Annual Financial Statements Nabaltec AG 2010

OUR KNOW-HOW FOR YOUR SAFETY

NABALTEC AG
2010 Annual Report

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2010

1. OPERATIONS AND GENERAL CONDITIONS

1.1 BUSINESS OPERATION

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide ('ATH') and aluminum oxide. The Company belongs to the world's leading suppliers of functional fillers, ceramic raw material and ceramic bodies. The annual production capacity entails approximately 240.000 tons with an export share amounting to around 70%.

The range of applications of Nabaltec products is extremely diversified:

- Flame retardants for the plastics industry used for example for cabling in tunnels, airports, high-rises and electronic equipment and serve above all as fire protection
- Fillers and additives that pigment and stabilize plastics or that are applied due to their catalyst character
- Ceramic raw materials applied in the refractory industry, in technical ceramics and in the abrasives industry
- Highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters

We expanded our product and application range in 2009 by two promising product divisions: specialized products for the PVC industry (additives) and for the electronics industry (boehmite). Since 2009, respectively, 2010, the Company disposes of new production facilities in Schwandorf for both divisions.

Whenever applications require a high degree of quality, safety, environmental friendliness and product duration, Nabaltec products are always preferred.

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

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. All sales team members have specialized technical and chemical expertise, so that expert advice is guaranteed at all times. This proximity to our clients is fundamental for the concerted, client-specific development of our products.

1.2 CORPORATE STRUCTURE

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

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

In order to position itself in the market as precisely and distinctly as possible, Nabaltec AG's operations are divided into two divisions, each in turn comprising two business units. In addition, the Company operates three service departments as profit, respectively, cost centers.

BUSINESS DIVISIONS
Functional Fillers:
- Flame Retardants
- Additives

Technical Ceramics:
- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTRES
Administrative Services
Technical Services
Laboratory Services

1.3 STRATEGY

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

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

Through our integrated sales team and technical support staff, we are engaged in a constant exchange with our customers. The Company's product and process development activities are continuously geared so as to offer customers processing advantages through simple and faster production processes and, consequently, those benefits relating to lower manufacturing and development costs. In order to achieve this, the directed exchange with customers is essential, in particular regarding product and processing know-how. To this end, the testing facility in Kelheim and the research and development department at the Schwandorf site are constantly being expanded and the Company collaborates with research institutions.

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

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

Besides the continuous improvement of existing products, new products are developed for selected applications – often in close collaboration with key customers. Since 2009, two significant newly developed products, additive and boehmites, are produced and marketed

on industrial scale. In addition, focused research and development activities allow an expansion of the application range of existing products.
Nabaltec has developed an environmentally friendly stabilizer for the PVC industry with ACTILOX® CAHC. Next to replacing plumbiferous substances, it is our aim to gradually enter the market via new developments in the plastics industry so that already in the development phase of new products, ACTILOX® CAHC will find application as an environmentally friendly stabilizer.

The boehmite grades developed by Nabaltec are also manufactured at the Schwandorf site since October 2010. Boehmites are used as environmentally friendly, non-halogenated flame retardants for applications requiring extremely high processing temperatures, e.g. non-halogenated, flame-retardant conductor plates. The Nabaltec product APYRAL® AOH can be processed at temperatures of up to 320°C without any difficulty.

Up until the start of production in Schwandorf, Nabaltec produced APYRAL® AOH in the testing facility in Kelheim. Given the new facilities in Schwandorf, the testing facility in Kelheim is now available for development activities and sample production of up to several hundred tons and for new product launches on small scale.

3. **In its target markets, Nabaltec AG strives for quality leadership and a market share among the top three suppliers**

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

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

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

4. **Nabaltec benefits from worldwide growth triggers and regional economic development through international growth**

Environmentally friendly as well as highly safe solutions are advancing forward worldwide, encouraged particularly through regulatory requirements or industrial negotiated agreements. With an export share of approximately 70%, we already profit from these worldwide trends. The aim of being the one of the world's top 3 suppliers in the target markets goes hand in hand with the aim of being equally well represented in all world markets. Our focal point regarding market expansion measures is currently on North America and Asia.

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

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

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

In order to take full advantage of market opportunities relating to functional fillers and technical ceramic, further significant investments are required. This relatively high investment activity is at the same time an important market entry barrier for potential new suppliers. So as to ensure the disposal over the required investment capital, Nabaltec focuses on a broad financing basis consisting of equity, bank loans and subsidies. Nabaltec could once again notably expand and improve her financial room in October 2010 by issuing corporate bonds in the amount of EUR 30.0 million.

1.4 CONTROLLING

Nabaltec AG disposes of a differentiated cost-performance accounting, which is largely shaped by direct costing. Through multi-level contribution margin accounting, results are represented transparently. Deviations are constantly only allocated and charged to those responsible. This controlling system is the basis for the management of the Company and covers business divisions as well as service centers. It delivers information quickly and reliably regarding actual results and deviations from the budget as well as the effectiveness of decisions and taken measures.

The controlling system forms the basis of the companywide incentive scheme, assigning responsibilities and defining specific objectives for even the smallest units of the Company. As such, our cost-performance accounting system is an extensive means to achieve Company objectives. Variance analyses are available online, indicating need for action at an early stage, and promoting leadership through defined incentives. Variance analyses are performed for all cost centers each month.

Corporate data are presented monthly in each business division as well as to Management, where results and alternative measures for action are discussed and implemented. The structure of the actual corporate data corresponds to that employed for the budget. A forecast is prepared subsequent to the quarter close.

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

2. COURSE OF BUSINESS IN 2010

2.1 MACROECONOMIC DEVELOPMENT

Global economic development recovered dynamically and across the board in 2010. The development was significantly faster and up till now more sustainable than expected by economics experts. Only a handful of economies have not yet found their way out of the economic crisis, such as Spain, Greece and Ireland.

The driver of the worldwide economic growth in 2010 of approximately 4.7% (source: Deutsche Bank) were in particular the BRIC countries with an annual growth of between 4.0% in Russia and up to 10.0% in China. With the exception of Russia, these countries could also expand on an already stable or growing basis in 2009.

In contrast, the catch up on losses arising in 2009 in the industrial countries is in full progress. In 2010, the industrial countries grew by 2.5% and so doing could partially compensate the negative growth of 3.6% in 2009. It was particularly gratifying for enterprises such as Nabaltec with a very broad international basis that this recovery embraced almost all industrial countries. In Europe, the development in Germany was especially exemplary. The positive growth of 3.6% (source: Federal Bureau of Statistics) was not anticipated at the beginning of the year. Even in the course of 2010, various economics research institutes had to make several upward rectifications of their forecasts. In the meanwhile, this upturn is no longer only carried by export, but rather is also supported by domestic production investments and rising consumption.

2.2 INDUSTRY DEVELOPMENT

In 2010, total sales in the German chemical industry grew by 17.5% to EUR 170.6 billion, according to the German Chemical Association (VCI). The chemical industry achieved the strongest growth in production since 1976, i.e. 11% in 2010. In comparison to prior year, exports grew by 20% to EUR 99.6 billion. With this, international sales already exceed the pre-crisis level of 2007. Domestic sales increased by 14% and reached a volume of EUR 71.0 billion. Hence, domestic sales are still approximately 10% below the pre-crisis level.

Chemical prices increased in the past year. Based on surveys by VCI, chemicals and pharmaceuticals were on average round 3% more expensive than in prior year. Price increases were particularly felt in the raw-materials-related branches.

The German chemical industry is in the mean time working at capacity again. Earnings in the branch are good. Many companies that had implemented investment restraints, leading to postponements of several projects in 2009, abandoned such measures in 2010. VCI anticipates an increase of investments in equipment and buildings in 2010 of 5% to EUR 6.4 billion compared to prior year.

