



ANNUAL FINANCIAL  
STATEMENTS 2017



*OUR KNOW-HOW  
FOR YOUR SAFETY*

**Nabaltec**

# MANAGEMENT REPORT OF NABALTEC AG FOR THE FINANCIAL YEAR 2017

## 1. DESCRIPTION OF THE BUSINESS ENTERPRISE

### 1.1 THE COMPANY'S BUSINESS MODEL

#### Business Operations

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 and aluminum oxide. The Company belongs to the world's leading suppliers of functional fillers and specialty alumina. The production capacity entails approximately 260,000 tons per annum (t.p.a.) with an export share of over 70%.

The range of applications of Nabaltec products is highly diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment;
- fillers and additives, e.g. as white pigments in paint or as an all-natural barrier layer in foil;
- ceramic raw materials applied in the refractory industry, in technical ceramics and abrasives industry;
- highly specialized ceramic bodies 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. 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 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 eco-friendly flame-retardant fillers in the "Functional Fillers" product segment. Today, Nabaltec is one of the world's leading suppliers in this area.

Nabaltec has fine precipitated aluminum hydroxide production sites in the two most important demand-driven markets in Europe and USA. This permits Nabaltec to produce cost-efficiently in customer proximity and, therefore, to serve the most significant markets directly. Production at the Corpus Christi site in the US was temporarily halted at the end of August 2016 due to the fact that its raw materials supplier at the time, Sherwin Alumina, was compelled to discontinue operations because of a Chapter 11 bankruptcy procedure. Its customers have been supplied from Germany ever since. On 17 March 2017, Nabaltec AG concluded an agreement under which it acquired the remaining 49% of shares in the joint venture Nashtec. Following extensive investments in the course of retooling to a stand-alone solution, Nashtec's production is expected to resume in the second quarter of 2018.

In the "Specialty Alumina" product segment as well, Nabaltec products have excellent growth potential thanks to a wide range of applications and relevant target markets. The market for reactive aluminum oxide 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 design and development of our products.

### **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 stock corporation and has been listed in the Open Market division of the Frankfurt stock exchange since November 2006 and has consistently been traded in high-quality segments of the exchange, including the Scale segment as of March 2017.

Nabaltec AG holds a 100% interest in Nashtec LLC (USA). In the past, Nashtec LLC purchased key raw materials, particularly the aluminum hydroxide required for the production of APYRAL<sup>®</sup>, from Sherwin Alumina LLC, a wholly-owned subsidiary of Allied Alumina LLC. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code ("Chapter 11 procedure") with the United States Federal Bankruptcy Court in Corpus Christi, Texas, USA. Sherwin Alumina has discontinued operations because of the Chapter 11 procedure and Nabaltec AG's US subsidiary Nashtec was forced to halt production at the end of August 2016. Since then, customers which had previously been supplied by Nashtec have been receiving their products from Germany. Nabaltec AG's goal is to continue to operate Nashtec based on a stand-alone solution. However, that has no effect on the qualification of Nashtec LLC as a subsidiary of Nabaltec AG.

In 2016, Nabaltec established a wholly-owned subsidiary, Nabaltec Asia Pacific K.K., based in Tokyo, Japan, which will market and distribute Nabaltec AG's entire portfolio of products. Nabaltec Asia Pacific K.K. is not included in Nabaltec AG's consolidated financial statements but is instead recognized at the cost of the shares, since it is not material for Nabaltec AG's financial, earnings and liquidity position.

Nabaltec AG did not have any other participations or subsidiaries as of 31 December 2017.

Reflecting the characteristics of the target and buyers' markets, Nabaltec AG's operations are divided as of 2017 into product segments (formerly business divisions), each in turn comprised of market segments.

### **PRODUCT SEGMENTS**

Functional Fillers:

- Wire & Cable
- Resins & Dispersions
- Rubber & Elastomers
- Others

Specialty Alumina:

- Refractory
- Technical Ceramics
- Polishing
- Others

## **1.2 OBJECTIVES AND STRATEGIES**

For the further development of the Company, Nabaltec AG has defined the following objectives and core strategic areas:

### **1. Quality leadership and a market position among the top three suppliers in each target market**

Fire safety concerns within the plastics and cable & wire industry will continue growing in the years to come, which is supported by recent market research results by among others Roskill and Freedonia. Halogenated flame retardants will increasingly 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 aluminum hydroxide. Today, Nabaltec is already one of the world's leading suppliers in this area.

Stricter quality requirements in the refractory industry have resulted in very strong growth in reactive aluminum oxides. Markets for technical ceramics and the abrasives industry also continue showing solid growth. Nabaltec responds to this growth by expanding its marketing activities.

Nabaltec has for many years been a leading independent supplier of its own ready-to-press ceramic bodies for highly specialized applications, due to amongst others the state-of-the-art production facility in Schwandorf.

### **2. Strategic alignment towards growth markets**

Environmentally friendly and non-hazardous products and processing solutions are globally advancing forward. This trend is supported in part by voluntary industry initiatives, as well as by the requirements of laws and standards. With an export share of around 70%, we already profit from these worldwide trends. The aim of being the one of the world's top three suppliers in our own target markets goes hand in hand with the aim of being equally well represented across all global markets.

### **3. Optimizing customer benefits by continuously improving production processes and product quality**

Through our constant exchange with our customers, the Company's product and process development activities are continuously optimized and directed toward specific customer requirements. This results in processing advantages for the customer, such as a simpler and faster fabrication. Therefore, Nabaltec continuously invests in internal research and development departments, the analysis center, its own testing facility and a pilot plant. Nabaltec has also been collaborating with various research institutions for years, as well as taking part in research consortia.

Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both aspects of which represent major competitive factors. Nabaltec has taken extensive measures in order to reduce energy consumption, operate with virtually no waste water and minimize emissions.

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

Nabaltec develops its own product portfolio along three dimensions:

- through development of new products, often in close collaboration with key customers. Examples include materials for alternative energy storage and electric mobility;
- through focused development of existing products with a view towards improving performance, which is generally designed to meet specific customer requirements. The GRANALOX® product family is an example of this;
- through further development of existing products for entirely new applications, such as thermally conductive plastics.

With its own pilot plant, Nabaltec is optimally equipped to transition newly developed products from its laboratories and testing centers into sample production of up to several hundred tons. As a result, the pilot plant can serve as the basis for industrial product launches in addition to its role in process development.

#### **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 and changes in batch size have to be taken into account as soon as possible if production processes are to remain profitable, since production processes in the specialty chemicals sector cannot be varied without inherent delays. Therefore, Nabaltec has established a fast-acting and highly differentiated controlling system, so that it has at its disposal the appropriate instruments so as to align costs to a large extent with fluctuations in demand and batch size.

#### **6. Securing future investments through a strong financing base**

In order to take full advantage of market potential relating to both product segments, further investments are necessary. This investment activity is at the same time a high market entry barrier for potential new suppliers. In order to ensure that the required investment capital will be available, Nabaltec relies on a financing base consisting of shareholders' equity and loans against borrower's notes.

### **1.3 CONTROLLING**

Nabaltec AG has implemented a companywide incentive scheme, assigning responsibilities and defining specific objectives for even for the smallest units of the Company.

Comprehensive earnings, cost and performance forecasts facilitate analysis for achievement of the company's objectives. Comparisons of estimates against results are available online, indicating a need for action at an early stage and promoting the process of agreement on targets. Comparisons of estimates against results are conducted on a monthly basis for all cost centers and cost units.

Since 1998, "Navision" ERP software has been used in all commercial departments. All cost accounting at Nabaltec, including earnings statements, have been presented based on the

"macs" controlling software since 2003. Revenues, contribution margins, EBIT, ROCE, ROI, amortization terms and cash flow are the key control parameters which are used as a basis for business decisions.

## **1.4 BASICS OF THE REMUNERATION SYSTEM FOR CORPORATE OFFICERS**

### **The Management Board**

The Management Board agreements were revised on 19 June 2016 by resolution of the Supervisory Board. The remuneration of Management Board members includes fixed and variable components; the latter are based on annual business performance on a recurring basis and are capped relative to the member's fixed annual salary. This remuneration covers all activities of the individual Management Board members for the company and its subsidiaries and holdings.

The assessment basis for variable compensation is calculated as follows: The Management Board Chairman receives a profit share equal to 4%, and each other member receives 2%, of the amount by which pre-tax consolidated net income in accordance with IFRS, adjusted for non-controlling interests and subtracting losses carried forward from the year before, exceeds EUR 4.2 million. Variable compensation is capped at 100% of the fixed annual salary.

As a part of the fixed compensation component, the company provides Management Board members with ancillary benefits in addition to the fixed salary, such as use of a company car, accident insurance, health and long-term care insurance subsidies which conform to the statutory rules for employees and continued payment of wages for a limited time in case of illness and death. The Management Board Chairman also receives a pension upon retirement amounting to up to 67%, and all other Management Board members receive up to 50%, of their last fixed gross annual salary, and surviving spouses are entitled to up to 75% of the pension as a widow's pension for the Management Board Chairman, and up to 60% for all other Management Board members.

Management Board members are covered by a D&O insurance policy with an insured sum of EUR 20.0 million, with a deductible amounting to 10% of the claim, as required by law, up to one and half times the amount of their fixed annual compensation.

### **The Supervisory Board**

Remuneration of Supervisory Board members was last revised by resolution of the shareholders at the general meeting of 27 June 2017. Remuneration is comprised of a fixed salary in the amount of EUR 10,000.00 a year and a fee of EUR 1,500.00 per meeting of the Supervisory Board, with the Chairman of the Supervisory Board receiving one and a half times the sums mentioned above. If the term of a Supervisory Board member begins or ends over the course of a financial year, the member is entitled to fixed remuneration for that year on a prorated basis.

In the interest of the company, the members of the Supervisory Board are covered by a D&O insurance policy, which has been taken out by the company, with an insured sum of up to EUR 20.0 million, and with no deductible for the insured Supervisory Board members. Insurance premiums are paid by the company.

## 1.5 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. A key element of the research and development strategy is close collaboration and joint development efforts with customers. In all our product areas, the focus is on providing customers with an optimal product and helping them achieve a competitive advantage. As a leading supplier of highly specialized products, Nabaltec considers research and development to be one of its central core competencies. Research and development expenses accounted for 1.7% of revenues in 2017.

Close collaboration with customers is a common thread for all functional areas and processes. Application-oriented sales allows us to identify specific customer requirements at an early stage and incorporate them immediately into development work for application engineering, process development and production. This is true both for the optimization of established products and for the development of new products.

In order to ensure continued success in the global market, the optimization of production processes is also a high priority for R&D work. Efficient use of energy and resources are the key drivers in this regard.

In some cases, our in-house expertise which has been built up over the years is supplemented in meaningful fashion through joint projects with universities, public and private institutions and research and technology companies. Research partners currently include RWTH Aachen University (Institute for Textile Technology), the Freiberg University of Technology, the Fraunhofer Institute for Environmental, Safety and Energy Technology (UMSICHT) in Oberhausen, the Fraunhofer Institute for Structural Durability, Plastics Division, in Darmstadt, the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the German Institute for Refractories and Ceramics (*Deutsches Institut für Feuerfest und Keramik GmbH*) in Höhr-Grenzhausen as well as *Forschungsgemeinschaft Feuerfest*, a refractory products research association, in Höhr-Grenzhausen, and the Federal Institute for Materials Research and Testing in Berlin.

