

NABALTEC AG ANNUAL FINANCIAL STATEMENTS

2015



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Nabaltec

MANAGEMENT REPORT OF NABALTEC AG FOR THE FINANCIAL YEAR 2015

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE COMPANY'S BUSINESS MODEL

Business Operations

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide (ATH) and aluminum oxide. The company belongs to the world's leading suppliers of functional fillers, ceramic raw material and ceramic bodies. The production capacity entails approximately 250,000 tons per annum (t.p.a.) with an export share of around 70%.

The range of applications of Nabaltec products is highly diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment
- fillers and additives, e.g. flame retardants used in the electronics industry
- ceramic raw materials applied in the refractory industry, in technical ceramics and abrasives industry
- highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters

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

Nabaltec has fine precipitated aluminum hydroxide production sites in the two most important demand-driven markets in Europe and USA (i.e. in Schwandorf and Kelheim, Germany, and in Corpus Christi, USA). This permits Nabaltec to produce cost-efficiently in customer proximity and, therefore, to serve the most significant markets directly.

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

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

Corporate Structure

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

Nabaltec AG holds a 51% interest in Nashtec LLC (USA). Its partner, Allied Alumina LLC, holds a 49% interest. Nashtec LLC sources key raw materials, particularly the aluminum hydroxide required for the production of APYRAL®, from Sherwin Alumina LLC, a wholly-owned subsidiary of Allied Alumina LLC. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code (“Chapter 11 process”) at the United States Federal Bankruptcy Court in Corpus Christi, Texas, USA. However, that had no effect on the qualification of Nashtec LLC as a subsidiary of Nabaltec AG.

Nabaltec AG did not have any other participations or subsidiaries as at 31 December 2015.

In the first quarter of 2016, Nabaltec established a wholly-owned subsidiary, Nabaltec Asia Pacific K.K., based in Tokyo, Japan, which will market and distribute Nabaltec AG’s entire portfolio of products.

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

With the market segment “Environmental Engineering”, Nabaltec concentrates on the development of new raw materials for alternative energy storage, electro mobility and catalysis.

BUSINESS DIVISIONS

Functional Fillers:

- Flame Retardants
- Additives
- Environmental Engineering

Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS

Administrative Services

Controlling/Finance

Technical Services

Laboratory Services

1.2 OBJECTIVES AND STRATEGIES

For the further development of the company, Nabaltec AG focuses on the following objectives and core strategic areas:

1. Quality leadership and a market share among the respective top three suppliers in the target markets

Fire safety concerns within the plastics and cable & wire industry will continue growing dynamically in the years to come, which is supported by recent market research results by among others Roskill and Freedonia. 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 already 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 quality requirements. Markets for technical ceramics and the abrasives industry also continue showing solid growth. Nabaltec responds to this growth by further expanding its marketing activities.

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

2. Strategic positioning within growth markets

Environmentally friendly, non-toxic and highly safe products and processing solutions are globally advancing forward encouraged particularly through regulatory requirements or self-imposed commitments from the industry. With an export share of around 70%, we already profit from these worldwide trends. The aim of being the one of the world's top three suppliers in our own target markets goes hand in hand with the aim of being equally well represented across all global markets.

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

Through our constant exchange with our customers, the company's product and process development activities are continuously optimized and directed toward specific customer requirements. This does not only result in processing advantages for the customer, such as a simpler and faster fabrication, but rather also in cost advantages for Nabaltec, due to lower production and development costs. Therefore, Nabaltec continuously invests in its own technology as well as in internal research and development departments and the company has been collaborating with various research institutions already since several years.

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

4. Systematic expansion of our product range

Nabaltec develops its own product portfolio along three dimensions:

- through development of new products, often in close collaboration with key customers. Examples include boehmites and abrasive oxides
- through focused quality development of existent products that meet specific customer requirements
- through further development of existing products for the expansion of their application range

Thanks to our own testing facility in Kelheim, Nabaltec disposes over optimal development and production facilities for development activities and sample production of up to several hundred tons and for new product launches.

