affiliated companies, an appreciation in value amounting to EUR 177 thousand (Section 256a HGB) was recorded in the reporting period and recorded via the income statement line item other operating income.

Other operating income includes the following gains arising from exchange rate differences (EUR 681 thousand):

Realized exchange rate gains EUR 504 thousand

Unrealized gains from appreciation EUR 177 thousand

Exceptional expenditures

Due to the first-time adoption of BilMoG, and as in prior year, exceptional expenditures result from the revaluation of the retirement benefit obligation in the amount of EUR 267 thousand.

Other taxes

Other taxes include an amount of EUR 28 thousand as expenditure relating to other periods arising from the subsequent payment of property tax for the period 2008-2010.

Other disclosures

Disclosures on off-balance sheet transactions

In order to improve the Company's liquidity position, Nabaltec entered into lease agreements with an annual expense of EUR 2,281 thousand and sold receivables to a factor in the amount of EUR 17,403 thousand. In 2011, expenses arising from the transfer of payment risks to the factor for the processing and pre-funding of the sales of the receivables amount to EUR 776 thousand.

Contingencies and other financial obligations

According to Section 251 and Section 268 Paragraph 7 HGB, the following contingencies shall be disclosed:

	December 31, 2011 EUR '000	December 31, 2010 EUR '000
Obligations arising from warranty contracts	4,277	5,032
- thereof in favor of affiliated companies:	4,130	4,895

The Company has obligations arising from securities and guarantees to third parties amounting to EUR 4,277 thousand (guarantee liabilities). The Company is liable for the payment of Nashtec LLC's bank debts in the amount of EUR 4,130 thousand. According to the subsidiary's forecast, there is no risk of claims on the guarantee.

Other financial obligations

Other financial obligations of importance for the assessment of the Company's financial position are specified below:

		December 31, 2011	December 31, 2010
		EUR '000	EUR '000
a)	Obligations arising from rental, lease, service and consulting agreements	5,412	7,611
	thereof		
	- maturing within 1 year	2,497	2,780
	- maturing within 1 – 5 years	2,729	4,831
	- maturing in more than 5 years	186	0
b)	Obligations arising from investment contracts (order obligations) thereof	5,655	1,611
	- maturing within 1 year	5,655	1,611
	Total	11,067	9,222
	- thereof to affiliated companies	0	0

Declaration on the German Corporate Governance Code

The Company has voluntarily issued the Declaration on the German Corporate Governance Code in compliance with Section 161 of the German Stock Corporation Act. The declaration is published on the Company's website www.nabaltec.de under Investor Relations/Corporate Governance.

Auditor's fee

The fee for the audit of the 2011 financial statements amounts of EUR 80 thousand (including the consolidated financial statements 2011). For other assurance services, the auditor received a fee of EUR 3 thousand. The fee for tax advisory services amounts to EUR 17 thousand and other services amounts to EUR 5 thousand.

Related parties transactions in terms of Section 285 Paragraph 21 HGB

No significant transactions were entered into at less than arm's length conditions with related parties.

Share ownership pursuant to Section 285 Paragraph 11 HGB

	Share in Equity		Prior Year Equity *) Nashtec		Prior Year Earnings *) Nashtec	
Direct Participation	in %	in USD	in USD	in EUR	in USD	in EUR
Nashtec LLC, Texas (USA)	51.0	210,266.00	-8,143,353.00	-6,294,622.40	2,541,371.00	1,825,697.56

*) Prior year shareholders' equity denominated in foreign currency was translated at the mean rate of exchange valid as of the balance sheet date. Prior year earnings in foreign currency were translated using the annual average rate of exchange

In 2011, the subsidiary, Nashtec LLC, was not provided with any additional funds.

Derivatives

On October 4, 2011, the Company entered into an interest rate swap agreement with the IKB Deutsche Industriebank effective October 6, 2011. The underlying nominal amount is in the order of EUR 10,000 thousand with a fixed interest rate of 0.96% p.a., the received variable interest rate is based on the 3-month EURIBOR. Both the variable as well as the fixed amount is due on a quarterly basis on the 6th of the month through the end of the agreement term, October 8, 2012. The fair value of the interest rate swap amounts to EUR -49 thousand as at December 31, 2011 and has been accounted for as a provision for contingent losses through the income statement.