Nabaltec is currently taking part in two projects with public funding: a consortium funded by the EU Commission as part of its "Horizon 2020" framework program and another funded by the Bavarian Ministry of Economic Affairs and Media, Energy and Technology. Nabaltec's innovative activities are also supported by its participation in numerous committees of the German Federation of Industrial Research Associations (AiF).

An expression of Nabaltec's strong commitment to research and development is its receipt of various national and international awards and distinctions for innovativeness. For example, Nabaltec AG has been recognized as one of the 100 most innovative mid-sized German companies ten times and has received awards for innovativeness in multiple areas.

Aside from searching for ideas for new products, processes and applications, the present focus of Nabaltec's research and development activities is above all on improving and refining existing products and processes. The rules are defined by customer and market requirements, which are constantly changing. These requirements must be met at all times, while at the same time supplementing and extending our product range in target markets.

Our focus in this regard is on constantly improving quality and on identifying and exploiting new applications.

The following subjects were at the center of R&D activities for the "Functional Fillers" product segment in the 2017 reporting year:

Mineral-based flame retardants continue to ensure growth for Nabaltec's innovative and eco-friendly products. The year 2017 was shaped by the final introduction of the CPR (the Construction Products Regulation) on 1 July 2017. In particular, the strong attention paid in these EU-wide rules to the issues of flue gas development, flue gas corrosiveness and reducing the spread of fire has boosted growth even more. This includes relatively new applications, such as the insulation of optical fibers, as well as the increased use of mineral-based flame retardants in existing applications. The steady exploitation of these new applications and assisting Nabaltec's customers in adapting existing technologies to the challenges of the CPR were of central significance in the reporting year. These activities included the development of new synergists for flame retardants.

Efforts to optimize and market new raw materials for alternative energy storage and electric vehicles continued steadily in 2017 in all product segments. It was in this regard as well that Nabaltec AG began to relocate its pilot plant from Kelheim to Schwandorf, as well as developing application engineering labs and testing facilities at the site. This concentration of product, process and application development activities at a single location has the potential to shorten development times so that the lessons which are learned through these activities can be more quickly applied towards large-scale production and the marketing of new products.

The "Specialty Alumina" product segment was focused on the following developments in the reporting year:

A focus of development activities in the NABALOX® product range in 2017 was on steady improvements to abrasives which are already established in the market. State-of-the-art internal application engineering processes have been developed into to accelerate customer approval processes in this regard. These analytical processes are also a key basis for extension of the product range in the direction of high-value abrasives, an effort which will be further intensified in the coming years.

Nabaltec's reactive aluminum oxides are currently used primarily in the refractory industry, where the products already today significantly contribute toward the production of higher performance monolithic and shaped products. This product range is also characterized by intensive collaboration with customers, resulting in constant efforts to develop new products and improve existing ones.

The latest generation of the patented NABACAST® product family has encountered positive customer response, with its faster setting properties and high final strength. It has already begun to receive industrial approval from key customers. Nabaltec's strong technical expertise, which has been demonstrated in particular through contributions to industry conferences, serves as the basis for close cooperation with end customers within the context of broad-based product launches.



Through collaboration with individual customers, specific developments have once again been made in connection with the GRANALOX® product family. In order to enable customers to automate their production flows, a feature which is increasingly in demand, another focus of development was on improving the processing properties of GRANALOX®. A further milestone is the development of a GRANALOX® type which enables final components with high sintered densities, hardness and break resistance. Nabaltec has worked intensively to advance both of these development priorities since they underscore Nabaltec's unique selling proposition as a highly valued system partner in engineering ceramic.

## **2. FINANCIAL REPORT**

### **2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS**

#### **2.1.1 MACROECONOMIC SITUATION**

Global economic growth accelerated noticeably in 2017 according to data from the International Monetary Fund (IMF), as the global economy expanded at a rate of 3.7%. According to data from the Kiel Institute for the World Economy (IfW), the expansion in global production in the summer of 2017, amounting to somewhat more than 2.0%, was the highest it has been in any half-year since 2010. Economic activity is growing in nearly every major economy and global trade increased significantly last year. This is due in particular to a strong expansion in Asian trade, the primary impulse for which is provided by China.

US gross domestic product (GDP) grew by 0.8% in both the second and third quarters of 2017, due primarily to an increase in investments. On the whole, US GDP grew by 2.3% in 2017.

In the Euro zone as well, the economic upturn has continued. Driven by a powerful expansion, European GDP growth reached 2.4% in 2017, a new high, up from 1.8% in 2016. In regional terms, the economic expansion in the Euro zone was broad-based, as many different Euro zone countries reported growth in 2017.

Above all, the German economy once again grew at a faster pace in 2017 and continues to be characterized by solid and steady growth. The inflation-adjusted gross domestic product in 2017 was up 2.2% from the year before on average, according to preliminary estimates from the Federal Statistical Office. The "World Economic Outlook," issued in January by the International Monetary Fund, estimates German GDP growth at 2.5%.

The key growth driver for the German economy continues to be domestic consumption, as well as investments in the construction sector.

#### **2.1.2 INDUSTRY DEVELOPMENT**

2017 was an outstanding year for the chemical industry. Production was up 2.5% and industry revenues were up 5.5%, to about EUR 195 billion. Due to the strength of the industrial sector in Europe, which increased over the course of the year, production increased significantly and utilization remained high. Employment in the industry in 2017 was at a high not seen in this form for 13 years, with 451,500 employees. Foreign business benefited from demand in China as well as from the economic recovery in the US.

The long-term trend of increasing demand for non-halogenated, flame-retardant fillers, and particularly aluminum hydroxide, remains intact. Independent forecasts expect worldwide demand to grow at a rate of 4.4% per year through 2023 (ATH-based; Source: Freedonia). Market growth is stimulated above all by the growing public awareness as to the need for fire safety as well as the ongoing replacement of potentially hazardous flame retardants with eco-friendly, halogen-free aluminum hydroxide. This trend has had a particularly positive effect on the fine precipitated aluminum hydroxide product range. Nabaltec's 2017 results improved upon its very strong performance in the previous year in all four quarters. The long-term prospects for boehmite, with its diverse array of applications, also remain strong in the estimation of Nabaltec AG.

In the "Specialty Alumina" product segment, the refractory market is shaped by demand in the steel industry, which on the whole was much stronger in 2017 than in the year before. Nabaltec was able to realize significant gains, especially with manufacturers of refractory products in Europe, and particularly from reactive aluminum oxides. In the technical ceramics segment, sales of ceramic bodies were up significantly from 2016. The trend towards higher-quality refractory products and more wear-resistant ceramics creates the expectation of solid market growth in the coming years; in the estimation of market experts, growth in the refractory products and technical ceramics markets will be in the order of 4% per year through 2021 (source: Roskill).

## **2.2 COURSE OF BUSINESS**

Nabaltec AG was able to continue its successful performance from prior years, with revenues in each quarter up from the year before. This growth was posted despite the fact that last year's revenues include the revenues of the US subsidiary Nashtec, which were lost for the year 2017. Revenues amounted to a total of EUR 169.3 million, up 5.9% from the year before (2016: EUR 159.8 million). Both product segments contributed to the revenue growth in 2017. Revenues in the "Functional Fillers" product segment came to EUR 112.2 million for the year, up 2.8% from the year before (EUR 109.1 million), despite the temporary loss of the revenues contributed by the US subsidiary. Revenues in the "Specialty Alumina" product segment increased at a faster pace, climbing 12.6% to EUR 56.4 million (2016: EUR 50.1 million). Revenues that can not be assigned to either of the two product segments mentioned amounted to EUR 0.7 million in 2017 after EUR 0.6 million in the previous year.

Operating profit (EBIT) was up 31.5%, to EUR 16.7 million (2016: EUR 12.7 million).

The Group's forecasts, which were raised slightly in August 2017, were met or exceeded somewhat for both revenues and earnings.

## **2.3 OVERVIEW OF THE COURSE OF BUSINESS**

### **2.3.1 EARNINGS POSITION**

Nabaltec AG reported EUR 169.3 million in revenues in Financial Year 2017, for a strong 5.9% gain over the year before (2016: EUR 159.8 million). Key sales driver in the reporting period were the price increase in the fine hydroxide product range and a strong increase in sales volume in the "Specialty Alumina" product segment (by 10.7%). The export ratio was 72.9%, down from 73.3% in 2016.

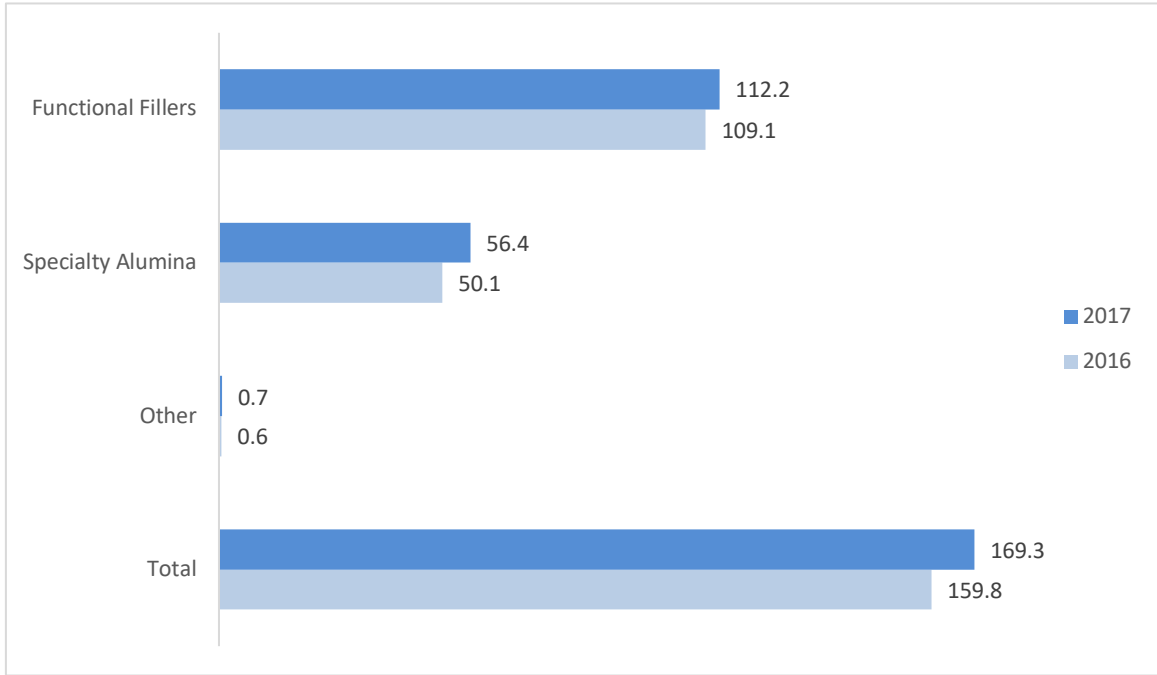
All four quarters contributed equally to the strong revenue growth. Revenues in the first quarter of 2017 were EUR 43.7 million, even higher the very strong result posted in the same quarter of the year before. Second-quarter revenues were EUR 45.2 million, up from the year before as well as from the previous quarter. Revenues in the second half of the year were also up from 2016, with EUR 42.1 million in the third quarter and EUR 38.3 million in the fourth quarter.