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

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

6. Securing future investments through a strong financial base

In order to take full advantage of market potential relating to both business divisions, further investments are necessary. This investment activity is at the same time a high market entry barrier for potential new suppliers. Such as to ensure the disposal over the required investment capital, Nabaltec focuses on a broad financing basis consisting of equity, bank loans, promissory note bonds and subsidies.

1.3 CONTROLLING

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

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

1.4 BASIS OF THE REMUNERATION SYSTEM FOR THE GOVERNING BODIES

Management Board

The management board contracts were rewritten on 14 July 2011 and amended for the last time on 3 December 2013 based on a resolution from the supervisory board. The remuneration for the board members encompasses fixed and variable components whereby the latter are in relation to the annual recurring business result and are tied to the fixed annual salary with an upper ceiling. This remuneration covers all activities of the respective management board members for the company and its subsidiaries and participations.

The basis for the variable remuneration is calculated as follows: the consolidated profit according to IFRS before taxes and considering minority interest after deducting prior year's loss carry forward, each board member is granted a bonus of 4% of an amount exceeding the 8.33 fold of the fixed salary. The variable remuneration is restricted to 100% of the fixed salary.

As a part of and in addition to the fixed salary the management board member is entitled to benefits like car usage, accident insurance, subsidies to health care and long term care insurance as would be legally required for employees as well as continued pay for a limited time for sick leave and in the event of death. In addition, upon retiring the managing board members will receive a pension amounting to 67% of their last fixed gross salary; further the bereaved spouse will be paid a widow's pension of up to 75% of the pension.

As part of a D&O insurance with an insurance coverage of up to EUR 17,500,000.00 the board members are insured up to the 1.5 fold of the respective annual fixed salary giving consideration to a 10% deductible of the damage as required by law.

Supervisory Board

Remuneration of the supervisory board members was rewritten for the last time by resolution at the shareholder meeting on 21 June 2012. Remuneration is comprised of a fixed amount of EUR 10,000.00 annually and an attendance fee of EUR 1,000.00 per meeting whereby the chairman is entitled to the 1.5 fold of the aforementioned amounts. In case the tenure of a board member starts or ends during the fiscal year, he is entitled to the fixed remuneration on a pro rata temporis basis.

In the interest of the company, the board members are covered by this D&O insurance with an insurance coverage of up to EUR 17,500,000.00 without any deductible. The insurance premiums incurred are borne by the company.

1.5 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. The most important element within the research and development strategy is the close collaboration and our joint development efforts with customers. In all our business divisions, the focus is clearly on delivering customers optimum products and supporting them so that they achieve a competitive advantage. As a leading supplier of highly specialized products, Nabaltec considers research and development to be one of its central core competencies.

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 at an early stage 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. Through the technically educated sales force and its high competence, at the same time Nabaltec is also in the position to quickly identify and actively promote new trends in mature and new sales markets.

To ensure continued success in a global market, the optimization of production processes is also a focus of research and development activities. Here, energy and resource efficiency are the key drivers.

Our historically grown, in-house expertise is effectively supplemented in some areas by joint projects with universities, public and private institutions, as well as research and technology companies. Research partners currently include RWTH Aachen University, the Fraunhofer Institute for Structural Durability, Synthetics Department, in Darmstadt, the Saechsische Textilforschungsinstitut e.V., the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the Forschungsinstitut für anorganische Werkstoffe – Glas/Keramik – GmbH in Höhr-Grenzhausen, the Fraunhofer Institute for Silicate Research in Wuerzburg, the Deutsche Institut für Feuerfest und Keramik GmbH in Höhr-Grenzhausen as well as the Study Group Fire Resistant in Höhr-Grenzhausen. Additionally, Nabaltec emphasizes innovation by participating in various projects of the AiF (Consortium of Industrial Research Associations) and the BMWi (Federal Ministry of Economics and Technology) in both of our business divisions.