The buyers’ market for functional fillers as well as that for technical ceramics could benefit to a similar extent from the economic development – partially even significantly disproportionally high. The first half of the year was characterized by an exceptional dynamic. As of the middle of the year, the recovery abated somewhat and swung on to a sustainable growth path. Several indirect target branches, such as the automobile production and infrastructure and construction industry, could without much trouble compensate the discontinuation of governmental schemes, which were especially still available in 2009. Even in the further upstream industries, such as buyers of functional fillers and technical ceramics, significantly positive stimuli were felt.

The long term trend of increasing demand for non-halogenated, flame-retardant fillers and in particular aluminum hydroxide is still intact, propelled by newly issued fire safety regulations around the world. New independent forecasts assume an annual increase in worldwide demand of 6.5% till 2014 (on the basis of ATH, source: The Freedonia Group, Inc.). This market growth is further stimulated by the growing public consciousness for fire safety and the ongoing replacement of potentially hazardous flame retardants with environmentally friendly, halogen-free aluminum hydroxide. This development in demand specifically affects fine precipitated aluminum hydroxide – an area in which Nabaltec is very well-positioned due to its investments in recent years.

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand of the steel industry. In the wake of the global economic upturn, the steel industry increased capacity in 2010. Also here, long term trends, such as the improvement to the durability of refractory products required by their manufacturers (which promotes highly refined special aluminum oxide) have endured. By 2012, market experts expect an annual growth of 5% for refractory products and round 3% for technical ceramics.

2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG IN 2009

Nabaltec achieved an exceedingly dynamic course of business in 2010. After a notable recovery that already became evident in the second half of 2009, Nabaltec achieved new all-time highs in turnover and sales throughout 2010. This dynamic encompassed all business and product areas as well as all regional and sector-specific target markets.

Internal forecasts (on Group level) were already adjusted upward twice in 2010 and also these forecasts were exceeded regarding sales. Forecast sales of EUR 100.0 to 108.0 million were topped by actual sales of EUR 112.7 million.

In total, order intakes during the year amounted to EUR 159.4 million. With sales amounting to EUR 112.7 million, this is a clear indication of sustainable growth. Nabaltec closes 2010 with an order backlog of EUR 53.3 million – this also is a value never seen before in the Company’s history.

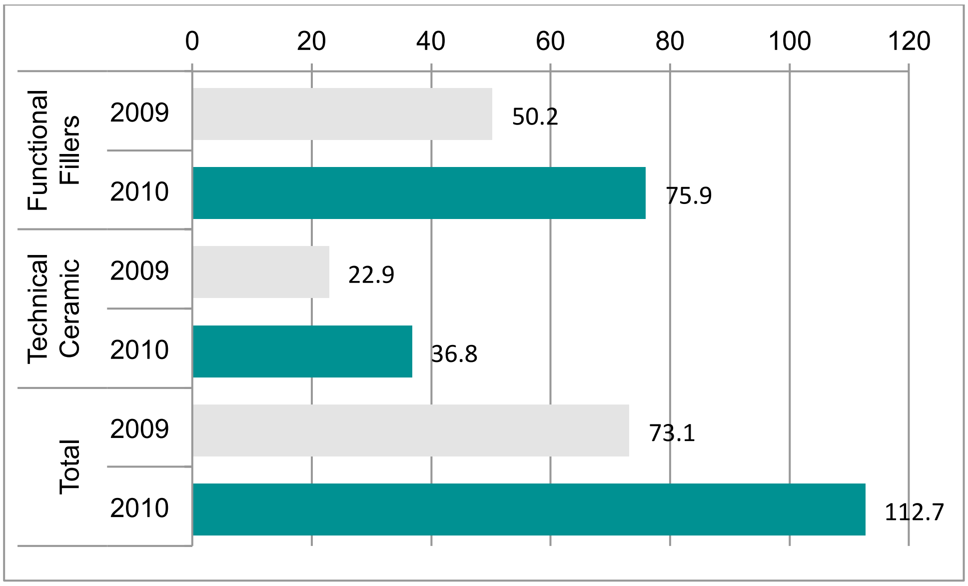
2.4 DEVELOPMENT OF SALES

Nabaltec AG realized EUR 112.7 million sales in 2010, i.e. an increase of 54.2% compared to EUR 73.1 million in prior year. The significant increase is mainly due to the sharp increase in demand and the corresponding higher turnover volume. Across all business areas, output in tons increased by 53.1%. Sales prices largely remained stable. Direct exchange rate effects played a subordinated role in the sales development in 2010. The export share in 2010 remained on the prior year level of 69.9%.

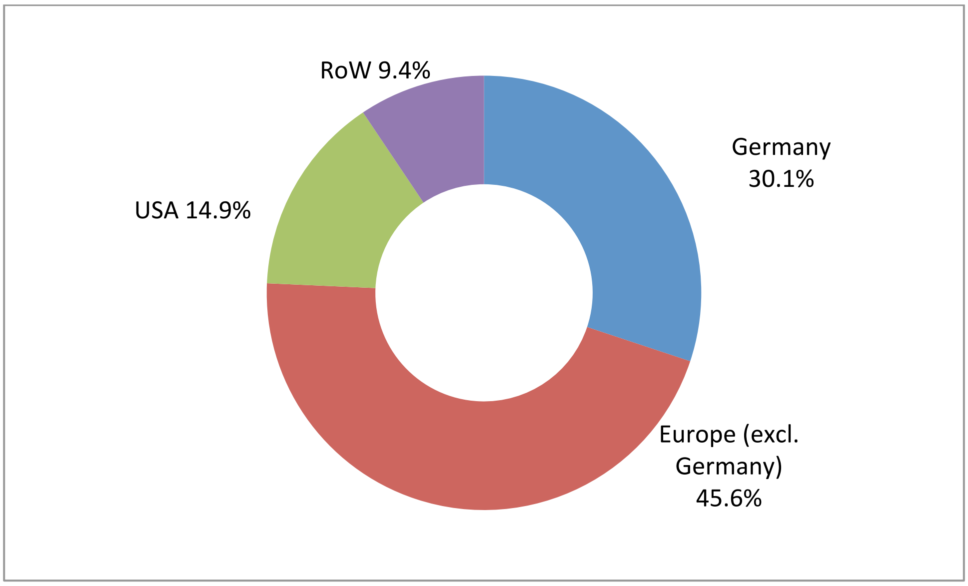
Revenues of the division ‘Functional Fillers’ increased by 51.2%, from EUR 50.2 million in 2009 to EUR 75.9 million in 2010. The division ‘Technical Ceramic’ achieved an even higher increase in revenues; 60.7% from EUR 22.9 million to EUR 36.8 million. Both divisions were marked by these high sales dynamics throughout the year. The high growth rates in the first half of the year were still partially fostered by the comparatively weak prior year development. The second half of the year showed the sustainability of the positive business development, particularly given the sales all-time high achieved in the fourth quarter.

The highest sales dynamics in 2010 both in the ‘Functional Fillers’ and in the ‘Technical Ceramic’ divisions were shown in the USA. Here, the respective sales could be more than doubled. The US subsidiary, Nashtec, pursued the positive development already notable in 2009. Within two years, the sales share in the USA could be increased from 8.1% to 10.7% and now to 14.9%.

Sales by business segment
(in EUR million)



Sales by region



2.5 RESULTS OF OPERATIONS

Nabaltec AG's total performance increased from EUR 72.0 million to EUR 112.3 million in the reporting period. The increase of 56.0% was primarily due to the growth in sales. The relatively insignificant changes in inventories and work performed resulted in an increase in total performance that was slightly higher compared to sales. A positive result is that Nabaltec could maintain the inventory level on that of 2009, a financial year in which the optimizing of inventory levels had the highest priority.