Incoming orders amounted to EUR 188.1 million over the year as a whole, up 10.3% from the year before. Nabaltec ended 2017 with orders on hand of EUR 56.6 million, compared to EUR 37.1 million in the previous year. This change can be ascribed in particular to extended delivery times for key product areas due to high demand and capacity utilization.

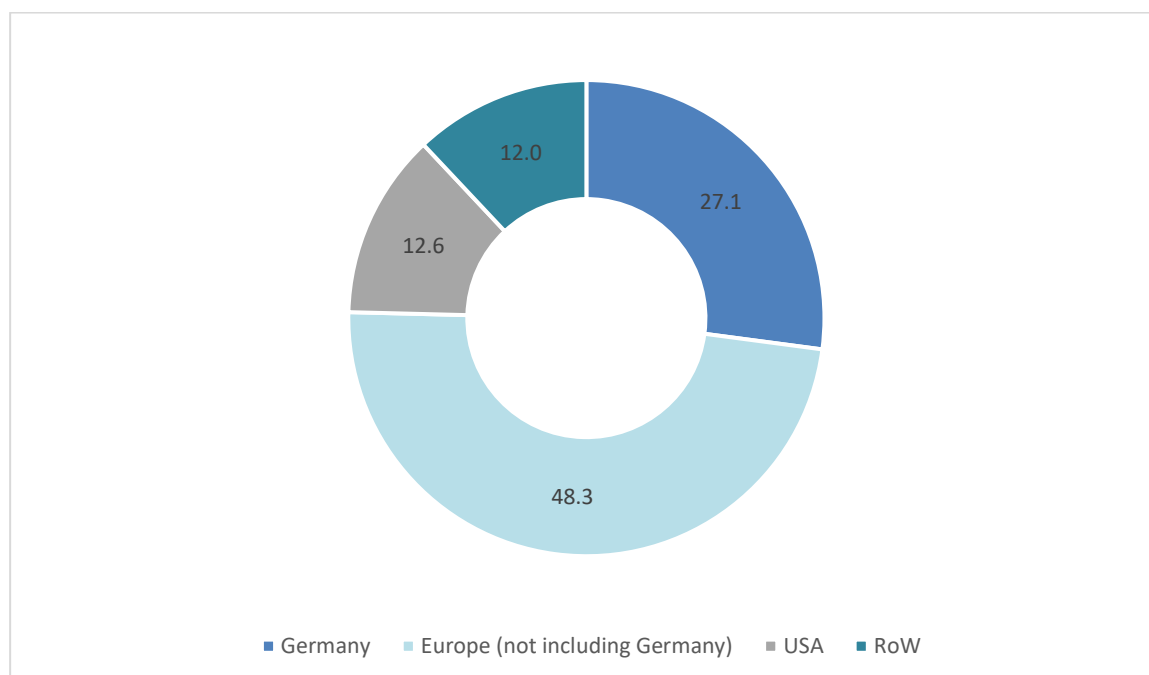
The "Functional Fillers" product segment posted EUR 112.2 million in revenues in Financial Year 2017, up 2.8% from the year before, when revenues were EUR 109.1 million. This growth is primarily due to an increase in prices. The effect of the temporary loss of fine hydroxide production in the US was cancelled out entirely in terms of revenues. The relatively new boehmite product range posted strong 70.4% revenue growth, although volume is still low in absolute terms.

The "Specialty Alumina" product segment posted strong performance in 2017, with high demand in all product areas, and posted revenues of EUR 56.4 million after earning EUR 50.1 million in revenues the year before, for a gain of 12.6%.

Revenues by product segment, 2017  
(in EUR million)



Revenues by region, 2017  
(in %)



Nabaltec AG's total performance was up 5.6% in 2017, from EUR 161.6 million to EUR 170.7 million. This growth is primarily attributable to strong revenue growth. Inventories of finished goods increased by EUR 1.1 million on the year.

Other operating income, amounting to EUR 1.0 million, is attributable primarily to exchange rate gains. Other operating income was down EUR 0.6 million from the year before, due above all to a decrease in gains from the EUR/USD exchange rate relative to the year before.

Operating expense ratios as a percentage of total performance		
	2017	2016
Cost of materials	48.9%	53.2%
Personnel expenses	18.7%	18.5%
Other operating expenses	17.0%	15.3%

The cost of materials ratio (cost of materials as a percentage of total performance) decreased to 48.9% (2016: 53.2%). In absolute terms, gross earnings amounted to EUR 88.3 million, up EUR 11.1 million from last year's value of EUR 77.2 million. The decline was mainly due to the discontinuation of the commercial products Nashtec.

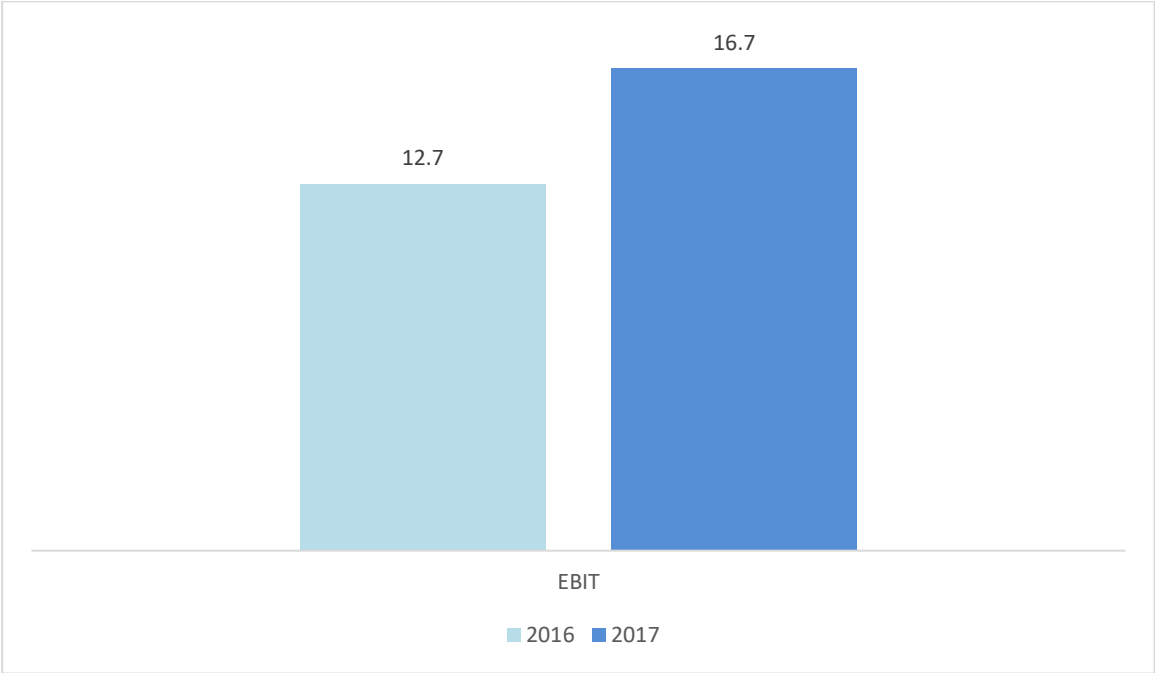
The personnel expense ratio (personnel expenses as a percentage of total performance) increased from 18.5% last year to 18.7% in 2017. The number of employees increased from 455 on 31 December 2016 to 470 on 31 December 2017.

Other operating expenses increased from EUR 24.8 million to EUR 29.1 million, due primarily to higher freight costs, higher sales commissions and losses due to changes in the EUR/USD exchange rate. The ratio of other operating expenses to total performance was up from 15.3% last year to 17.0%. The ratios for the key expense categories were largely even with the year before.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 21.3%, from EUR 22.5 million to EUR 27.3 million.

Adjusting for EUR 10.6 million in depreciation and amortization in 2017, Nabaltec's operating profit (EBIT) came to EUR 16.7 million, compared to EUR 12.7 million in the year before.

EBIT (in EUR million)



Earnings before taxes (EBT) amounted to EUR 13.2 million in the reporting year (2016: EUR 10.1 million). This includes net interest income of EUR -3.5 million in 2017. In the previous year, net interest income was EUR -2.6 million.

Tax expenses came to EUR 4.5 million in 2017 (2016: EUR 3.2 million).

Net profit for the period amounted to EUR 8.6 million last year, compared to EUR 6.8 million the year before.

**2.3.2 LIQUIDITY POSITION**

Financial management is assigned to the Management Board directly and primarily includes managing the capital structure, managing liquidity, interest rate and currency hedging and obtaining funds. The subsidiary Nashtec is integrated into the company-wide liquidity management system.

The impact of fluctuations in the USD/EUR exchange rate has been largely neutralized by Nabaltec's production in the US, through the subsidiary Nashtec. Nabaltec uses exchange rate hedging instruments in connection with the change in the USD/EUR structure since the 3<sup>rd</sup> quarter of 2016, as well as additional exchange rate risks, when such a course is indicated due to the volatility of the markets or the scope of the foreign exchange transactions.

Liquid funds in the amount of EUR 22.6 million were made available to the subsidiary through the reporting date (2016: EUR 9.7 million). The interest rates and contractual terms conform to the standards for mid-sized companies. Nabaltec also uses various interest rate hedging instruments with a mid- to long-term interest rate lock period (e.g. interest rate swaps) on a case-by-case basis in connection with variable-interest outside financing.

Funding to finance growth and investments will be secured by means of loans against borrower's notes, the capital increase which has been executed and operating cash flow.

### **2.3.2.1 CAPITAL STRUCTURE**

Nabaltec AG's capital stock increased from EUR 8.0 million to EUR 8.8 million due to the capital increase executed in September 2017, and the capital reserve increased from EUR 30.8 million to EUR 48.4 million. Shareholders' equity increased to EUR 76.9 million on 31 December 2017, up from EUR 51.0 million on 31 December 2016. The equity ratio improved from 31.0% on 31 December 2016 to 39.3% on 31 December 2017 in light of the capital increase and earnings growth. This represents a very strong ratio by the standards of the industry.

Liabilities decreased slightly from EUR 86.1 million on 31 December 2016 to EUR 85.5 million on 31 December 2017.

Selected balance sheet items in relation to total assets

	12/31/2017	12/31/2016
Equity	39.3%	31.0%
Provisions	17.0%	16.7%
Liabilities	43.7%	52.3%

### **Other off-balance sheet financing instruments**

Nabaltec has, to a minor extent, concluded lease agreements with terms of up to five years. Nabaltec also make uses of factoring on a continuous basis for trade receivables, in part as a way of minimizing default risks. Nabaltec AG does not use any other instruments which can be categorized as financial engineering.

