

# Report of the Supervisory Board

## Ladies and Gentlemen, Dear Shareholders,

The beginning of 2009 was a time of great challenges for the company and for the Supervisory Board. The uncertainty which prevailed in the financial markets and in the most important markets for Nabaltec products all over the world, especially in the first and second quarters, made it considerably more difficult to supervise short-term planning and to advise management in a forward-looking manner. However, the markets began to stabilize visibly at mid-year, a little earlier in the case of functional fillers and a little later for technical ceramics, and this has allowed us to look ahead more in addition to monitoring current developments.

In this situation, we have consistently advised, monitored and supervised Management Board with utmost care in Financial Year 2009, in accordance with our responsibilities as established by law, the Articles of Association and corporate governance rules. The Supervisory Board was informed by the Management Board directly and involved at an early stage in every decision of fundamental importance for the company.

Whenever required by law, the Articles of Association or the Rules of Procedure we voted on the Management Board's reports and draft resolutions after careful deliberation and review. All transactions requiring approval were approved. We devoted particular attention in 2009 to the risks facing the Group, risk management and lawful and efficient corporate management.

In the 2009 reporting year, the Supervisory Board convened for four regular sessions: on 24 April 2009, on 10 June 2009, after the General Meeting, on 28 September 2009 and on 11 December 2009. No meetings were held in 2010 prior to the Supervisory Board meeting of 15 April, which votes on adoption of the financial statements. All members were present at each session. The members of the Supervisory Board also conducted deliberations in writings and over the

phone. Where necessary, the Supervisory Board has adopted resolutions outside of the regular meetings.

Since the Supervisory Board of Nabaltec AG consists of just three members, the formation of committees was once again dispensed with.

No conflicts of interest for individual members of the Supervisory Board arose during the 2009 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's audit mandate. In the assessment of the Supervisory Board, a sufficient number of members may be viewed as independent, since two members of the Supervisory Board have no personal or business relationship with the company or with the Management Board. An agreement exists between Nabaltec AG and Professor Dr. Jürgen G. Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering.

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the 2009 Financial Year, particularly the efficiency of its procedures and the timely and adequate supply of information.

### Focus of Deliberations

Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, we were kept informed of the market situation, the competitive situation, sales, revenue and earnings development and the attainment of targets through monthly and quarterly reports. In addition, I, as Chairman of the Supervisory Board, kept myself constantly informed of the current course of business, major transactions and crucial Management Board decisions. To that end, I engaged myself in a close and routine exchange of information and ideas with both members of the Management Board.

The Group's revenues and earnings development as well as measures for the improvement of them and also of the assets and financial position were routinely

discussed at Supervisory Board sessions: Intensive consideration was also given to the following issues in 2009:

- the 2008 annual financial statements and consolidated financial statements, particularly the appropriation of earnings and the report on risks;
- measures to cut costs in light of weakening sales markets;
- corporate governance, particularly the processes for preliminary discussion of quarterly reports by the Management and Supervisory Boards;
- status reports on the construction and commissioning of the new CAHC plant at the Schwandorf site;
- potential and measures in the boehmites segment;
- transformation of the US subsidiary Nashtec into an LLC;
- planning for 2010 and mid-term planning through 2012;
- investment and financing planning for 2010 to 2012;
- regulatory and statutory changes, such as the Act on the Appropriateness of Management Board Remuneration, the Accounting Law Modernization Act, etc.

Another focus of our deliberations in 2009, as well as our supervisory and monitoring activity, especially in the session 2010 slated for adoption of the 2009 financial statements, was the entire accounting process in Nabaltec AG and Nabaltec Group, monitoring the internal controlling system and the effectiveness of the internal auditing and risk management system.

On 13 March 2009, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2009, which was posted on the company's website, [www.nabaltec.de](http://www.nabaltec.de), where it can be viewed by shareholders at any time. Both bodies discussed the changes to the German Corporate Governance Code as amended on 18 June 2009 and published on 5 August 2009 in the Electronic Federal Gazette, especially in the session on 11 December 2009, in preparation for issuing the 2010 Declaration of Compliance. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

#### **Management Board Compensation**

Management board compensation is defined by the whole Supervisory Board of Nabaltec AG. The Supervisory Board has reviewed the fairness of the compensation paid to each member of the Management Board, and it has confirmed that this compensation is fair. Management board compensation at Nabaltec AG is structured based on long-term performance. Other criteria required by law, such as a compensation structure which does not induce corporate officers to take undue risks and which includes ways of limiting compensation for extraordinary developments, have either been implemented already or will be satisfied in all new agreements.

#### **2009 Annual Financial Statements and Consolidated Financial Statements**

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to § 315a of the German Commercial Code, and the consolidated management report. The Supervisory Board issued the audit mandate by resolution of the General Meeting 10 June 2009. Before publishing the nomination, the Supervisory Board obtained an independence declaration from the auditor. There were no visible reasons to doubt the auditor's

independence. The auditor was also asked to notify us immediately of any circumstances which could establish bias on its part and to keep us informed about any performances it rendered in addition to the audit. The focus of the 2009 audit was the accurate disclosure of additions to fixed assets, particularly with respect to the investment in the CAHC plant in Schwandorf.

The auditor issued an unqualified auditor's opinion for Nabaltec AG's annual financial statements and management report and for the consolidated financial statements and consolidated management report.

All of the documents pertaining to the financial statements, as well as the auditor's report, were made available to each member of the Supervisory Board in a timely manner for independent review. The documents and the auditor's report was the subject of intense consideration and discussion at the session of 15 April 2010. The auditor was present during the session, reported on the essential conclusions of his audit and was available for further questions. One focus of the auditor's explanations was his assessment of the accounting-related internal controlling and risk management system. The auditor was not able to find any major weaknesses in this system. The Management Board and the auditors have answered all of our questions fully and to our complete satisfaction.

After conducting an independent review of the annual financial statements and consolidated financial statements, management report and consolidated management report, the Supervisory Board has made no objections, and accepts the conclusions of the audit conducted by Deloitte & Touche GmbH. We have accordingly approved the annual financial statements and consolidated financial statements for 31 December 2009 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks goes out to all of our employees who, in a very challenging year, have allowed Nabaltec AG to hold its position in the world market under the toughest of conditions, always with the goal of achieving utmost customer satisfaction while acting with business sense.

Schwandorf, 15 April 2010



Dr. Leopold von Heimendahl  
Chairman of the Supervisory Board