Other operating income of EUR 2.8 million (prior year: EUR 1.2 million) primarily consists of insurance income, exchange rate gains and other income from goods and services delivered to third parties.

Operational expense ratios compared to total performance		
	2010	2009
Cost of materials	57.3%	58.2%
Personnel expenses	15.9%	21.3%
Other operating expenses	19.3%	20.6%

The cost-of-materials-ratio (compared to total performance) could be slightly improved in comparison to prior year. While expenses relating to raw materials increased, specific cost cuts relating to energy consumption could be realized. Accordingly, the gross profit margin (compared to total performance) of 45.1% in 2010 was higher than in 2009 (43.5%). Nabaltec increased the absolute gross profit margin from EUR 31.3 million in 2009 to EUR 50.6 million in the reporting period.

In 2010, personnel expenses were influenced according to plan due to the expiration of several temporary cost-cutting measures initiated in 2009 and given the orderly increase in staff. The temporary reduction in salaries and wages of 6.67%, reduced working hours and cuts in lump-sum payments either expired or were ended in 2010. These measures maintained the workforce level during the economic crisis, which in turn ensured the achievement of the significant sales growth in the financial year 2010. The personnel-expenses-ratio (compared to total performance) decreased from 21.3% in 2009 to 15.9% in 2010 due to the sharp increase in total performance. The head count increased from 348 as at December 31, 2009 to 371 as at December 31, 2010. Increased manpower requirements are mainly due to the increase in the number of apprentices and the start of boehmite production in Schwandorf.

Other operating expenses increased from EUR 14.8 million to EUR 21.7 million. The expense-ratio (compared to total performance) improved, however, from 20.6% to 19.3%. The development of distribution costs and sales agent commissions is largely in line with the development of turnover and sales. Expenses relating to outside services and repair services increased in the fourth quarter, compared to preceding quarters. Furthermore, other operating expenses contain one-off placing costs in the amount of EUR 1.3 million for the corporate bonds amounting to EUR 30.0 million issued in the fourth quarter of 2010.

Earnings before interest, tax and depreciation and amortization (EBITDA) increased in 2010 to EUR 11.1 million, while EBITDA amounted to EUR 1.2 million in prior year. Thereby, EBITDA could be substantially increased compared to 2008. Both divisions contributed toward the increase in EBITDA. The positive trend that was already noticeable in the second half of 2009, continued sustainably.

Taking into consideration the scheduled depreciation in the financial year 2010 in the amount of EUR 7.0 million, the operating result (EBIT) amounts to EUR 4.1 million compared to EUR -4.3 million in prior year. The significant improvement of EUR 8.4 million is primarily due to the expansion of sales in connection with continuous cost controlling. The development of EBITDA and EBIT exhibit the intact earnings power of Nabaltec AG on operational level.

Earnings before tax amounted to EUR -0.5 million (PY: EUR -6.9 million). This includes the financial result 2010 of EUR -4.2 million (PY: EUR -2.6 million), consisting of EUR 4.5 million interest expenses and EUR 0.3 million interest income arising from limited-term loans. The increase in interest expenses results primarily from the proportion of interest of EUR 0.4 million arising from the corporate bonds issued in October 2010 in the amount of EUR 30.0 million at an interest rate of 6.50% p.a. as well as from a reclassification of the interest expenses relating to the retirement benefit obligation in the amount of EUR 0.6 million.

Results of operations amounted to EUR -0.5 million (PY: EUR -7.1 million).

2.6 FINANCIAL POSITION

2.6.1 FINANCIAL MANAGEMENT

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

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

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

Up till now, Nabaltec's growth was primarily financed through bank loans, whereby the Company takes advantage of KfW (Reconstruction Loan Corporation) or LfA program, as well as subsidies from the government of Upper Palatinate. In October 2010, Nabaltec additionally issued corporate bonds in the amount of EUR 30.0 million and placed this issue completely in the capital market. The duration amounts to five years. As a result, Nabaltec disposes of a balanced debt financing structure.

2.6.2 FINANCING

Shareholders' equity decreased slightly from EUR 40.6 million to EUR 40.0 million as of 31 December 2010 due to the development of net earnings. As a result of the simultaneous intake of new financial resources through the issuance of the initial corporate bonds of Nabaltec AG in the amount of EUR 30.0 million, the calculated equity ratio decreased from 39.8% as at December 31, 2009 to 30.0% as at December 31, 2010, which can continued to be considered as sound compared to the industry.

Accounts payable increased by EUR 31.4 million in total. This was mainly due to the successful placement of the initial corporate bonds of Nabaltec AG in the amount of EUR 30.0 million. In addition, trade payables increased by EUR 4.5 million, in particular given that, at year end, further raw materials were purchased. Payables to banks decreased by EUR 2.8 million (i.e. 6.8%).

Selected balance sheet items as a percentage of total assets		
	December 31, 2010	December 31, 2009
Shareholders' equity	30.0%	39.8%
Provisions	9.1%	11.3%
Accounts payable	60.9%	48.8%

2.6.3 OTHER OFF-BALANCE SHEET FINANCING INSTRUMENTS

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

2.6.4 INVESTMENTS

In the reporting period, Nabaltec AG invested a total amount of EUR 7.0 million including the portion of the investment grant (PY: EUR 20.0 million). Investments focused on the business division 'Functional Fillers', assuming round two thirds of total investments, particularly for the establishment of the boehmite production and the final investments in the CAHC facility. Additionally, measures were taken to improve the infrastructure as well as energy efficiency. In the business division 'Technical Ceramic', the production process could be further improved and moreover the capacity could be expanded thanks to investments made in 2010.

2.7 ASSET POSITION

Nabaltec AG's total assets increased from EUR 102.0 million in prior year to EUR 133.3 million as of December 31, 2010.

Major asset items as a percentage of total assets		
	December 31, 2010	December 31, 2009
Non-current assets	60.1%	78.9%
of which: tangible assets	53.0%	69.5%
Current assets	39.6%	20.7%
of which: inventories	14.4%	17.3%

Assets were characterized by a clear shift from non-current assets toward current assets; main reason being the increase in cash and cash equivalents and other assets arising from the successful placement of corporate bonds. In absolute terms, non-current assets remained largely stable given that scheduled depreciation/amortization was compensated by new investments to a similar extent.

3 NON-FINANCIAL PERFORMANCE INDICATORS

3.1 EMPLOYEES

End 2010, Nabaltec AG employed in total 371 employees (December 31, 2009: 348). This figure includes 48 apprentices (December 31, 2009: 38). Nabaltec sets a high value on sound professional training. Therefore, also in 2009, the rate of apprentices of 12.9% traditionally presents a significantly large portion of the workforce. So doing, Nabaltec slightly increased this rate in 2010 and, as in prior years, far exceeded the industry average. Nabaltec apprentices regularly count to the best of the class. The Company currently has vacancies relating to training positions for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

In the past, Nabaltec AG regularly belonged to the 100 best employers in the German middle market, according to the national multi-sector company comparison, ‘TOP JOB’. Such distinctions indicate how seriously the Company takes its responsibility toward her employees. Safeguarding of jobs had a high priority during the economic crisis. The brilliant development in 2010 proves how correct the decision was to abstain from layoffs and to secure jobs through reduction in payment and short-time work. Nabaltec’s central concern is to offer her employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees’ corporate identity, commitment and involvement.