### **2.3.2.2 INVESTMENTS**

Nabaltec AG made EUR 31.3 million in investments last year, compared to EUR 17.2 million the year before (including investment grants offsetting part of the total). Investments were made primarily for financial assets for the implementation of the stand-alone solution at Nashtec, for infrastructure projects and technical equipment and machinery for capacity expansion, process optimization and replacement investments.

### 2.3.2.3 FINANCIAL POSITION

Total assets increased to EUR 195.7 million, up from EUR 164.7 million on 31 December 2016.

Significant assets in relation to total assets

	12/31/2017	12/31/2016
Fixed assets	57.3%	56.7%
thereof: property, plant and equipment	42.2%	50.3%
Current assets	42.6%	43.3%
thereof: inventories	14.9%	17.1%

## 2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

### 2.4.1 FINANCIAL PERFORMANCE INDICATORS

The success of Nabaltec AG's operations is based on a long-term growth strategy. The company is managed in such a way as to ensure profitable and capital-efficient growth. Therefore, significant importance is ascribed to revenue growth and EBIT margin as performance indicators. Accordingly, the focus is on continually monitoring and optimizing these two major financial performance indicators. These major financial performance indicators represent the basis for operational decisions and for forecasting as well.

In addition Nabaltec AG uses the following financial performance indicators for long-term management purposes. This internal controlling and management system enables management to pursue value-based management of the company.

Key ratios used by Nabaltec AG:

Return on sales and capital	2017	2016
Return on equity	11.2%	13.3%
Return on Capital Employed (ROCE)	13.1%	11.5%

Return on equity, consisting of the ratio of net profit to equity, amounted to 11.2% in the reporting year, down from 13.3% in the year before. This decrease is attributable to the rise in net income of EUR 1.8 million with a simultaneous increase in equity due to the capital increase.

Return on Capital Employed (ROCE) is the ratio of EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 13.1%, up from 11.5% in the prior year.

### 2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

#### Employees

At the end of 2017, Nabaltec AG had a total of 470 (31 December 2016: 455). All employees are employed in Germany. This figure also includes 54 trainees (31 December 2016: 53). Nabaltec sets a high value on good training. In 2017 as well, the trainee rate represented a remarkably large share of the workforce, 11.5%. This rate again exceeded the industry

average significantly in 2017. Nabaltec's trainees are regularly among the best of their class. Training positions are currently available for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists, as well as for chemicals production workers.

Nabaltec AG is regularly among the 100 best employers among German mid-sized companies, according to the "TOP JOB" nationwide multi-sector survey. Distinctions like these, which Nabaltec received for the fourth time in 2015, indicate how seriously the company takes its responsibility towards its employees. A central concern for Nabaltec is to offer its employees prospects and opportunities for advancement within the company in order to promote identification with the company by these means as well and to encourage hard work and commitment. A family-friendly company which has been recognized multiple times, Nabaltec AG supports its employees in all life situations, offering individual arrangements to improve work/life balance. The company also offers numerous programs designed to maintain and improve employee health within the context of health management.

### **Customer Relations**

Over the last few years, Nabaltec has been able to once again strengthen and develop its market standing. Important arguments in collaboration with customers include Nabaltec's proven reliability as a supplier and consistent quality. Nabaltec has demonstrated that it is a very reliable partner for long-term relationships built on trust. These attributes pose an important competitive advantage in the current market environment.

Nabaltec also distinguishes itself as a competent and capable supplier through its consistent development of consulting expertise by investing personnel and resources in R&D.

Nabaltec participates in various European associations in order to ensure full access to key markets and technologies. In addition to the two professional associations within Cefic, the European Chemical Industry Council, Pinfa, (the Phosphorus, Inorganic & Nitrogen Flame Retardants Association) and EPSA (European Producers of Specialty Alumina), Nabaltec is also involved in *Forschungsgemeinschaft Kunststoffe e. V.*, a plastics research association, the German Ceramic Society (DKG) and *Verband der Deutschen Feuerfest-Industrie e.V.*, the German Refractory Industry Association.

In the US, Nabaltec is involved in pinfa North America and is a member of the American Ceramic Society (ACerS). Through these activities, Nabaltec is able to identify major trends in its primary markets, "flame retardants" and "ceramics," at a very early stage and on a global scale, allowing Nabaltec to respond early on.

A basic prerequisite for Nabaltec's market success is products which are specifically developed and optimized to meet customers' requirements, and which are supplied in the needed quantities over long periods of time in stable to consistently optimal quality. Nabaltec's products help make our customers' products safer, eco-friendlier, more robust and more competitive while at the same time optimizing their production processes. For this reason, joint development projects and business relationships result in long-term supply contracts and lasting relationships. Particularly for new products, Nabaltec often undergoes long and intensive approval procedures with its customers. In most cases, the successful



conclusion of these procedures results in long-term supply agreements based on reliable conditions and quantities.

### **Management Systems**

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and trade association requirements, Nabaltec decided as far back as 2007 to introduce a health and workplace safety management system in accordance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series) in addition to its existing quality and environmental management systems in accordance with ISO 9001 and ISO 14001. In 2017, surveillance audits of the existing management systems based on ISO 9001, ISO 14001 and BS OHSAS 18001 were performed in the Schwandorf location. At the Corpus Christi site, a surveillance audit of the quality management system in accordance with ISO 9001 was also successfully conducted.

In order to be able to effectively meet the requirements of a continuously changing energy market, Nabaltec introduced a certified energy management system as early as 2010. In 2017, Nabaltec AG's energy efficiency measures at the Schwandorf and Kelheim sites were successfully audited in the course of a surveillance audit in accordance with ISO 50001.

### **Environmental Protection**

Nabaltec requires its 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. They are used in diesel particulate filters and catalyzers and play an important role in reducing particulate matter and soot. Other product families are used in plastics, where they are replacing bromine, a halogenated component in flame retardants. This makes products safer and easier to recycle, and it is no longer necessary to manufacture the environmentally critical chemical element bromine for this purpose. In this respect, it is of central importance that research and development, production as well as up- and downstream logistics to be as environmentally friendly as possible. The conservation of natural resources is a central concern for Nabaltec and a prerequisite for social acceptance of the company. Nabaltec AG actively accepts responsibility for the environment: a commitment that extends well beyond its own sites.

As in prior years, special emphasis was placed on optimizing energy processes in production as a means of cutting costs. In 2017 as well, many projects were executed in this area. Together with external partners, Nabaltec has developed techniques requiring much less process energy, leading to a substantial reduction in CO<sub>2</sub> emissions. A very substantial percentage of Nabaltec's energy requirements are met through renewable energy in collaboration with the Schwandorf special-purpose association for waste recycling.

In general, Nabaltec endeavors to develop production processes with a closed loop for all production facilities. Regarding the handling of chemicals, such as lye, which are used for the production of fine hydroxide, Nabaltec consistently seeks to keep them from being released into the environment and instead to ensure that they are reused in a closed-loop production cycle. In addition, new technologies are used in order to substantially reduce the need for washing water due to increased production and higher quality requirements.

The logistics of waste management is currently being reorganized: collecting individual categories of waste in compactors will significantly reduce shipments. This will in turn reduce traffic volume to and from Nabaltec AG and emissions of carbon dioxide, nitrous gases and particulate matter in the immediate vicinity of the company. With regard to maintaining air purity, the focus is on future requirements.

### **Capital Market**

Since its initial public offering in 2006, Nabaltec has had intact access to the capital market. This is proven by the bond offering in 2010, the loans against borrower's note in 2013 and 2015 and the capital increase in 2017. This access to the capital market, maintained by transparent and reliable communications at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively in the sales markets.

### **3. REPORT ON SUBSEQUENT EVENTS**

Events of particular importance for the assessment of Nabaltec AG's financial, earnings and liquidity position which took place after the reporting date, 31 December 2017, are presented in the supplemental report in the Notes.

### **4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS**

#### **4.1 OUTLOOK**

#### **Overall statement on the prospective development**

Nabaltec also foresees intact sales markets and stable demand for its products in 2018, if the market environment does not change fundamentally. The company has taken a leading international position within its markets. Based on the further development of its market position in 2017 and the reputation it has built up over many years, Nabaltec sees good future prospects for its key products.

#### **Economic and sector conditions**

In its economic outlook, the Kiel Institute for the World Economy (IfW) expects global economy to continue to expand in the next two years. Based on global economic performance in 2017, IfW has raised its growth forecast slightly, to 3.9% in 2018 and 3.6% in 2019.

The International Monetary Fund (IMF) takes a similar view and expects the global economy to grow by 3.9% in both 2018 and 2019. The IMF expects gross domestic product (GDP) in the advanced economies to grow by 2.3% in 2018 and 2.2% in 2019. This forecast reflects the expectation that favorable global financial conditions and positive sentiment will help maintain the recent acceleration in demand, and particularly in investments. This effect is expected to have a noticeable impact on economies with a large export sector. It is also expected that tax reform in the US and the associated tax incentives will temporarily boost growth in the US, and a positive impact on demand in the US's preferred trading partners is also expected in this period.

Expansion in the Euro zone will be somewhat slower in the next two years according to IfW's forecasts, with growth rates of 2.3% and 2.0%. While strong inflation indicates a rise in core inflation, structural factors which inhibit inflation, such as noticeable unemployment in some countries, will presumably remain in effect.

IfW expects the German economy to grow at a rate of 2.5% in 2018. Financing conditions in particular, which remain strong, will continue to have a positive impact on the general economy.

GDP Growth Forecast over Prior Year (in %)		
	2018	2019
World	3.9	3.6
USA	2.5	1.9
Euro zone	2.3	2.0
Germany	2.6	2.3
France	2.0	1.8
Italy	1.5	1.3
United Kingdom	1.4	0.9
Japan	1.5	1.3
China	6.4	6.1
India	7.3	7.0

Source: Kiel Institute for the World Economy (IfW), "Weltkonjunktur im Winter 2017," 13 December 2017

The chemicals industry association VCI (Verband der Chemischen Industrie e.V.) expects further growth in the industry in the coming year, with 3% revenue growth. This would bring the industry total over the EUR 200 billion threshold for the first time. The growth rates for foreign and domestic business are projected to be about equally high.

The outlook in key target markets is largely positive, in Nabaltec's view, as regulatory requirements continue to stimulate growth in eco-friendly flame retardants. The German construction sector and the automotive industry remain stable. Positive conditions in the construction sector especially generated positive growth in the electrical industry, and this trend is expected to continue in 2018. The cable industry is benefiting from special conditions such as the expansion of power grids due to the connection of decentralized installations for the generation of renewable energy, such as wind and solar power. As a result, the cable industry will have higher demand in the future for high-quality non-halogenated flame-retardant formulas. The global trend towards higher-quality refractory products will continue to accelerate at a strong rate, reinforced above all by developments in China with regard to more efficient production plants. Demand for higher-performance components in mechanical and plant engineering will significantly accelerate demand for specialty alumina, particularly for reactive alumina and ceramic bodies, the core competencies of Nabaltec AG.