On December 23, 2011, the Company entered into an interest rate swap agreement with the Bayern LB effective December 30, 2011, to hedge an existent bank loan with a secured and agreed upon variable interest rate based on the 3-month EURIBOR. The underlying nominal amount is in the order of the redemption schedule of the loan and initially amounted to EUR 3,000 thousand. A fixed interest rate of 1.64% p.a. was agreed on. Both the variable as well as the fixed amount is due on a quarterly basis at month’s end through the end of the agreement term, December 30, 2016. The fair value of the interest rate swap amounts to EUR -31 thousand as at December 31, 2011. Pursuant to Section 254 HGB, this hedge and the underlying bank loan form a valuation unit. Therefore, a provision for contingent losses does not need to be accounted for.

Deferred taxes

The determination of deferred taxes is based on the combined income tax rate of currently 28.08%, which consists of corporate tax, trade tax and solidarity surcharge.

Balance sheet item	**Carrying amount**			**Deferred tax**	
	Commercial valuation EUR '000	Tax valuation EUR '000	Difference EUR '000	Asset EUR '000	Liability EUR '000
Deferred tax asset					
Retirement benefit obligation	-10,998	-9,245	-1,753	492	
Other provisions	-3,253	-2,932	-321	90	
Financial assets (Loan Nashtec)	9,272	9,409	-137	39	
	-4,979	-2,768	-2,211	621	
Deferred tax liability					
Trade and other receivables	2,237	2,036	201		57
	2,237	2,036	201		57
Loss carry forward				612	
Balance				1,176	

Employees

The average number of employees:

	2011 Number
Blue-collar employees	195
White-collar employees	137
Part-time employees	13
	345

In addition, an average of 47 apprentices was employed in the course of the financial year.

Management board and supervisory board

In accordance with the Articles of Association, the Company's Management Board consists of at least one person. The number of members of the Management Board is defined by the supervisory board. The supervisory board may appoint one member of the Management Board as chairperson. Currently, no member of the Management Board has been nominated.

Members of the **Management Board**:

Mr. Johannes Heckmann
Industrial Engineer

Mr. Gerhard Witzany
Business Graduate

In line with the provisions Section 286 Paragraph 4 HGB, the disclosure of the total remuneration of the Management Board in accordance with Section 285 Paragraph 1 Sentence 9a HGB was waived.

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:

Mr. Dr. Leopold von Heimendahl (chairman)

Engineer in retirement

Mr. Dr. Dieter J. Braun (vice chairman)
Chemist in retirement

Mr. Prof. Dr. Jürgen G. Heinrich
Professor for ceramic engineering

The supervisory board members received total remuneration of EUR 42 thousand for the financial year 2011.

Schwandorf, February 20, 2012

Nabaltec AG

The Management Board

Johannes Heckmann	Gerhard Witzany

Independent Auditor's Report

We have audited the annual financial statements - comprising the balance sheet, income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of Nabaltec AG, Schwandorf, for the financial year from January 1 to December 31, 2011. The bookkeeping and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB ("German Commercial Code") and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, Incorporated Association - IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, results of operations and financial position in the annual financial statements in accordance with applicable financial reporting framework 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 annual financial statements and management report are examined primarily on a sample basis in the course of the audit. The audit includes assessing significant estimates made by the Management Board as well as evaluating the overall presentation of the annual financial statements and the 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 our audit findings, the annual financial statements of Nabaltec AG, Schwandorf, comply with the legal requirements and give a true and fair view of the Company's net assets, results of operations and financial position in accordance with these requirements. 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 risks and opportunities of future development.

Nuremberg, March 9, 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann)　　(Sauer)
Auditor　　Auditor

Report of the supervisory board

Ladies and Gentlemen,
Dear Shareholders,

While Nabaltec benefited from the economy's faster-than-expected recovery in the first half of 2011, the second half of the year was characterized by economic uncertainty as a result of the continuing financial and debt crisis. Nevertheless, Nabaltec AG was able to post record results: never before in its history did the company earn higher revenues in any Financial Year. A very solid financial structure and liquidity, thanks in part to the successful bond issue in October 2010, as well as the successful introduction of new product applications, laid the framework for a strong 2011, as well as the fact that the outlook for 2012 remains intact. Although the weakening of the global economy has not affected demand in our consumer industries to a significant extent yet, the Supervisory and Management Boards have been devoting and are continuing to devote special attention to observing market developments very closely in order to be able to act quickly at any time.

Under these circumstances, the Supervisory Board consistently advised, monitored and supervised Management Board with utmost care, in accordance with its responsibilities as established by law, the Articles of Association and the Rules of Procedure. 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 Rules of Procedure, the Supervisory Board voted on the Management Board's reports and draft resolutions after careful deliberation and review. All transactions requiring approval were adopted.