3.2 RESEARCH AND DEVELOPMENT

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

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

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

Our historically grown in-house expertise is effectively supplemented in some areas by joint projects and collaborations with universities, public and private institutions, as well as research and technology companies. Our research partners currently include the Institute of Process Engineering at RWTH Aachen University, the German Plastics Institute in Darmstadt, the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the Technical University of Dresden and the research institute for inorganic materials – glass/ceramic in Höhr-Grenzhausen. Nabaltec emphasizes innovation by participating in various projects of the German Federation of Industrial Research Associations and the Federal Ministry of Education and Research in both of our divisions.

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

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

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

In 2010, the following developments played a central role in the ‘Functional Fillers’ division:

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

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

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

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

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

Nabaltec AG performs application development for technical thermoplastic and fire protection synthetics, in which mineral flame retardants have to date not been applied, e.g. special fine grades of APYRAL® AOH und ACTILOX® (boehmite). Regarding new trends in environmental engineering, we are currently in the process of developing new substances for energy storage in alternative drive concepts.

In the reporting period, the following developments played a central role in the 'Technical Ceramic' division:

With several new reactive NABALOX® aluminum oxides, Nabaltec is able to offer customers in the refractory industry the possibility to manufacture monolithic feeds that have improved processing and application properties. Recent developments focus on both the ongoing improvement as well as on the optimization of the manufacturing process of these products. Furthermore, the work performed by the NABALOX® product group is directed at identifying, evaluating and optimizing innovative finishing processes for aluminum oxides for the application in the manufacturing of ceramic and polishing agents.

Mullite-like sintering products are largely applied as raw material in the refractory industry. The repeated global shortage has lead to them being recognized and categorized as strategically important within the scope of the European Raw Material Initiative (RMI). In this regard, Nabaltec collaborates with customers to obtain solutions for the substitution of deficient natural resources through special sintering mullite grades. In addition to the targeted independence from the raw material, the long term aim of such cooperation is to lay the foundation for the launching of material cycles regarding refractory materials. Other developments in the SYMULOX® product group relate to special ceramic applications.

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

3.3 CUSTOMER RELATIONS

During the economic crisis, Nabaltec could again clearly parlay its own market standing. Imperative arguments in collaboration with customers are the proven delivery reliability and the quality consistency. We have demonstrated that we are a very reliable partner for long term and trusting collaboration. These attributes pose an important competitive advantage in the current market environment.

Prerequisite for our market success are products of the highest quality, developed, optimized and delivered in large number of units over a long period of time based on specific customer needs. The Company's products are continuously geared so as to help her customers make safer, environmentally friendlier, more robust and competitive products and simultaneously optimize customer production processes. Therefore, joint development projects as well as business relations result in long term supply contracts and sustainable co-operations. Our objective of attaining a market position among the first three leading suppliers in each of the global market segments, is above all, only achievable through close collaboration with our clients and, at the same time, guarantees our customers the utmost reliability and best availability.

3.4 MANAGEMENT SYSTEM

In order to promote safety-consciousness among all of its employees and to simplify implementation of statutory and trade association requirements, the Company decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001:2008, respectively, ISO 14001:2004, to introduce a health and safety management system in compliance with BS OHSAS 18001:2007 (British Standard Occupational Health and Safety Assessment Series). In 2010, an extensive monitoring audit for the health and safety management system based on BS OHSAS 18001:2007 was conducted. Also, the quality management system (ISO 9001:2008) as well as the environment management system (ISO 14001:2004) was newly accredited. In 2010, the certification of the energy management system based on EN 16001 was conducted by TÜV SÜD Management Service GmbH. Thereby, Nabaltec belongs to one of the first companies in Germany that maintain a certified energy management system.
In addition, Nabaltec AG's laboratory services are accredited under the DIN EN ISO/IEC 17025:2005 standard.

By the end of November 2010, the REACH (**R**egistration, **E**valuation, **A**uthorization & Restriction of **CH**emicals) registration as well as the categorization according to GHS (**G**lobally **H**armonized **S**ystem of Classification and Labelling of Chemicals) was performed for all Nabaltec products.

3.5 ENVIRONMENTAL PROTECTION

Nabaltec places special emphasis on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2010, this area was invested in. Through joint efforts with external partners, we have developed techniques requiring much less process energy, leading to a substantial reduction in CO_2 emissions. By participating in the task force "Energietechnik der Bayern Innovativ GmbH", this path is being systematically pursued. Here, Nabaltec participates in a network of medium-sized enterprises. The goal is to transfer and receive innovations relating to continuous improvement processes to and from other enterprises. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec's energy needs are covered by renewable energy.

In general, we endeavor to develop production processes with a closed-circuit for all production facilities. One of the milestones in this regard is the CAHC facility commissioned in 2009 in Schwandorf that operates entirely without any production wastewater and has a closed water circuit. Also, regarding the handling of chemicals, e.g. sodium hydroxide solution, which is required for the production of fine hydroxide, it is consequently sought to prevent the dispersion thereof into the environment. Rather, it is ensured that such chemicals can be completely used for the re-employment in an entirely in a closed production cycle.

3.6 CAPITAL MARKET

Since the initial public offering in 2006, Nabaltec disposes of intact access to the capital market. This was proven yet again in 2010 with the issuance of corporate bonds in the amount of EUR 30.0 million. Access to the capital market, maintained by transparent and reliable communication at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively by the sales market.

4. REPORT ON RISKS AND OPPORTUNITIES

4.1 RISK MANAGEMENT

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

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

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

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

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

4.2 RISKS AND OPPORTUNITIES REGARDING FUTURE DEVELOPMENT

Sales Market

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

From today’s perspective, there are no risks for existing products relating to the European REACH regulation, effective since July 1, 2007. In order to meet the high requirements set by REACH and to assess possible restrictions on new products, the Company has assigned an in-house REACH officer. By joining an industry consortium, the risk of higher registration costs can be counteracted.

Procurement Market

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

Financial Market

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

Through the introduction of factoring in 2002, the secured portion of receivables could be increased and the Company's liquidity could be clearly improved.

Personnel

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

Production, Process and IT

Nabaltec disposes of an integrated quality management system with ISO 9001:2008 accreditation that is put to practice companywide. Therefore, Nabaltec considers the production-specific risks as manageable. Regarding IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundant design of high-quality hardware. Through regular verification of the access structure, data protection is guaranteed. Data security is based on appropriate, well-established procedures. Compliance with the privacy policy based on the most recent legal framework is guaranteed at all times within the Company and is additionally monitored by an external privacy policy officer since 2010.

Environmental Protection

Environmental risks can arise from the transgression of admissible thresholds for noise and dust exposure or through the emission of hazardous substances. Nabaltec mitigates these risks by means of extensive environmental management based on ISO 14001:2004, which is accredited and is periodically further developed and audited. Nabaltec's production processes are based on closed circuits, e.g. for water and lye.

Technological Development

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

Legal Framework

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

4.3 OVERALL ASSESSMENT

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

5. DECLARATION OF CORPORATE GOVERNANCE

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

6. SUBSEQUENT EVENTS

There are no further events to report that occurred subsequent to December 31, 2010 that might have a significant effect on the net assets, financial position or earnings of the Nabaltec Group.

7. OUTLOOK

Thanks to fundamental trends such as environmental protection, increasing safety standards and economic necessity to continuously improve customer processes, we expect the demand for our products to carry on developing positively. The rapid rebound in 2010 shows that Nabaltec could not only benefit from catch-up effects, but rather could further improve its own market position.

Nabaltec is a leader in quality and innovation and belongs to the market leaders in her own target markets. Nabaltec AG could effectively prove her reliability as stable partner in the market. The approval process for the Company’s own products could be successfully finalized for a number of market participants, who up to now did not belong or only partly belonged to Nabaltec’s client portfolio.