#### **Outlook on the course of business**

Nabaltec intends to remain on a moderate growth course in 2018. The year 2018 is off to a good start. Revenue growth is to be achieved through increases in both volume and prices. The US subsidiary Nashtec LLC is expected to resume production in the second quarter of

2018 after transitioning to a stand-alone solution and will likely contribute to production for the 2018 Financial Year. Nevertheless, 2018 will remain a year of transition, including a start-up phase and the restructuring of logistical and product flows in the US.

Orders on hand amounted to EUR 56.6 million as of 31 December 2017.

In 2018, fine hydroxides will continue to be the most important product range by far within the “Functional Fillers” product segment. Nabaltec also expects further growth in the “Specialty Alumina” product segment in 2018.

### **Expected earnings, net assets and financial position**

Assuming stable economic performance, Nabaltec expects revenue growth in the mid-single digits in 2018. The company expects an EBIT margin in the high single digits in 2018. The start-up phase for the US subsidiary Nashtec will weigh down earnings in 2018, which will be a year of transition.

Nabaltec expects investments in 2018 to be less than the year before. Investments are planned primarily in completing the alterations at Nashtec and in process optimization and infrastructure in Schwandorf.

Net financial income in 2018 is expected to remain largely stable relative to the year before.

### **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 Nabaltec AG’s control, affect future sales and earnings. As a result, actual results may deviate from the statements and forecasts made in this report.

## **4.2 RISKS AND OPPORTUNITIES REPORT**

### **Risk Management System**

For Nabaltec AG, the relevance of risk management is derived from its business activities and its worldwide operations, involving an international competitive and regulatory environment, as well as the general complexity of the global economy. Nabaltec AG’s success depends to a considerable extent on identifying associated risks and opportunities as well as dealing with them consciously and bringing risks under control. Effective risk management is a core element for securing the company long term, for its economic success in international markets and for its successful, sustainable future development.

Nabaltec is constantly working to develop the risk management within the company. The continuous optimization of risk prevention tools in all areas enables the early identification and elimination of business risks. Integral elements include risk management as an ongoing process, risk controlling, extensive communication and documentation processes, as well as an internal monitoring system. All discernible internal and external risks are identified, documented, assessed and included in a risk matrix as efficiently as possible. This risk matrix represents the basic framework 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 managed by the controlling department. Reports on business risks as well as continuous status reports are prepared for the Management Board and discussed at the management level. 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 laws and regulations 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 participation in international professional committees.

Risk management also includes routinely reviewing 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.

### **Sales Market**

The 2008/2009 international economic crisis showed that a shock in demand such as was seen then can have far-reaching consequences in Nabaltec AG's target markets as well. In spite of greater flexibility and adjustments in cost structures and capacities, such high fluctuations in demand can implicate noticeable volume and margin risks. Additional sales risks include the potential loss of significant key accounts, loss of market share due to technological innovation and new advances by competitors. Due to Nabaltec's strong position as an innovation and quality leader as well as continuous monitoring of target markets, such risks can be confined and the relevant market mechanisms can, at the same time, be used as an opportunity within global competition.

### **Procurement Market**

Nabaltec monitors its suppliers' economic situation very closely and deliberately builds up alternatives for all products. Nabaltec AG uses mid- and long-term supply agreements for its supply of raw materials. Supply of the energy sources which are most important for the production process, such as electricity, gas and steam, is secured by long-term agreements. The certification of the energy management system in accordance with ISO 50001 supports these efforts. In addition, efforts are constantly being made to optimize production processes in order to reduce specific energy usage. An additional risk is an excessive increase in logistics costs. Nabaltec AG can counter this risk by passing on logistics costs to customers and by finding a balanced logistical mix. For example, Nabaltec AG has its own railway siding, which makes transport by rail very attractive.

The acquisition of all shares in Nashtec LLC and its resulting integration into Nabaltec AG in March 2017 will change the situation in the US in that Nashtec will no longer have to rely on a single supplier for its raw materials. Its former raw materials supplier, Sherwin Alumina

LLC, filed for bankruptcy on 11 January 2016 under Chapter 11 of the United States Bankruptcy Code at the United States Federal Bankruptcy Court in Corpus Christi, Texas. Sherwin Alumina LLC discontinued operations in the third quarter of 2016, as part of the bankruptcy proceedings. As a result, Nashtec LLC was also compelled to temporarily halt operations. Since then, Nabaltec AG has been supplying its US customers from its plant in Schwandorf, Germany. Nashtec is expected to gradually take over the supply chain starting in the second quarter of 2018.

### **Financial Market**

When necessary, foreign exchange risks are strategically minimized using hedging instruments covering risks arising from US dollar exposure. In case of medium term financing, interest risks are hedged using swaps or loan agreements are concluded with fixed interest rates.

Nabaltec AG and its US subsidiary a detailed financial and liquidity forecast which is subjected to routine comparisons of estimates against results. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. The risk of changes in interest rates is countered in part through hedging. Nabaltec AG's loan agreements are partially subject to covenants which are tied e.g. to leverage coverage ratios as well as the equity ratio. If the covenants are not observed, the lender has the option to increase the interest margin or exercise its right of extraordinary termination. Covenants valid as of 31 December 2017 were not breached in the reporting year.

Factoring is used to a substantial extent for the financing of accounts receivable.

### **Personnel**

Particularly the fluctuation of employees in key positions gives rise to personnel risks. Nabaltec minimizes these risks through intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, employee substitution arrangements that govern the temporary replacement of key employees, and early advance plans for successors. The company also offers good career opportunities and advancement possibilities. Nabaltec's market position, the reputation it has earned in the industry, its high reliability and its familiar strong focus on research and development make Nabaltec an attractive employer within its market segments and region.

### **Production, Processes and IT**

Nabaltec has an integrated quality management system with ISO 9001 accreditation that is implemented companywide. Therefore, Nabaltec considers production-specific risks clear and manageable. For IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundantly designed high-quality hardware. Through regular verification of the access structure, data protection is guaranteed; data security is therefore based on generally established procedures. Compliance with data protection policies based on the legal requirements is ensured at all times within the company and is additionally monitored by an external data protection officer.

### **Environmental Protection**

Environmental risks can arise from exceeding admissible thresholds for noise and dust pollution or through the emission of hazardous substances. Nabaltec counters these risks by

means of extensive environmental management based on ISO 14001, which is accredited and is periodically further developed and audited. Nabaltec uses closed-loop production processes, e.g. for water and lye.

### **Technological Development**

Potential technological risks could result from customers replacing Nabaltec products due to a change in technology, from the failure to use new technologies and from not recognizing technological developments. As an innovation leader, Nabaltec tries to minimize these risks by engaging in continuous and intensive research and development efforts and by maintaining pronounced customer proximity. In fact, technological developments offer numerous opportunities for Nabaltec to generate a competitive edge in product quality, by occupying new markets through fast-pace product adjustments and by creating process, processing and quality advantages together with our customers so as to set the stage for economic success.

### **Legal Framework**

Changes within the legal framework could lead to risks for Nabaltec. Currently, regulatory changes are creating additional market opportunities - and this trend is not expected to reverse in the medium and long term. Eco-friendly products such as Nabaltec's are being pushed forward on a global scale in an effort to eliminate materials which are harmful to the environment from the cycle.

As an intensive electricity user in international competition, Nabaltec will benefit from the renewable energy surcharge in 2018 as well. On the other hand, the provisions of the "2017 Renewable Energy Act" will, as of 2019, lead to an increase in renewable energy expenses in the mid-six figures.

### **Overall Assessment**

Based on our continuous surveillance of relevant markets, as described above, as well as the constant efforts to improve the products and adapt to the needs of existing and potential customers, the company's future development is currently not exposed to any significant risks. On the whole, the company's risks are well-managed and their potential impact is therefore limited. Nabaltec AG's future existence is secured.

Schwandorf, 2 March 2018

Nabaltec AG  
The Management Board



Johannes Heckmann



Günther Spitzer



Dr. Michael Klimes

**Income Statement of Nabaltec AG, Schwandorf**  
for the period from 1 January - 31 December 2017

	01/01 - 12/31/2017		01/01 - 12/31/2016	
	TEUR	TEUR	TEUR	TEUR
1. Revenues		169,318		159,791
2. Increase or decrease in inventories of finished products		1,085		1,078
3. Own work capitalized		307		716
<b>Total performance</b>		<b>170,710</b>		<b>161,585</b>
4. Other operating income - thereof from currency translation: TEUR 545 (year before: TEUR 1,026)		1,046		1,596
		171,756		163,181
5. Cost of materials:				
a) Cost of raw materials, supplies and purchased goods	81,737		85,327	
b) Cost of purchased services	1,733	83,470	652	85,979
<b>Gross earnings</b>		<b>88,286</b>		<b>77,202</b>
6. Personnel expenses:				
a) Wages and salaries	25,248		23,471	
b) Social security contributions and pension and support expenses - thereof for pensions: TEUR 2,314 (year before: TEUR 2,493)	6,671		6,437	
7. Depreciation of intangible assets and property, plant and equipment	10,579		9,784	
8. Other operating expenses - thereof from currency translation: TEUR 1,610 (year before: TEUR 462)	29,109	71,607	24,783	64,475
		16,679		12,727
9. Income from other securities and loans of financial assets - thereof from affiliated companies: TEUR 315 (year before: TEUR 319)	315		319	
10. Other interest and similar income	49		151	
11. Depreciation of financial assets and marketable securities - thereof from affiliated companies: TEUR 838 (year before: EUR 0)	838			
12. Interest and similar expenses - thereof from discounting: TEUR 936 (year before: TEUR 782)	2,987		3,081	
<b>Net financial income</b>		<b>-3,461</b>		<b>-2,611</b>
		13,218		10,116
13. Taxes on income		4,528		3,245
14. Earnings after taxes		8,690		6,871
15. Other taxes		71		112
<b>16. Net income</b>		<b>8,619</b>		<b>6,759</b>
17. Profit carry-forward		11,013		5,454
<b>18. Retained earnings</b>		<b>19,632</b>		<b>12,213</b>