In the 2011 reporting year, the Supervisory Board convened for four regular sessions: on 4 April 2011, on 9 June 2011, after the Annual General Meeting, on 29 September 2011 and on 16 December 2011. No meetings were held in 2012 prior to the Supervisory Board meeting of 23 April, which votes on adoption of the financial statements. All members were present at each session in 2011. The members of the Supervisory Board also conducted deliberations in writing and over the phone. Where necessary, the Supervisory Board has adopted resolutions outside of the regular meetings. Draft resolutions were approved in writing on seven occasions in 2011. For example, the age limit in the Rules of Procedure for the Supervisory Board was modified and the goals for composition of the Supervisory Board required by the German Corporate Governance Code were adopted. In addition, Messrs. Johannes Heckmann and Gerhard Witzany were reappointed to the Nabaltec Management Board through 24 August 2016.

Since the Supervisory Board of Nabaltec AG consists of just three members, the formation of committees was once again dispensed with. No conflicts of interest for individual members of the Supervisory Board arose during the 2011 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's supervisory mandate. In the estimation 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. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the past Financial Year, particularly the efficiency of its procedures and the timely supply of adequate information.

Focus of deliberations
Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, the Supervisory Board was kept informed e.g. of market trends, the competitive situation, the development of sales, revenues and earnings and the accomplishment of objectives through monthly and quarterly reports. In addition, the Chairman of the Supervisory Board kept himself constantly informed of the current course of business, major transactions and crucial Management Board decisions. To that end, the Chairman of the Supervisory Board was engaged in a close and routine exchange of information and ideas with both members of the Management Board.

The development of revenues and earnings were routinely discussed at Supervisory Board sessions, as well as suitable measures to optimize revenue and earnings growth and the assets and financial position. In addition, intensive consideration was given to the following issues in 2011:

- the 2010 annual financial statements and consolidated financial statements;
- corporate governance, particularly the future composition of the Management Board and Supervisory Board and the adoption of objectives for the composition of the Supervisory Board;
- the reappointment of Messrs. Johannes Heckmann and Gerhard Witzany to the Management Board;
- negotiations pertaining to raw materials for the years 2012-2014;
- examining opportunities for collaboration;
- planning for 2012 and mid-term planning through 2014;
- investment and financing planning for 2012-2014.

Another focus of the deliberations in 2011, as well as the supervisory and monitoring activity, especially in the session 2012 slated for adoption of the 2011 financial statements, was the effectiveness of the risk management system and the entire accounting process in Nabaltec AG and Nabaltec Group, as well as monitoring the internal controlling system.

On 11 March 2011, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2011, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. The German Corporate Governance Code was unchanged during the reporting year, and remains in effect as amended on 26 May 2010. The main preparations for issuance of the 2012 Declaration of Compliance were made at the Supervisory Board meeting on 16 December 2011. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

Management board compensation
With the reappointment of Messrs. Johannes Heckmann and Gerhard Witzany to the Nabaltec Management Board, the Supervisory Board has reviewed the fairness of the compensation paid to each member of the Management Board, and it has confirmed that this compensation is fair.

2011 annual financial statements and consolidated financial statements
Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, 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 Annual General Meeting of 9 June 2011. Before publishing the nomination, the Supervisory Board obtained an independence declaration from the auditor. There were no known reasons to doubt the auditor's independence. The auditor was also asked to notify the Supervisory Board immediately of any circumstances which could establish bias on its

part and to keep us informed about any performances it rendered in addition to the audit. The focus of the 2011 audit was on the "procurement" process.

The auditor issued an unqualified auditor's opinion for Nabaltec AG's annual financial statements and management report and for the consolidated financial statements and consolidated management report. All of the documents pertaining to the financial statements, as well as the auditor's report, were made available to each member of the Supervisory Board in a timely manner for independent review. The documents and the auditor's report were the subject of intense consideration at the session of 23 April 2012. The auditor was present during the session, reported on the essential conclusions of the audit and was available for further questions. One focus of the auditor's explanations was his assessment of Nabaltec AG's consolidated financial statements and the accounting-related controlling system for the "procurement" unit. The auditor was not able to find any major weaknesses in this system. The Management Board and the auditors have answered all of the Supervisory Board's questions fully and to its satisfaction.

After conducting an independent review 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 Deloitte & Touche GmbH. The Supervisory Board accordingly approved the annual financial statements and consolidated financial statements for 31 December 2011 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks go out to all of the employees of Nabaltec AG, who were also 2011 highly successful in providing innovative ideas and products in economically uncertain times, and were therefore able to retain utmost customer satisfaction.