7.1. ECONOMIC ACTIVITY & INDUSTRY
As forecast by the Deutsche Bank, the national economies most relevant to Nabaltec are expected to be marked by sustainable growth in the years 2011 and 2012. Economic performance in the euro area is expected to even gain momentum and grow by 1.2% in 2011 and by 1.4% in the subsequent year. Germany shall remain the European growth driver. The USA economy is expected grow stronger than that of the euro area. China and India will steadily pursue their growth.

Economic Growth Forecast		
in %	2011	2012
World	3.9	4.2
USA	3.0	3.4
euro area	1.2	1.4
Germany	2.0	1.4
France	1.2	1.6
Italy	0.9	1.2
Spain	0.2	1.1
Great Britain	2.2	2.0
Japan	0.1	1.7
China	8.7	8.4
India	8.2	8.5

Source: Deutsche Bank, December 15, 2010

The forecasts for 2011 regarding the German chemical industry give reason to expect a slight easing, but also the continuation of growth.

7.2 OUTLOOK ON THE COURSE OF BUSINESS
For 2011, Nabaltec expects further growth in demand. The current order backlog of EUR 53.3 million is a clear indication of the strong sustainable demand.

Beginning 2011, Nabaltec realized price increases for all products. Regionally, Nabaltec expects the continuation of the good revenue development in the USA. And particularly the Asian market is expected to raise additional impulses. For instance, the Indian demand impulses for non-halogenated fire protection are likely to even exceed those of China. The Company foresees stable growth for Germany and Europe.

With its patented CD technology, Nabaltec AG is extremely well-positioned for future development in the market for non-halogenated fire protection. The positive properties of fine precipitated ATH have begun to capture the industry's attention in recent years and are gradually resulting in the substitution of other materials. And, they have led to changeovers in product development and production in the downstream industry.

The Company's product range, which is based on CD technology, is being further expanded in order to offer processing advantages to customers in additional processing areas and target markets. The cable & wire and insulation markets, the principal consumers of the fine hydroxides produced by the ‘Functional Fillers’ division, are dependent on the construction sector. Positive growth impulses are expected for 2011 and 2012 relating to the application segments in the low voltage range, in telecommunication and in IT. There are discernible signs of continued growth in the markets for non-halogenated fire protection. These expectations are supported by the development in legislation and the ever stricter fire protection regulations that are expediting the changeover from halogenated to non-halogenated flame retardants in the industry. For example, new market surveys in 2010 prognosticate a market growth of annually 6.5% up until 2014 for non-halogenated fire protection (on the basis of ATH).

One of our focuses for 2011 is the successful development and expansion of the business relating to additives and special boehmite qualities. Nabaltec sees growth opportunities in the additives market, where in the processing of PVC the replacement of stabilizers containing heavy metals with environmentally friendly alternatives is promoted by international regulations. The product line developed and patented by Nabaltec AG that can replace toxic lead compounds in plastic mixtures, and can be used as heat stabilizer, has successfully undergone several approval processes by future key customers. Nabaltec's additives are particularly applied in newly developed products. The objective target for market penetration has to be set accordingly.

A similar focus will be adopted for boehmite used by the electronics industry. After initial success in 2009, and the start of production in 2010 in Schwandorf, here, too, the emphasis lies in gradually accessing the markets and successively acquiring suppliers in the electronics market, respectively, finalizing the approval procedures for Nabaltec products. The global market potential in this segment is tremendous, given the changeover in the electronics industry toward non-halogenated flame retardants in conductor boards. Therefore, Nabaltec's objective now is to take in a strategic imminent market position, acquire key customers, and so doing fully anchor its environmentally friendly and high performance product solutions in the market. Additional application fields shall also be entered into, e.g. catalysis or high-temperature batteries.

The market for technical ceramics and refractory products are significantly influenced by the worldwide production of steel. Subsequent to a major catch up in 2010, the market is now expected to grow steadily. In particular, the future demand for high-quality aluminum oxide products will continue to increase, since the service life of refractory products can only be extended through these.

Regarding ceramic bodies, Nabaltec likewise assumes an intact market and a positive future development. Protection of passengers and vehicular protection are the main application areas for these products, and is gaining in worldwide importance.

7.3 EXPECTED EARNINGS AND FINANCIAL POSITION

Given market determining factors that are principally intact in the individual target markets, Nabaltec expects sales growth in the low, two-digit percentage range for 2011. The Company forecasts a disproportional improvement in the 2011 result from ordinary operations (EBIT) compared to prior year. For the financial year 2012, Nabaltec expects a further increase in sales and result from ordinary operations (EBIT) compared to 2011.

Nabaltec AG will increase investments in 2011 compared to 2010. The focus will lie in investments for the expansion of fine hydroxides. Nabaltec concentrates particularly on high margin product areas. In the business segment ‘Technical Ceramic’, the own excellent market position regarding high quality products shall be further enlarged through investments. Further key investments relate to measures securing at-will delivery readiness, additional infrastructure improvements and the optimizing of energy efficiency.

In 2011, depreciation expenses within the Nabaltec Group will increase according to plan, reflecting the extensive investments in fixed assets. The systematic redemption of loans will be continued in 2011.

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.

Schwandorf, March 2, 2011

Nabal*tec* AG
The Management Board

Johannes Heckmann Gerhard Witzany

Balance sheet as of December 31, 2010, Nabaltec AG, Schwandorf

A S S E T S

	12/31/2010 EUR '000	12/31/2009 EUR '000
A. NON-CURRENT ASSETS		
I. Intangible Assets		
1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	105	141
2. Advance payments	71	65
	176	206
II. Property, Plant and Equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	15,123	15,660
2. Technical equipment and machinery	50,242	52,757
3. Other fixtures, fittings and equipment	2,000	1,797
4. Advance payments as well as plant and machinery under construction	3,353	698
	70,718	70,912
III. Financial Assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	9,079	8,382
3. Other loans	0	864
	9,242	9,409
	80,136	80,527
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	11,080	8,896
2. Finished goods and purchased products	8,118	8,707
	19,198	17,603
II. Accounts Receivable and other Assets		
1. Trade receivables	1,596	416
2. Other assets	13,361	2,816
	14,957	3,232
III. Cash and cash equivalents	18,672	278
	52,827	21,113
C. PREPAID EXPENSES	334	389
	133,297	102,029

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

	12/31/2010 EUR '000	12/31/2009 EUR '000
A. SHAREHOLDERS' EQUITY		
I. Subscribed capital Conditional capital EUR 3,000 thousand (PY: EUR 3,000 thousand)	8,000	8,000
II. Capital reserve	30,824	30,824
III. Profit participation capital	1,211	1,730
IV. Accumulated profits	0	0
	40,035	40,554
B. NON-CURRENT ASSETS INVESTMENT GRANTS	42	177
C. PROVISIONS		
1. Retirement benefit obligation and similar provisions	8,738	8,440
2. Accrued taxes	16	487
3. Other provisions and accrued liabilities	3,302	2,595
	12,056	11,522
D. ACCOUNTS PAYABLE		
1. Liabilities arising from corporate bonds	30,000	0
1. Payables to banks	38,589	41,433
2. Trade payables	9,534	5,019
3. Payables to affiliated companies	248	287
4. Other payables	2,793	3,037
- thereof relating to taxes EUR 174 thousand (PY: EUR 145 thousand)		
- thereof relating to social securities: EUR 20 thousand (PY: EUR 17 thousand)		
	81,164	49,776
	133,297	102,029

Income statement, Nabaltec AG, Schwandorf
for the period January 1 to December 31, 2010