## Statement of Fixed Assets of Nabaltec AG for the Period from 1 January 2017 to 31 December 2017

German Commercial Code

	Cost					Depreciation					Book value	Book value
	1 Jan. 2017	Additions	Disposals	Adjustments	31 Dec. 2017	1 Jan. 2017	Additions	Write-ups	Disposals	31 Dec. 2017	31 Dec. 2017	31 Dec. 2016
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>I. Intangible assets</b>												
1. Licenses, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	2,927,373.35	68,232.55	13,873.00	0.00	2,981,732.90	2,520,846.91	179,125.47	0.00	8,959.16	2,691,013.22	290,719.68	406,526.44
2. Advance payments made	35,000.00	78,166.79	35,000.00	0.00	78,166.79	0.00	0.00	0.00	0.00	0.00	78,166.79	35,000.00
	<b>2,962,373.35</b>	<b>146,399.34</b>	<b>48,873.00</b>	<b>0.00</b>	<b>3,059,899.69</b>	<b>2,520,846.91</b>	<b>179,125.47</b>	<b>0.00</b>	<b>8,959.16</b>	<b>2,691,013.22</b>	<b>368,886.47</b>	<b>441,526.44</b>
<b>II. Property, plant and equipment</b>												
1. Land, leasehold rights and buildings, including buildings on unowned land	28,005,519.87	2,465,570.58	0.00	3,714,639.85	34,185,730.30	8,167,231.18	983,474.96	0.00	0.00	9,150,706.14	25,035,024.16	19,838,288.69
2. Technical equipment and machinery	123,849,801.36	4,778,634.28	748,094.33	6,825,871.84	134,706,213.15	74,686,586.12	8,667,094.46	0.00	375,415.60	82,978,264.98	51,727,948.17	49,163,215.24
3. Fixtures, fittings and equipment	9,257,994.05	1,118,775.74	738,432.12	192,581.68	9,830,919.35	6,371,600.34	749,086.41	0.00	525,957.34	6,594,729.41	3,236,189.94	2,886,393.71
4. Advance payments made and assets in process of construction	11,030,576.45	2,211,161.34	0.00	-10,733,093.37	2,508,644.42	0.00	0.00	0.00	0.00	0.00	2,508,644.42	11,030,576.45
	<b>172,143,891.73</b>	<b>10,574,141.94</b>	<b>1,486,526.45</b>	<b>0.00</b>	<b>181,231,507.22</b>	<b>89,225,417.64</b>	<b>10,399,655.83</b>	<b>0.00</b>	<b>901,372.94</b>	<b>98,723,700.53</b>	<b>82,507,806.69</b>	<b>82,918,474.09</b>
<b>III. Financial assets</b>												
1. Shares in affiliated companies	240,468.14	6,520,301.42	0.00	0.00	6,760,769.56	0.00	0.00	0.00	0.00	0.00	6,760,769.56	240,468.14
2. Loans to affiliated companies	9,743,956.65	14,078,672.79	402,121.24	0.00	23,420,508.20	0.00	837,403.16	0.00	0.00	837,403.16	22,583,105.04	9,743,956.65
	<b>9,984,424.79</b>	<b>20,598,974.21</b>	<b>402,121.24</b>	<b>0.00</b>	<b>30,181,277.76</b>	<b>0.00</b>	<b>837,403.16</b>	<b>0.00</b>	<b>0.00</b>	<b>837,403.16</b>	<b>29,343,874.60</b>	<b>9,984,424.79</b>
	<b>185,090,689.87</b>	<b>31,319,515.49</b>	<b>1,937,520.69</b>	<b>0.00</b>	<b>214,472,684.67</b>	<b>91,746,264.55</b>	<b>11,416,184.46</b>	<b>0.00</b>	<b>910,332.10</b>	<b>102,252,116.91</b>	<b>112,220,567.76</b>	<b>93,344,425.32</b>

# Nabaltec AG, Schwandorf

## Notes for Financial Year 2017

### General Disclosures Concerning the Financial Statements

Nabaltec AG, with registered office in Schwandorf, Germany<sup>1</sup>, was formed by Company Agreement of 14 December 1994 with the corporate name Nabaltec GmbH and registered office in Schwandorf (entered into the Commercial Register of the Local Court of Amberg under Commercial Register No. B 3920). It acquired the specialty oxides business of VAW aluminium AG in 1995 and was transformed into a joint-stock company in 2006. The annual financial statements were prepared in accordance with the accounting rules of the German Commercial Code as amended by the Accounting Directives Implementation Act of 23 July 2015. The provisions of the German Stock Corporation Act and the Articles of Association were also observed. The total cost method was applied for the income statement.

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

### Accounting Policies

The following recognition and measurement methods were applied to the items of the income statement:

**Intangible assets** are recognized at cost less straight-line depreciation. Depreciation in the year of addition is performed on a prorated basis.

**Property, plant and equipment** are recognized at cost less depreciation.

Depreciation is performed using the straight-line method based on the typical useful life for the asset, which is based on the maximum allowable rates under tax rules. Depreciation is prorated in the year of addition. Cost includes interest on debt. Independently usable assets with a value of less than EUR 150.00 are written off as business expenses in the year of addition pursuant to § 6 (2a) of the Income Tax Act. A collective item is recognized for assets which exceed this value but whose value does not exceed EUR 1,000.00. These assets are depreciated at a rate of one fifth per year.

**Financial assets** are recognized at their amortized cost. If necessary, they are written down to fair value (if lower than amortized cost). If the reasons for using this lower measurement no longer apply, they are written up to the higher value.

<sup>1</sup> Nabaltec AG, Alustraße 50-52, 92421 Schwandorf, Germany

**Raw materials and supplies**, as well as **merchandise**, are recognized at cost observing the strict lowest-value principle. Cost is determined using the average method. Items whose fair value is below cost as of the reporting date are written down to fair value.

**Finished products** are measured at cost, observing the strict lowest-value principle. Production cost includes reasonable percentages of material and production overhead costs in addition to direct material and production costs. Interest on debt and general administrative costs are not included in production costs. Finished products are combined into valuation units for group measurement pursuant to § 240(4) of the German Commercial Code. To this end, the production costs of products of the same type and nearly equivalent products are not assigned to individual items, but are instead measured using the weighted average value for their group.

**Accounts receivable and other assets** are recognized at face value. Individual allowances are performed to account for identified individual risks. A general allowance was not performed in the reporting year.

**Liquid funds** are recognized at face value.

**Deferred expenses and accrued income** consist of spending prior to the reporting date which relates to periods after the reporting date. This item is reversed in straight-line fashion over the course of time.

**Deferred taxes** are calculated for temporary differences between commercial and tax law in the measurement of assets, liabilities and accrual and deferral items. Deferred taxes are presently calculated based on a combined tax rate of 29.13%. This combined tax rate includes corporate income tax, trade tax and the solidarity mark-up. If the result is a net tax liability, this amount is recognized as a deferred tax liability. If the result is a net tax reduction, the associated capitalization option would not be exercised. There was a net deferred tax asset this year, which was not recognized in the financial statements.

**Subscribed capital** is recognized at nominal value.

The **special item for fixed-asset investment grants** was reversed in the amount of the grant and will be reversed over the useful life of the subsidized investment.

**Pension reserves** are measured using the projected unit credit method, applying actuarial principles, with an actuarial interest rate of 3.68% per annum, based on the 2005 G benchmark tables of Prof. Dr. Klaus Heubeck. Based on the option pursuant to Article 67(1) Sentence 1 of the Introductory Act to the German Commercial Code, TEUR 267 was transferred to pension reserves in the Financial Year (1/15th of the difference calculated on 1 January 2010), as was done in previous years as well. Pension liability insurance policies exist which are pledged to the pension recipients. Accordingly, the assets and liabilities in connection with the pension liability insurance policies are netted out in accordance with § 246(2) of the German Commercial Code.

**Other provisions** are formed for all identifiable risks and contingent liabilities in the amount which is necessary based on a reasonable commercial assessment. Measurement of the settlement amount is to take into account cost increases to the extent necessary. Other provisions with a term of more than one year are discounted at rates published by Deutsche Bundesbank commensurate with their term.

**Accounts payable** are recognized at their settlement amount.

**Accounts payable denominated in foreign currency** whose residual term is no longer than one year are measured using the average exchange rate on the reporting date. All other foreign-currency accounts payable are measured using the exchange rate as of invoicing or the average exchange rate on the reporting date, if the latter is higher.

**Accounts receivable denominated in foreign currency** whose residual term is no longer than one year are measured using the average exchange rate on the reporting date. All other foreign-currency accounts receivable are measured using the exchange rate as of invoicing or the average exchange rate on the reporting date, if the latter is lower.

**Derivative financial instruments** are measured individually at their market value as of the reporting date. If the requirements for the formation of valuation units pursuant to § 254 of the German Commercial Code are met, the derivatives and the underlying transactions are measured as a single unit.

## **Disclosures Concerning the Balance Sheet**

### **Fixed assets**

The change in individual fixed-asset items is shown in the annex to the Notes.

Debt interest in the amount of TEUR 69 was included in production costs in the reporting year. The average financing cost rate used to determine capitalizable debt interest was 2.60%.

Debt interest was capitalized in the Financial Year for the following fixed-asset items:

Property, plant and equipment:

Land, leasehold rights and buildings, including buildings on unowned land	26,717.58 EUR
Technical equipment and machinery	28,781.70 EUR
Advance payments made and assets in process of construction	13,934.10 EUR

## Accounts receivable and other assets

Other assets largely consist of accounts receivable from a factoring company for withheld purchase prices (TEUR 3,507), value-added tax refund claims (TEUR 930), an energy tax refund claim (TEUR 307) and an electricity tax refund claim (TEUR 412). All accounts receivable and other assets have a residual term of less than one year.

## Deferred expenses and accrued income

TEUR 168 of deferred expenses and accrued income relates to prepaid expenses for the next Financial Year.

## Shareholders' equity

a) Subscribed capital EUR 8,800,000.00

The capital stock is divided into 8,800,000 no-par-value shares.

b) Authorized capital

Following the utilization of TEUR 800, the authorized capital as of 31 December 2017 amounted to

(through 31 May 2021) EUR 3,200,000.00

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to raise the capital stock through 31 May 2021 once or multiple times by up to EUR 4,000,000.00 by issuing up to 4,000,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions, with the stipulation that the number of shares is to be increased in the same proportion as the capital stock. The Management Board may decide to exclude subscription rights with the approval of the Supervisory Board (Authorized Capital 2016/I).

Utilizing the authorized capital made available by resolution of the shareholders of 30 June 2016 (Authorized Capital 2016/I), the Management Board, with the Supervisory Board's approval, raised Nabaltec AG's capital stock by issuing 800,000 new bearer shares, each representing EUR 1.00 of the capital stock, in exchange for cash contributions, with preemption rights excluded. As a result, Nabaltec AG's subscribed capital (capital stock) was raised from EUR 8,000,000 to EUR 8,800,000. The capital increase was entered into the Commercial Register on 15 September 2017.

c) Conditional capital EUR 4,000,000.00

The capital stock was conditionally raised by up to EUR 4,000,000 by resolution of the shareholders of 30 June 2016 (Conditional Capital 2016/I). The conditional capital serves exclusively to provide shares to holders of warrants and convertible bonds issued by the company based on the authorization of the shareholders of 30 June 2016.

d) Capital reserve EUR 48,424,219.38

As of 31 December 2017, the capital reserve amounted to TEUR 48,424 (previous year: TEUR 30,824).

The increase by EUR 17,600 results from the capital increase in September 2017. Transaction costs in the amount of TEUR 472 were recognized as expenses.