Nabaltec's strong commitment to research and development is expressed in receiving various national and international awards and distinctions for innovation strength. For example, Nabaltec AG has already belonged eight times to Germany's top 100 innovative medium sized German companies and was distinguished several times for 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 all the time and thereby complement and expand the boundaries of our own product range within our target markets.

Our central focal points will be the further development of qualities as well as the identification and acquisition of new fields of operation.

During fiscal year 2015, the following topics played a central role in the research and development activities of the "Functional Fillers" business division:

The market for minerals based flame retardants still represents a considerable growth market particularly for Nabaltec's innovative and environmentally friendly products. During 2015, growth was guaranteed by the substitution of halogenated flame retardants through non-halogenated flame retardants. In addition, through implementation of the CPR (Construction Products regulation) within the EU a further growth impulse was triggered. Through this EU-wide regulation new so far non-accessible applications for Nabaltec's mineral products unfold. In the reporting year, central focus was placed on the consequent opening up for development of these new application areas with partially newly developed products. Especially strong emphasis was placed on the exhaust gas and waste gas corrosiveness subjects as part of CPR which are material drivers for new fields of operations and applications.

Thanks to the close connection of our strategic partner Sumitomo Chemical with OEMs in Japan, an aluminum hydroxide specially developed to meet the needs of the Asian tire industry was successfully tested, and the first small batches have been produced.

Our new raw materials for alternative energy storage as well as electro mobility were consistently developed and further commercialized in 2015. There is currently a focus on the development of large scale industrial processes to allow for the extension of activities in the area of catalysis and the adsorbents industry.

During the reporting year, focus was placed on the following developments for the "Technical Ceramics" business division:

A focus of development activities in the NABALOX® product segment in 2014 was the consistent development of abrasives already established in the market. Further special attention was placed on developing new softly calcined aluminum hydroxides used primarily in the high value abrasives area. In order to prepare for the large scale industrial market entry, research was conducted at customers and approvals were obtained. As a result of numerous suggestions and ideas from our customers and development partners, development work continued in 2015, resulting in additional customer-specific products.

The application of reactive aluminum oxides by Nabaltec lies mainly in the refractory industry, where the products already today significantly contribute toward the production of higher performance monolithic and formed products. As a result of constant development, we were able to introduce a further new quality to the market to supplement the portfolio.

In the scope of development work, a new product family was developed in 2014. As a result of market feedback and our aim to continuously work on new products, and optimize and adapt existing products, the product portfolio of this product line was successfully expanded in 2015.

In the area of the NABACAST® patented product group, further products have been developed and presented to customers. The customer feedback received to date shows that we have also made the correct decisions in this area. Ongoing development work to identify new potential applications continued.

We were able to offer our customers a further product in the area of Al₂O₃-rich refractory products in the shape of our NABALOX® K 85 synthetic refractory granules. We have also identified a number of applications for NABALOX® K 85 beyond its traditional areas of use. Initial customer tests have already confirmed or exceeded our expectations.

In very close cooperation with our customers, specific developments were again carried out in the area of the GRANALOX® product range. As a result of that intensive cooperation, a variety of product variants adapted to customer requirements were developed and successfully delivered.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

In 2013, a moderate increase in world production of 2.9% was realized, while an increase of 3.4% was recorded in 2014. That rate of growth was lower than originally expected. According to the Kiel Institute for the World Economy (IfW), in 2015 the world economy grew at a decreased rate of 3.1%. The feared economic collapse did not materialize. After world production picked up in the second half of 2014, the rate of growth slowed to 0.7% respectively in the first three quarters of 2015. The economic climate in the USA remained relatively stable; total GDP for 2015 increased by 2.5%, up from 2.2% in the prior year. In China the 6.8% increase in GDP was lower than the prior year's level of 7.4%, while India's GDP remained at the prior year's level of 7.2% (2014: 7.2%). The EURO zone economy again experienced moderate growth in the third quarter, thereby achieving positive growth for the tenth consecutive quarter. Growth in GDP in 2015 for the EURO zone increased by 1.5%, faster than projected a year ago, and a noticeable increase compared to the prior year (2014: -0.8%).