		01/01 - 12/31/2010			01/01 - 12/31/2009
		EUR '000	EUR '000	EUR '000	EUR '000
1.	Revenue		112,701		73,060
2.	Change in finished goods		-756		-2,183
3.	Other capitalized own services		308		1,161
Total performance			112,253		72,038
4.	Other operating income		2,787		1,199
			115,040		73,237
5.	Cost of materials:				
	a) Cost of raw materials and supplies and purchased goods	63,933		41,319	
	b) Cost of purchased services	510	64,443	611	41,930
Gross profit			50,597		31,307
6.	Personnel expenses:				
	a) Wages and salaries	14,410		11,427	
	b) Social security and other pension costs - thereof for pension costs: EUR 681 thousand (PY: EUR 1,617 thousand)	3,375		3,826	
7.	Amortization/Depreciation of intangible assets and property, plant and equipment	7,023		5,480	
8.	Other operating expenses	21,722	46,530	14,824	35,557
			4,067		-4,250
9.	Income from securities and loans (financial assets) - thereof from affiliated companies: EUR 190 thousand (PY: EUR 198 thousand)	190		198	
10.	Interest and similar income	99		270	
11.	Amortization of financial assets and marketable securities - thereof arising from affiliated companies: EUR 0 thousand (PY: EUR 254 thousand)	0		254	
12.	Interest and similar expenses - thereof for profit participation rights capital: EUR 405 thousand (PY: EUR 405 thousand)	4,526		2,853	
Financial result			-4,237		-2,639
13.	**Result from ordinary operating activities**		-170		-6,889
14.	Exceptional expenditures	320		0	
15.	Exceptional result		320		0
			-490		-6,889
16.	Income taxes	16		202	
17.	Other taxes	13	29	55	257
18.	**Net loss for the year**		-519		-7,146
19.	Profit carried forward		0		3,876
20.	Withdrawal profit participation capital		519		3,270
21.	**Accumulated profit**		0		0

Nabaltec AG, Schwandorf

Notes for the financial year 2010

General Information on the financial statements

The annual financial statements were prepared in accordance with the accounting provisions of the German Commercial Code (hereafter referred to as "HGB") subsequent to the German Act on the Modernisation of Accounting Regulations ("Bilanzrechtsmodernisierungsgesetz", also referred to as "BilMoG") effective May 25, 2009. The amended provisions were adopted for the first time to the financial year 2010. By way of right of choice in accordance with Article 67 Paragraph 8 Sentence 2 Introductory Act to the German Commercial Code (hereafter referred to as "EGHGB"), comparative prior year figures do not have to be adjusted upon first-time adoption of BilMoG. Additionally, the provisions of the German Stock Corporation Act and Articles of Association were complied by. The total cost method was applied for the income statement.

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

Basic principles, methods and significant accounting policies

The financial statements of the Company are prepared according to the following accounting and valuation principles that have been partly changes compared to prior year:

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

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

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

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

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

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

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

Cash and cash equivalents are carried at nominal values.

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

As from 2010 onward, **deferred taxes** are determined for temporary differences arising between commercial and tax valuation of assets, liabilities and accruals. The determination of deferred taxes is based on the combined income tax rate of currently 28.08%. The combined income tax rate encompasses corporate tax, trade tax and solidarity surcharge. An overall tax burden would be presented as deferred tax liability in the balance sheet. In the case of an overall tax relief, the corresponding right of choice to capitalize such a tax relief was not exercised. In the financial year, a deferred tax asset (not capitalized) arose.

Issued capital is carried at nominal value.

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

The **retirement benefit obligation** is determined based on the projected-unit-credit method (PUC) by applying actuarial principles with an interest rate of 5.15% p.a. on the basis of the mortality table 2005 G of Prof. Heubeck. By virtue of the right of choice according to Article 67 Paragraph 1 Sentence 1 EGHGB, EUR 267 thousand was transferred to the retirement benefit obligation in the financial year (i.e. 1/15 of the balance determined as at January 1, 2010). The Company has pension plan reinsurance, which is pledged to the pensioners. Correspondingly, the liabilities and the asset value of the pension plan reinsurance are presented as a net amount in accordance with Section 246 Paragraph 2 HGB.

Other provisions are recognized for remaining obligations such as identifiable risks and contingencies based on amounts dictated by prudent business judgment. Based on Article 67 Paragraph 3 EGHGB, the right of choice was exercised regarding the maintenance of provisions in terms of Section 249 Paragraph 2 HGB (version prior to BilMoG).

Payables are measured at their amounts repayable.

Currency translation principles

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

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

Notes to the balance sheet

Non-current assets

The statement of changes in non-current assets is presented below.

In the reporting period, interest on borrowed capital in the amount of EUR 66 thousand was included in the acquisition costs.

Receivables and other assets

Other assets consist mainly of receivables from factoring (EUR 1,129 thousand), VAT-return claims (EUR 1,063 thousand), a petroleum tax-return claim (EUR 272 thousand), an electricity tax-return claim (EUR 670 thousand) as well as a fixed deposits investment with a term to maturity >3 months (EUR 10,000 thousand). Receivables and other assets have a term to maturity of less than one year.

Prepaid expenses

Prepaid expenses consist of loan discounts (EUR 288 thousand) and prepaid expenses relating to the subsequent financial year (EUR 47 thousand).

Statement of changes in non-current assets, Nabaltec AG

for the period January 1 to December 31, 2010

	Historical Cost					Cumulative Depreciation/Amortization							
	January 1, 2010	Additions	Disposals	Transfers	December 31, 2010	January 1, 2010	Additions	Appreciation	Disposals	December 31, 2010	Book Value December 31, 2010	Book Value December 31, 2009	Depreciation/Amortization for the year
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets													
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,046,031.62	36,360.26	0.00	0.00	2,082,391.88	1,904,858.23	72,167.32	0.00	0.00	1,977,025.55	105,366.33	141,173.39	72,167.32
2. Advance payments	64,425.32	6,177.83	0.00	0.00	70,603.15	0.00	0.00	0.00	0.00	0.00	70,603.15	64,425.32	0.00
	2,110,456.94	42,538.09	0.00	0.00	2,152,995.03	1,904,858.23	72,167.32	0.00	0.00	1,977,025.55	175,969.48	205,598.71	72,167.32
II. Property, plant and equipment													
1. Land, leasehold rights and buildings on non-freehold land	18,882,126.85	138,049.30	0.00	0.00	19,020,176.15	3,222,388.31	674,551.53	0.00	0.00	3,896,939.84	15,123,236.31	15,659,738.54	674,551.53
2. Technical equipment, plant and machinery	79,425,140.14	2,898,261.71	0.00	445,159.80	82,768,561.65	26,668,025.60	5,858,740.74	0.00	0.00	32,526,766.34	50,241,795.31	52,757,114.54	5,858,740.74
3. Other fixtures, fittings and equipment	5,656,027.23	633,963.14	79,345.34	4,590.05	6,215,325.08	3,858,803.44	417,535.45	0.00	61,335.27	4,215,003.62	2,000,231.46	1,797,223.79	417,535.45
4. Advance payments as well as plants								0.00					
and machinery under construction	698,072.69	3,104,144.00	0.00	-449,749.85	3,352,466.84	0.00	0.00	0.00	0.00	0.00	3,352,466.84	698,072.69	0.00
	104,661,366.91	6,774,418.15	79,345.34	0.00	111,356,439.72	33,749,217.35	6,950,827.72	0.00	61,335.27	40,638,709.80	70,717,729.92	70,912,149.56	6,950,827.72
III. Financial assets													
1. Shares in affiliated companies	162,930.73	1,726.32	1,726.32	0.00	162,930.73	0.00	0.00	0.00	0.00	0.00	162,930.73	162,930.73	0.00
2. Loans to affiliated companies	9,203,850.61	189,794.32	0.00	0.00	9,393,644.93	821,840.83	0.00	507,092.17	0.00	317,748.66	9,078,896.27	8,382,009.78	0.00
3. Other loans	864,141.49	0.00	0.00	-864,141.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	864,141.49	0.00
	10,230,922.83	191,520.64	1,726.32	-864,141.49	9,556,575.66	821,840.83	0.00	507,092.17	0.00	317,748.66	9,241,827.00	9,409,082.00	0.00
	117,002,746.68	7,008,476.88	81,071.66	-864,141.49	123,066,010.41	36,475,916.41	7,022,995.04	507,092.17	61,335.27	42,930,484.01	80,135,526.40	80,526,830.27	7,022,995.04