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to issue convertible bonds and/or warrants made out to the bearer with a total value of up to EUR 150,000,000.00 and with a term of no more than 15 years ("Convertible Bonds and/or Warrants") through 31 May 2021 once or multiple times and to provide holders of convertible bonds with conversion rights for up to 4,000,000 bearer shares in the company as specified in the Terms of Warrants and Convertible Bonds (Terms of Bonds) which are to be defined by the Management Board with the approval of the Supervisory Board.

e) Retained earnings EUR 19,632,076.09

As of 1 January 2017 EUR 12,213,279.78

Appropriation of earnings pursuant to shareholder resolution EUR -1,200,000.00

Net income in Financial Year 2017 EUR 8,618,796.31

As of 31 December 2017 EUR 19,632,076.09  
=====

## **Special item for fixed-asset investment grants**

The special item for fixed-asset investment grants is reversed in accordance with the useful life of the subsidized investment.

## **Pension reserves**

Pension liabilities were measured in accordance with generally accepted actuarial principles using the projected unit credit (PUC) method. The biometric calculation was based on the 2005 G benchmark tables of Prof. Dr. Klaus Heubeck. The measurement was performed based on the following additional assumptions: an actuarial interest rate of 3.68% per annum, a salary trend of 2.75% per annum and a pension trend of 2.00% per annum. Liabilities were discounted at the average market interest rate for the past ten years according to Deutsche Bundesbank assuming a residual term of 15 years.

The remeasurement of pension reserves on 1 January 2010 resulted in a difference in the amount of TEUR 4,009; as in previous years, TEUR 267 of this difference (1/15th of the total, in accordance with Article 67(1) Sentence 1 of the Introductory Act to the German Commercial Code) was transferred to pension reserves in the reporting year, so that the remaining deficit as of 31 December 2017 was TEUR 1,871. This transfer was recognized under other operating expenses in 2017.

Pension liability insurance policies are pledged and therefore protected from attachment by all other creditors so as to secure direct pension commitments. Accordingly, the liabilities are offset by the corresponding assets, and the associated income and expenses must be netted out. The asset value of pension liability insurance as of the reporting date, TEUR 1,775, is netted out with the settlement value, in the amount of TEUR 25,787, for a net disclosure of TEUR 24,012. Net income from pension liability insurance in the amount of TEUR 89 was recognized under interest and similar expenses. The fair value of the pension liability insurance policies is equal to the asset value, which includes both current premium payments and income from interest earned on the pension liability insurance policy, which changes depending on the insurer's investment results.

Discounting pension reserves at the average market interest rate for the past ten years results in a difference of TEUR 4,405 relative to discounting pension reserves at the average market interest rate for the past seven years. This difference is not available for distribution pursuant to § 253(6) Sentence 2 of the German Commercial Code.



## Other provisions

Other provisions largely consist of personnel obligations (TEUR 3,900) and outstanding invoices (TEUR 3,213).

The anniversary provision is measured in the PUC method using an actuarial interest rate of 2.81% and a salary trend of 2.75%.

## Accounts payable

The breakdown of accounts payable, with residual terms and securities provided, is evident from the statement below:

(amounts from the previous year are indicated in parenthesis)

	Total amount	Residual terms		Secured amount	Type of security
		Less than 1 year	Over 5 years		
	TEUR	TEUR	TEUR	TEUR	TEUR
Accounts payable to banks	71,924	1,424	70,500	0	0
	(72,724)	(1,224)	(32,500)	(39,000)	(0)
Trade payables	11,620	11,620	0	0	0
	(12,330)	(12,330)	(0)	(0)	(0)
Accounts payable to affiliated companies	131	131	0	0	0
	(158)	(158)	(0)	(0)	(0)
Other accounts payable	1,816	1,816	0	0	0
	(879)	(879)	(0)	(0)	(0)
	85,491	14,991	70,500	0	0
	(86,091)	(14,591)	(32,500)	(39,000)	(0)

Accounts payable to banks consist of loans against borrower's notes obtained at typical market interest rates. Their book value is equal to their market value.

Accounts payable to affiliated companies result entirely from deliveries and services.

## Disclosures Concerning the Income Statement

### Revenues

Breakdown of revenues by geographical region:

	2017		2016	
	TEUR	%	TEUR	%
Germany	45,959	27.1	43,009	26.9
Rest of Europe	81,718	48.3	78,335	49.0
USA	21,371	12.6	20,227	12.7
Rest of world	20,270	12.0	18,220	11.4
	169,318	100.0	159,791	100.0

Breakdown of revenues by product segments:

	2017		2016	
	TEUR	%	TEUR	%
Functional Fillers	112,153	66.2	109,123	68.3
Specialty Alumina	56,448	33.4	50,092	31.3
Other	717	0.4	576	0.4
	169,318	100.0	159,791	100.0

### Other operating income

Other operating income includes income from currency translation in the amount of TEUR 545.

Other operating income also includes income from insurance indemnities in the amount of TEUR 18, income from costs charged to third parties in the amount of TEUR 167, income from payments in kind in the amount of TEUR 196 and income from EU aid in the amount of TEUR 17.

### Other operating expenses

Other operating expenses include expenses for outgoing freight in the amount of TEUR 11,446, sales commissions in the amount of TEUR 3,257, expenses for third-party repairs in the amount of TEUR 2,728, consulting expenses in the amount of TEUR 1,300 and non-period expenses in the amount of TEUR 409.

Other operating expenses also include expenses in the amount of TEUR 267 from the re-measurement of pension reserves in the course of first-time application of the Accounting Law Modernization Act.

## Other Disclosures

### Disclosures concerning transactions not reported in the balance sheet

In order to improve its liquidity, Nabaltec AG concluded lease agreements with a total expense of TEUR 250 for the year and assigned a total of TEUR 20,906 in accounts receivable to a factor. The transfer of the default risk to the factor as a result of the factoring agreement was offset in 2017 by expenses in the amount of TEUR 264 for execution and advance financing of the factoring arrangement.

### Other financial liabilities

The following other financial liabilities exist which are of significance for assessment of the financial position:

	31 Dec. 2017 TEUR	31 Dec. 2016 TEUR
a) Liabilities arising from rental, lease, service and consulting agreements thereof	1,392	1,643
- maturing in less than 1 year	615	651
- maturing in 1-5 years	777	992
- maturing in more than 5 years	0	0
b) Liabilities arising from investment orders	2,642	4,423
- maturing in less than 1 year	2,642	4,423
Total	4,034	6,066
- thereof to affiliated companies	0	0

### Contingent liabilities and guarantees

An investment plan was prepared on 9 November 2016 for the realization of a stand-alone solution for the US subsidiary Nashtec LLC. Nabaltec AG has committed to making available the funds necessary for implementation of this investment plan. The amount of the financial obligations in this regard will be as high as TEUR 10,010 (TUSD 12,000) and will extend through 31 December 2018. It is to be expected that these financial obligations will materialize in their entirety.

There were no other contingent liabilities, guarantees or other material litigation for which provisions are not set aside as of the reporting date.

## Declaration concerning the German Corporate Governance Code

The company has issued the prescribed declaration in accordance with § 161 of the German Stock Corporation Act on a voluntary basis. The declaration is posted on the company's website, "nabaltec.de," under "Investor Relations/Corporate Governance."

## Auditor's fee

The auditor's fee for the 2017 financial statements (including the 2017 consolidated financial statements) amounts to TEUR 87. The auditor received a fee in the amount of TEUR 16 for other assurance services, a fee of TEUR 42 for tax advisory services and a fee of TEUR 0 for other services.

## Transactions with related companies and persons in terms of § 285 No. 21 of the German Commercial Code

There were no material transactions with related companies and persons which were not executed at typical market conditions.

## Share ownership pursuant to § 285 No. 11 of the German Commercial Code

	Share of capital stock			Shareholders' equity in previous year *)		Earnings in previous year *)	
	in %	in USD	In EUR	in USD	in EUR	in USD	in EUR
<b>Direct holdings</b>							
Nashtec LLC, Corpus Christi (USA)	100.0	7,210,266.00	6,683,232.15	7,473,337.00	6,234,014.85	-3,989,398.00	-3,546,131.56
<b>Direct holdings</b>							
Nabaltec Asia Pacific K.K., Tokyo (Japan)	100.0	10,000,000.00	77,537.41	11,415,872.00	84,637.25	-94,459.00	-707,00

\*) Shareholders' equity in the previous year denominated in foreign currency is translated at the average exchange rate on the reporting date. Earnings for the previous year denominated in foreign currency are translated at the average exchange rate for the year.

Additional funds in the amount of TUSD 15,600 were made available to the subsidiary Nashtec LLC in Financial Year 2017.

Based on current forecasts for the subsidiary Nashtec LLC, there are currently no indications for a write-down in the loans, in the amount of TUSD 28,072 (year before: TUSD 12,472).

## Derivative financial instruments

The following interest rate derivatives have been entered into in connection with the loans against borrower's note obtained in previous year in order to hedge against interest risks in connection with variable interest rates based on the 6-month EURIBOR.

Face value in TEUR	Term	Market value in TEUR
31,000	23 April 2015 – 23 April 2020	-924
39,000	23 April 2015 – 23 April 2022	-1,350

These derivatives form measurement units with the underlying loans in terms of § 254 of the German Commercial Code. Accordingly, provisions for losses are not to be formed.

In addition, a US dollar currency futures contract was entered into in Financial Year 2016 in order to hedge against foreign exchange risks arising from sale transactions. The derivative had a term of one year and covered monthly sales by the companies in US dollars at fixed exchange rates. The total volume of the transaction was TUSD 12,000.

The currency futures contract expired on 29 December 2017. No new currency derivatives have been entered into.

## Deferred taxes

Deferred taxes are measured at a tax rate of 29.13%, comprising the corporate income tax rate, the solidarity mark-up and the trade tax rate.

Item	Book value		Difference TEUR	Deferred tax	
	Book value in commercial balance sheet TEUR	Book value in tax bal- ance sheet TEUR		Asset TEUR	Liability TEUR
<b>Deferred tax assets</b>					
Pension reserve	-25,787*	-15,163	-10,624	3,095	
Other provisions	-7,387	-6,894	-493	143	
Financial assets (Nashtec loans)	22,583	23,421	-838	244	
	-10,591	1,364	-11,955	3,482	
<b>Deferred tax liabilities</b>					
Trade receivables and other assets	4,089	4,086	3		1
Trade payables	-11,620	-11,625	5		1
	-7,531	-7,539	8		2
Net total				3,480	

\* Before adjusting for pension liability insurance

## Employees

The average number of workers employed over the year as a whole was as follows:

	2017 Number
Industrial workers	243
Employees	164
Minimally employed workers	4
	411

In addition, an average of 50 trainees were employed in the Financial Year.

## Management Board and Supervisory Board

In accordance with the company's Articles of Association, the Management Board is to consist of at least one person. The number of Management Board members is determined by the Supervisory Board. The Supervisory Board may appoint a Management Board member to serve as Chairman.

The members of the **Management Board** are:

**Mr. Johannes Heckmann**

CEO

**Mr. Günther Spitzer**

CFO

**Dr. Michael Klimes**

COO

Disclosure of the total remuneration of the Management Board in accordance with § 285 Sentence 1 No. 9a of the German Commercial Code has been waived pursuant to § 286(4) of the German Commercial Code.