Schwandorf, 23 April 2012

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

Declaration of Compliance with the German Corporate Governance Code for the 2012 Financial Year

The Management Board and Supervisory Board of Nabaltec AG, with registered office in Schwandorf, hereby declare as follows pursuant to § 161 of the German Stock Corporation Act:

Since filing its first Declaration of Compliance on 26 March 2007, Nabaltec AG has complied with the recommendations of the German Corporate Governance Code ("the Code") in Financial Years 2007 to 2011, with the exceptions noted in the Declarations of Compliance for those years. In Financial Year 2012, the Company will comply with the recommendations of the Code as amended on 26 May 2010 and published in the electronic Bundesanzeiger [Federal Gazette], with the following exceptions:

- The Company will not transmit the invitation to the general meeting and the invitation documents electronically to financial services providers, shareholders and shareholder associations (2.3.2 of the Code). Nabaltec AG sends invitations to the general meetings to its shareholders via the depositaries, and the invitation is published in the electronic Bundesanzeiger [Federal Gazette]. In addition, the invitation, the Annual Report and any other general meeting documents are available for download from the Company's website. As a result, the Company believes that the shareholders have proven and secure access to information, and the Company sees no need for an additional electronic transmission.
- A directors and officers (D&O) policy is in place for members of the Supervisory Board, but no deductible has been stipulated for insured persons (3.8 of the Code). The Management and Supervisory Boards do not believe that such a deductible would have the effect of improving the motivation and sense of responsibility of the Supervisory Board members in performing their assigned functions.
- The Supervisory Board will not appoint a Management Board chairman or spokesman for the time being (4.2.1 of the Code). The two Management Board members operate on an equal footing. The Supervisory Board intends to continue this successful arrangement, and feels that there is no cause to elevate one of the two Management Board members over the other by appointing one member to the Management Board chairman or spokesman.
- Management Board remuneration will not be itemized and disclosed by name, and the Corporate Governance Report will not include a compensation report (4.2.4 and 4.2.5 of the Code). Nabaltec AG complies with all duties for the disclosure of management board compensation pursuant to IFRS and the German Commercial Code, and deems those disclosures to be sufficient.
- There is no defined age limit for Management Board members (5.1.2 of the Code), in order to give the Company access to the expertise of older and more experienced management board members and in order to avoid precluding the optimal composition of the Management Board based on nothing more than formal considerations.
- The Supervisory Board does not form any committees, and in particular, does not have a committee on auditing or nomination (5.3.1, 5.3.2 and 5.3.3 of the Code). The

Supervisory Board numbers three persons, which is adequate for the size of the Company. Since any Supervisory Board committee would also require at least three members, the Supervisory Board currently deems the formation of committees to be neither necessary nor expedient, and since it works effectively in the general committee.

- The Supervisory Board has not set any specific targets with respect to the adequate representation of women in the Supervisory Board and will therefore not include any such specific targets in the nominations it makes to the General Meeting. The Corporate Governance report will not contain any statements with respect to any such specific targets, or to the status of their implementation (5.4.1 (2) and (3) of the Code). The Supervisory Board does not consider the definition of specific targets, i.e. absolute numbers, quotas and deadlines for implementation, to be appropriate in connection with the inclusion of women in the Supervisory Board. It is of the opinion that the Supervisory Board can only be formed in the best interest of the company and its shareholders if candidates to the Board are selected based not on their gender, but on their expertise and abilities.
- Supervisory Board members receive fixed compensation and a meeting allowance, but no performance-based compensation. The position of deputy chairman of the Supervisory Board does not affect compensation. Supervisory Board compensation is not itemized and disclosed by name (5.4.6 of the Code). The Management and Supervisory Boards deem the current level of compensation for members of the Supervisory Board, which is defined by the general meeting, to be reasonable, and disclosure of total Supervisory Board compensation in the Consolidated Notes to be sufficient.
- The Company will not publish its consolidated financial statements within 90 days of the close of each financial year and interim reports within 45 days of the close of each reporting period (7.1.2 of the Code). The Company's consolidated financial statements will to be published within four months of the close of each financial year and interim reports within two months of the close of each reporting period. In other words, the Company will voluntarily comply with the statutory deadlines for the regulated market and the stock exchange rules for the Prime Standard segment which are deemed reasonable by the Management Board and Supervisory Board.

Schwandorf, 9 March 2012

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

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