Equity

a) Issued capital	EUR	8,000,000.00

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

b) Authorized capital

As of December 31, 2010, the following capital was authorized (expires October 22, 2011)	EUR	3,000,000.00

By resolution of the annual shareholders' meeting of October 23, 2006, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions October 22, 2011, by up to EUR 3,000 thousand through the issuance up to 3,000,000 non-par bearer shares (non-par shares) and also to decide on any exclusion of subscription rights in connection with such issues (Authorized Capital 2006/I).

c) Conditional capital	EUR	3,000,000.00

By resolution of the annual shareholders' meeting of October 23, 2006, the capital stock was increased conditionally by the issuance of up to 3,000,000 non-par bearer shares (non-par shares) (Conditional Capital 2006/I). The Conditional Capital only serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants that were issued by the Company with the authorization of the annual shareholders' meeting of October 23, 2006.

d) Capital reserve	EUR	30,824,219.38

The capital reserve remained unchanged in 2010.

e) Profit participation capital	EUR	1,210,827.54

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

According to the contract governing profit participation capital, the redemption amount shall be reduced by the audited net annual loss to the extent that this loss is covered by committed equity. Committed equity consists of the issued capital and the capital reserve. Given that the current year resulted in a net annual loss of EUR 518,996.02, the profit participation capital was reduced by the corresponding amount.

f) Profit carried forward	EUR	0.00
January 1, 2010	EUR	0.00
Net annual loss 2010	EUR	518,996.02
Withdrawal profit participation rights capital	EUR	518,996.02
December 31, 2010	EUR	0.00
	================	

Non-current assets investment grants

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

Retirement benefit obligation

The retirement benefit obligation has been measured in accordance with the provisions set out by BilMoG. The measurement took place on the basis of recognized actuarial principles based on the so called projected-unit-credit (PUC) method. The mortality table 2005 G of Prof. Heubeck was used as biometric basis for actuarial calculations. Further, the following parameters were used in the calculation: interest rate p.a. 5.15%, salary increase p.a. 2.75% and pension increase p.a. 2.00%. The interest rate used for discounting is based on the average market interest rate determined by the Bundesbank (German Central Bank) with an assumed remaining term to maturity of 15 years.

The revaluation of the retirement benefit obligation as at January 1, 2010 results in a balance of EUR 4,009 thousand; in the reporting period, an amount of EUR 267 thousand (1/15 according to Article 67 Paragraph 1 Sentence 1 EGHGB) was transferred to the retirement benefit obligation, the remaining shortfall as at December 31, 2010, therefore amounts to EUR 3,742 thousand.

Pension plan reinsurances have been pledged, hence, direct commitments regarding the pension scheme are secured from other creditors. Therefore, the liabilities can be netted against the corresponding assets as well as the expenses can be netted against the corresponding income. Insofar, the asset value of the pension plan reinsurance amounting to EUR 980 thousand has been netted with the repayable amount of the provision in the amount of EUR 9,718 thousand, resulting in a net amount in the balance sheet of EUR 8,738 thousand as per the balance sheet date. The line item interest and similar expenses includes gains arising from the reinsurance in the amount of EUR 116 thousand. The fair value of the pension plan reinsurances corresponds to the asset value. The asset value includes the current payment of contributions as well as gains arising from the return on the pension plan reinsurance, which develops in line with the investment performance of the insurer.

Other provisions

Other provisions primarily consist of personnel obligations (EUR 1,927 thousand), clean-up and disposal expenses (EUR 73 thousand) and invoices not yet received (EUR 946 thousand).

Anniversary provisions are measured based on the PUC method applying an interest rate of 5.15% p.a. and salary increase of 2.75% p.a. The revaluation as at January 1, 2010, resulted in a balance of EUR 53 thousand, which was added to the provisions via the income statement line item exceptional expenditures.

Payables

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

(prior year figures in parentheses)

	Total amount	Term to maturity			Collateral-ized amounts	Type of collateralization
		< 1 year	1 – 5 years	> 5 years		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	
Liabilities arising from corporate bonds	30,000 (0)	0 (0)	30,000 (0)	0 (0)	0 (0)	
Payables to banks	38,589 (41,433)	6,520 (3,045)	26,344 (25,849)	5,725 (12,539)	38,589 (41,433)	Land charges, security assignment
Trade payables	9,534 (5,019)	9,534 (5,019)	0 (0)	0 (0)	0 (0)	
Intercompany payables	248 (287)	248 (287)	0 (0)	0 (0)	0 (0)	
Other payables	2,793 (3,037)	2,793 (368)	0 (2,669)	0 (0)	0 (0)	
	81,164 (49,776)	19,095 (8,719)	56,344 (28,518)	5,725 (12,539)	38,589 (41,433)	

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

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

In accordance with HFA 1/1984, grants received but not yet invested, in the amount of EUR 1,983 thousand, are classified as other payables. This amount shall be presented as other payables until it is used in line with the terms of the grant.

Notes to the income statement

Revenue

Revenue by geographical location is specified below:

	2010		2009	
	EUR '000	%	EUR '000	%
Germany	33,938	30.1	21,987	30.1
Rest of Europe	51,411	45.6	37,267	51.0
USA	16,752	14.9	7,805	10.7
RoW	10,600	9.4	6,001	8.2
	112,701	100.0	73,060	100.0

Revenue by business division:

	2010		2009	
	EUR '000	%	EUR '000	%
Functional Fillers	75,916	67.4	50,193	68.7
Technical Ceramics	36,785	32.6	22,867	31.3
	112,701	100.0	73,060	100.0

Other operating income

Due to the changed currency parity in the loans to affiliated companies, an appreciation in value amounting to EUR 507 thousand (Section 256a HGB) was recorded in the reporting period and recorded via the income statement line item other operating income.

Other operating income includes the following gains arising from exchange rate differences (EUR 1,246 thousand):

Realized exchange rate gains	EUR 739 thousand
Unrealized gains from appreciation	EUR 507 thousand

Exceptional expenditures

Due to the first-time adoption of BilMoG, exceptional expenditures result from the revaluation of the retirement benefit obligation in the amount of EUR 267 thousand and from the revaluation of the anniversary provisions in the amount of EUR 53 thousand.

Other taxes

Other taxes include an amount of EUR 18 thousand as gains relating to other periods arising from the restitution of property tax.

Other disclosures

Disclosures on off-balance sheet transactions

In order to improve the Company's liquidity position, Nabaltec entered into lease agreements with an annual expense of EUR 2,836 thousand and sold receivables to a factor in the amount of EUR 18,562 thousand. In 2010, expenses arising from the transfer of payment risks to the factor for the processing and pre-funding of the sales of the receivables amount to EUR 586 thousand.