### **Supervisory Board**

In accordance with the Articles of Association, the Supervisory Board consists of three members. As of the time the financial statements were prepared, the Supervisory Board had the following members:

**Mr. Gerhard Witzany** (Chairman)

**Dr. Dieter J. Braun** (Vice Chairman)

**Prof. Dr.-Ing. Jürgen G. Heinrich**

Mr. Witzany was elected to the Supervisory Board in June 2017 and has served as Chairman of the Supervisory Board since that time. Dr. Leopold von Heimendahl resigned from the Supervisory Board of Nabaltec AG at that time.

The members of the Supervisory Board received total remuneration in the amount of TEUR 59 for Financial Year 2017.

### **Major events occurring after the reporting date**

The Management Board of Nabaltec AG, with the approval of the Supervisory Board, resolved on 8 February 2018 to acquire two properties in the US through a US subsidiary which has yet to be formed. Under the current plan, the first stage will be to construct a production facility for refined hydroxides with a capacity of around 30,000 tons per year through mid-2019. A facility for the production of boehmite will follow in a second stage. These projects will allow Nabaltec to extend its product portfolio in the US for non-halogenated flame retardant and catalysis applications. The investment volume for the first stage of the project is expected to be around USD 12 million. Nabaltec currently expects the project to have a positive impact on consolidated earnings one year after the facility goes online.



## **Proposal for appropriation of retained earnings**

The Management Board proposes that the retained earnings for Financial Year 2017 in the amount of EUR 19,632,076.09 be appropriated as follows: a sum in the amount of EUR 1,584,000.00 will be distributed to shareholders by paying a dividend of EUR 0.18 per share on the 8,800,000 shares with dividend rights for Financial Year 2017. The remainder, in the amount of EUR 18,048,076.09, will be carried forward to new account.

Schwandorf, 2 March 2018

**Nabaltec AG**

The Management Board

Johannes Heckmann

Günther Spitzer

Dr. Michael Klimes

## **Independent Auditors' Report**

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Nabaltec AG, Schwandorf, for the business year from 1 January to 31 December 2017. The maintenance of the books and records 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. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Nuremberg, 12 March 2018

### **Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

(Kiefer)

Wirtschaftsprüfer

[German Public Auditor]

(Fischer)

Wirtschaftsprüfer

[German Public Auditor]

## **Appropriation of distributable profit**

The Management Board proposes that the distributable profit of the 2017 financial year, amounting to EUR 19,632,076.09, will be used as follows:

An amount of EUR 1,584,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.18 per share on the 8,800,000 non par value shares entitled to dividend payments for the 2017 financial year. The remainder in the amount of EUR 18,048,076.09 will be carried forward.

Schwandorf, April 2018

The Management Board

Johannes Heckmann

Günther Spitzer

Dr. Michael Klimes

## **Report of the Supervisory Board**

Ladies and Gentlemen,  
Dear Shareholders,

Nabaltec AG can look back on the most successful year in its history. The results have once again demonstrated that the company has a solid competitive position in the global market and that it has the strength to respond quickly and successfully to developments in the market and to changes in conditions. For example, the stand-alone solution sought by the company for the secure positioning of Nashtec LLC in Financial Year 2017 was brought underway with the acquisition of all shares in the US subsidiary. The Supervisory Board will be watching closely as the US production site goes back online, as well as the entire future strategy, to ensure that potential in target markets is exhausted in the coming year as well. We will work intensively to advise and supervise the Management Board with this in mind.

The Supervisory Board duly performed its assigned tasks in Financial Year 2017 in accordance with the law, the Articles of Association and the Rules of Procedure and was routinely informed by the Management Board in detail as to the performance and position of the company. The Supervisory Board advised the Management Board in accordance with the underlying information and exercised utmost care in monitoring and supervising the Management Board. The Supervisory Board was involved at an early stage in all decisions of fundamental importance for the company, and was kept fully and directly informed by the Management Board.

Major events, as well as questions relating to strategy, planning, business development, the risk position, risk management and compliance, were considered by the Supervisory Board both on its own and in conjunction with the Management Board. The Supervisory Board voted on the reports and draft resolutions submitted by the Management Board after careful deliberation and review. All transactions requiring approval in Financial Year 2017 were decided positively.

The Supervisory Board of Nabaltec AG last expounded on the objectives for composition of the Supervisory Board in February 2018, developing a profile of skills and expertise for the entire Supervisory Board in accordance with the new recommendation made in Section 5.4.1 of the German Corporate Governance Code. Information in this regard is published in the Corporate Governance Report.

In the Supervisory Board's estimation, all three of its current members should be considered independent. However, the Supervisory Board reserves the right to approve consulting and employment agreements between individual members of the body and the company if the Management Board and Supervisory Board concur that the conclusion of such an agreement is in the company's interest in that particular case.

In accordance with the German Corporate Governance Code, the Supervisory Board has reviewed the efficiency of its activities and has reached a positive conclusion. The focuses of its review were above all on procedures and the timely and adequate provision of information.

### **Financial Year 2017**

The Supervisory Board once again opted not to form committees in the past financial year. The Supervisory Board of Nabaltec AG consists of three members, and is therefore of

suitable size for all matters to be considered and decided by the full Supervisory Board. No conflicts of interest for individual Supervisory Board members arose in the course of deliberations or voting by the Supervisory Board, or in the Board's exercise of its supervisory mandate in the 2017 reporting year.

Four regular ordinary meetings of the Supervisory Board were held in the reporting year, on 6 April 2017, on 27 June 2017, following the Annual General Meeting, on 26 September 2017 and on 13 December 2017. The Supervisory Board also meet for an extraordinary meeting on 25 August 2017, in which it resolved to authorize the Management Board to consider the option of conducting a capital increase by up to 10% of the capital stock. All members were present at all meetings in 2017. No additional meetings took place in 2018 prior to the Supervisory Board meeting on 9 April, in which the Board votes on adoption of the financial statements. The members of the Supervisory Board also deliberated in writing and by telephone. In four cases, resolutions were approved in writing, and in one case the Supervisory Board adopted a resolution by telephone. Among the Board's decisions were resolutions with regard to approval of the capital increase, partially utilizing authorized capital 2016/1, by up to EUR 800,000 in exchange for cash contributions by issuing new shares, as well as concerning other terms of the capital increase, such as definition of the placement price.

### **Focus of deliberations**

The following issues were the subject of particularly intensive consideration by the full Supervisory Board in Financial Year 2017:

- the 2016 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- the composition of the Supervisory Board and the election of the Chairman of the Supervisory Board, Mr. Gerhard Witzany;
- corporate governance, particularly the amendments to the Code on 7 February 2017;
- the capital increase by up to 10% of the capital stock, excluding shareholder subscription rights;
- stand-alone operation of Nashtec LLC;
- planning for 2018 and mid-term planning through 2020;
- investment and financing planning for 2018-2020.

The goals and realization status of innovative projects, the effectiveness of the risk management system, the accounting process in Nabaltec AG and Nabaltec Group, as well as the monitoring of the internal controlling system were also focuses of the Supervisory Board's work in Financial Year 2017.

Even outside the Supervisory Board meetings, the Supervisory Board was routinely notified of important events of essential importance for assessing the position, performance and management of the company. The company's current situation, the development of the business position, important transactions and key decisions by the Management Board were also the subject of discussions between the Management Board and the Supervisory Board and were addressed in written reports as well. In particular, the Supervisory Board was notified of market trends, the risk and competitive situation, the development of sales, revenues and earnings and the degree to which projections were met in monthly and quarterly reports. To this end, the Chairman of the Supervisory Board maintained a close and routine exchange of information and thoughts with the Management Board.

On 3 March 2017, the joint 2017 Declaration of Conformity with the German Corporate Governance Code was issued by the Supervisory Board and Management Board and has been permanently made available for shareholders on the company's website, [www.nabaltec.de](http://www.nabaltec.de). The recommendations of the German Corporate Governance Code as of 7 February 2017 were the subject of intensive discussion in both bodies. Further information about corporate governance at Nabaltec AG can be found in the Corporate Governance Report on the company's website, [www.nabaltec.de](http://www.nabaltec.de), in the Investor Relations/Corporate Governance section.

### **2017 Annual Financial Statements and Consolidated Financial Statements**

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, which were prepared in accordance with the German Commercial Code, 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, each for 31 December 2017, and has issued an unqualified auditor's opinion.

The Supervisory Board engaged the auditor in accordance with the resolution of the Annual General Meeting of 27 June 2017. The auditor's independence declaration was obtained by the Supervisory Board in advance pursuant to Section 7.2.1 of the German Corporate Governance Code. No circumstances were evident which would have established doubts as to the auditor's independence. Moreover, the auditor was obligated to immediately notify the Supervisory Board of circumstances which could establish a bias on its part and to report any services it performed in addition to the audit. The focus of the audit for Financial Year 2017 was set on accounting questions arising in connection with realization of the stand-alone solution for Nashtec LLC and with its further development.

All documents relating to the financial statements, as well as the auditor's audit reports, were made available to the Supervisory Board in a timely manner for independent review. These documents and the auditor's report were the subject of intensive consideration at the session of 9 April 2018. The auditor was present at this meeting, reported on the key findings of the audit and was available for further questions. Based on its independent review of the annual financial statements, the consolidated financial statements, the management report and the consolidated management report, the Supervisory Board has raised no objections and adopts the findings of the auditor Deloitte GmbH. The Supervisory Board therefore approved the annual financial statements prepared by the Management Board for Nabaltec AG and Nabaltec Group for 31 December 2017. The annual financial statements of Nabaltec AG for 2017 are therefore adopted.

### **Personnel changes in the Supervisory Board**

Dr. Leopold von Heimendahl, the Chairman of the Supervisory Board, resigned from the Board at the end of the General Meeting on 27 June 2017. In his place, Mr. Gerhard Witzany was elected to the Supervisory Board, and was selected as Chairman at the following meeting of the Supervisory Board. We would like to thank Dr. Leopold von Heimendahl for his great dedication and for the constructive assistance which he has rendered the company over the years.

The Supervisory Board would like to thank the Management Board and all the employees for their consistently strong, trusting and constructive collaboration, for the work they performed

and for their special commitment last year, and looks forward with confidence to the company's development in the future.

Schwandorf, 9 April 2018

Gerhard Witzany  
Chairman of the Supervisory Board

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FINANCIAL CALENDAR 2018

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	2018
German Spring Conference, Frankfurt	14 May
Interim Report 1/2018	24 May
Annual General Meeting	26 June
Interim Report 2/2018	23 August
Interim Report 3/2018	27 November

## CONTACT

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### Statements relating to the future

This annual report contains statements relating to the future which are based on the Management Board's current estimations and prognosis as well as on information currently available. These statements relating to the future are not to be understood as guarantees of the predicted future developments and results. The future developments and results are rather dependent on a number of risks and uncertainties and are based on assumptions which possibly may prove to be false. We do not accept any obligation to update these statements relating to the future.

### Rounding

Due to computational reasons, rounding differences may appear in the percentages and figures in the tables, graphics and text of this report.





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