Contingencies and other financial obligations

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

	December 31, 2010 EUR '000	December 31, 2009 EUR '000
Obligations arising from warranty contracts	5,032	5,524
- thereof in favor of affiliated companies:	4,895	5,402

The Company has obligations arising from securities and guarantees to third parties amounting to EUR 5,032 thousand (guarantee liabilities). The Company is liable for the payment of Nashtec LLC's bank debts in the amount of EUR 4,895 thousand. According to the subsidiary's forecast, there is no risk of claims on the guarantee.

Other financial obligations

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

		December 31, 2010 EUR '000	December 31, 2009 EUR '000
a)	Obligations arising from rental, lease, service and consulting agreements	7,611	9,709
	thereof		
	- maturing within 1 year	2,780	3,102
	- maturing within 1 – 5 years	4,831	6,421
	- maturing in more than 5 years	0	186
b)	Obligations arising from investment contracts (order obligations) thereof	1,611	1,821
	- maturing within 1 year	1,611	1,821
	Total	9,222	11,530
	- thereof to affiliated companies	0	0

Declaration on the German Corporate Governance Code

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

Auditors' fee

The fee for the audit of the 2010 financial statements amounts of EUR 80 thousand (including the fee for the audit of the Company's consolidated financial statements). For other assurance services, the auditor received a fee of EUR 12 thousand. The fee for tax advisory services amounts to EUR 22 thousand.

Related parties transactions in terms of Section 285 Paragraph 21 HGB

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

Share ownership pursuant to Section 285 Paragraph 11 HGB

	Share in Equity		Prior Year Equity *) Nashtec		Prior Year Earnings *) Nashtec	
Direct Participation	in %	in USD	in USD	in EUR	in USD	in EUR
Nashtec LLC, Texas (USA)	51.0	210,266.00	-10,846,529.00	-8,102,890.33	845,676.00	637,188.07

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

In 2010, the subsidiary, Nashtec LLC, was not provided with additional funds.

Derivatives

No derivative financial instruments were used in the reporting period.

Deferred taxes

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

Balance sheet item	**Carrying amount**			**Deferred tax**	
	Commercial valuation EUR '000	Tax valuation EUR '000	Difference EUR '000	Asset EUR '000	Liability EUR '000
Deferred tax asset					
Retirement benefit obligation	-9,718	-9,089	-629	177	
Other provisions	-3,302	-2,901	-401	113	
Financial assets (Loan Nashtec)	9,079	9,394	-315	88	
	-3,941	-2,596	-1,345	378	
Deferred tax liability					
Trade and other payables	1,596	1,554	42		12
	1,596	1,554	42		12
Loss carry forward				609	
Balance				975	

Employees

The average number of employees:

	2010 Number
Blue-collar employees	177
White-collar employees	125
Part-time employees	15
	317

In addition, an average of 43 apprentices was employed in the course of the financial year.

Management board and supervisory board

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

Members of the **Management Board**:

Mr. Johannes Heckmann
Industrial Engineer

Mr. Gerhard Witzany
Business Graduate

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

Supervisory Board

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

Dr. Leopold von Heimendahl (Chairman)

Engineer in retirement

Dr. Dieter J. Braun (Vice Chairman)
Chemist in retirement

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

The supervisory board members received total remuneration of EUR 42 thousand for the financial year 2010.

Schwandorf, March 2, 2011

Nabaltec AG

The Management Board

Johannes Heckmann Gerhard Witzany

Independent Auditor's Report

We have audited the annual financial statements – comprising the balance sheet, income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of Nabaltec AG, Schwandorf, for the financial year from January 1 to December 31, 2010. The bookkeeping and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of association are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB ("German Commercial Code") and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, Incorporated Association – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, results of operations and financial position in the annual financial statements in accordance with applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the annual financial statements and management report are examined primarily on a sample basis in the course of the audit. The audit includes assessing significant estimates made by the Management Board as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our audit findings, the annual financial statements of Nabaltec AG, Schwandorf, comply with the legal requirements and supplementary provisions of the articles of association and give a true and fair view of the Company's net assets, results of operations and financial position in accordance with these requirements. The management report is consistent with the annual financial statements and, as a whole, provides a suitable view of the Company's position, as well as the risks and opportunities of future development.

Nuremberg, March 10, 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann) (p.p. Sauer)
Auditor Auditor

Report of the Supervisory Board

Ladies and Gentlemen,
Dear Shareholders,

Nabaltec AG had a very successful year in 2010, not only making up its downturn from 2009 but also posting the highest revenues in company history. A very stable financial structure and strong liquidity, due in no small part to the successful 2010 bond issue, as well as the success of our new product applications, make us optimistic about the future. The strength of the global economy and growing demand in our customer industries allows us to look forward with confidence.

In this situation, we have consistently advised, monitored and supervised Management Board with utmost care, 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.

In the 2010 reporting year, the Supervisory Board convened for four regular sessions: on 15 April 2010, on 10 June 2010, after the Annual General Meeting, on 30 September 2010 and on 10 December 2010. No meetings were held in 2011 prior to the Supervisory Board meeting of 4 April, which votes on adoption of the financial statements. All members were present at each session in 2010. 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. Draft resolutions were approved in writing on three occasions in 2010.

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 2010 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's supervisory and control mandate. In the estimation of the Supervisory Board, a sufficient number of members may be viewed as independent, since two members of the Supervisory Board have no personal or business relationship with the company or with the Management Board. An agreement exists between Nabaltec AG and Professor Dr. Jürgen G. Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the past Financial Year, particularly the efficiency of its procedures and the timely supply of adequate information.

Focus of Deliberations

Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, we were kept informed e.g. of market trends, the competitive situation, the development of sales, revenues and earnings and the accomplishment of our objectives through monthly and quarterly reports. In addition, I, as Chairman of the Supervisory Board, kept myself constantly informed of the current course of business, major transactions and 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 development of revenues and earnings were routinely discussed at Supervisory Board sessions, as well as suitable measures to optimize revenue and earnings growth and the assets and financial position. In addition, intensive consideration was given to the following issues in 2010:

- the 2009 annual financial statements and consolidated financial statements;
- the issuance of bearer bonds, together with the application of funds and financial planning;
- corporate governance, particularly the future composition of the Management Board and Supervisory Board;
- market opportunities in connection with the new product segments;
- the course of business at Nashtec;
- planning for 2011 and mid-term planning through 2013;
- investment and financing planning for 2011-2013.

Another focus of our deliberations in 2010, as well as our supervisory and monitoring activity, especially in the session 2011 slated for adoption of the 2010 financial statements, was the effectiveness of 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 12 March 2010, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2010, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. Both boards discussed the changes to the German Corporate Governance Code as amended on 26 May 2010, especially in the session on 10 December 2010, in preparation for issuing the 2011 Declaration of Compliance. The Supervisory Board also formulated priorities and specific goals for its future composition. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

Management Board Compensation
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.

2010 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 2010. 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 2010 audit was the issuance of bearer bonds, including the accounting for issuing costs, the change in accounting practices in accordance with the Accounting Law Modernization Act (BilMoG) and the "procurement" and "inventory management" areas.

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 4 April 2011. 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 2010 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks go out to all of our employees who proved once again in 2010 just how innovative and successful Nabaltec can be.

Schwandorf, 4 April 2011

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

Declaration of Compliance with the German Corporate Governance Code for the 2011 Financial Year

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

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

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

members, the Supervisory Board currently deems the formation of committees to be neither necessary nor expedient, and since it works effectively as a complete body.

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

Schwandorf, 11 March 2011

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

***Nabal**tec* AG
Alustraße 50 – 52
92421 Schwandorf
Germany
Phone: +49 9431 53-0
Fax: +49 9431 53-260
www.nabaltec.de