In 2015, the economic situation in Germany was characterized by solid and continuous growth. According to the initial calculations of the Federal Bureau of Statistics, the German economy's price adjusted GDP was 1.7% higher than in the prior year. GDP grew at a similar rate in the prior year (1.6%), while in 2013 the rate of growth was just 0.3%. A longer-term view shows that economic growth in 2015 was again above the ten-year average of 1.3%. The usage side of the GDP showed consumption to be the most important growth motor of the economy in 2015, but capital expenditures also grew. Exports and imports grew by 5.4% and 5.7% respectively, compared to the prior year, so the resulting export business rendered a comparatively low contribution to GDP growth in 2015.

2.1.2 INDUSTRY DEVELOPMENT

The year 2015 was a difficult one for the German chemical industry. While production increased slightly (+1.0%), sales stagnated due to the further decrease in manufacturers' prices (-2.5%). The total sales of the German chemical and pharmaceutical industry remained at the prior year's level, amounting to EUR 190.8 billion (source: German chemical industry association VCI – Verband der Chemischen Industrie e.V.).

The domestic sales of the German chemical industry fell by 1.5% compared to the prior year, to EUR 74.6 billion, as a result of decreasing prices. Compared to the prior year, exports grew by 1.0% to EUR 116.2 billion. While exports to west European countries (EU 15) decreased by 1.5%, the decreasing value of the euro relative to the dollar had a positive effect on exports: Sales to NAFTA-countries (“North American free trade Agreement”) could be expanded strongly (+13.0%). The pharmaceutical business, in particular, had a positive impact in this area. Sales also increased in Asia (+5.0%) and Latin America (+3.5%). Domestic capital expenditures for property, plant & equipment in the chemical industry amounted to EUR 7.2 billion (+1.0%), which hardly exceeded the level in the prior year, and the number of jobs only increased slightly, by 0.5% compared to 2014.

The long term trend of increasing demand for non-halogenated, flame-retardant fillers and in particular aluminum hydroxide is still intact. Independent forecasts assume an annual increase in worldwide demand of 6.7% till 2021 (on the basis of ATH, source: Freedonia). Market growth is especially stimulated by the growing public consciousness regarding fire safety as well as the ongoing replacement of potentially hazardous flame retardants with environmentally friendly, halogen-free aluminum hydroxide. This development has had a particularly positive effect on the fine precipitated aluminum hydroxide business line. In every quarter in 2015, Nabaltec could set forth the already very positive development of the prior year. According to Nabaltec AG, the long-term prospects for boehmite, with its numerous applications, remain good.

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand within the steel industry, which faced difficult overall conditions in 2015. Nabaltec was able to withstand the low demand from the steel industry by diversification of industry business lines and above average development of strong value adding products. Market experts also continue to expect an annual growth of around 3% for refractory products and technical ceramics (source: Roskill).

2.2 COURSE OF BUSINESS

In the fiscal year 2015, Nabaltec AG could tie into the already good development of the prior year and achieve improvements with the most important financial key numbers. During the year, sales stability developed on a high level and in all quarters exceeded the comparable numbers of the prior year. In total, 2015 revenues increased by 5.6% to EUR 151.3 million (2014: EUR 143.3 million). Operating profit (EBIT) decreased by 13.0% to EUR 8.7 million (2014: EUR 10.0 million). Equity grew by 4.4% to EUR 45.5 million (2014: EUR 43.6 million).

The communicated revenue and earnings forecasts (at the Group level) were met.

According to Management, Nabaltec AG’s market position was further improved in 2015. The respective numbers of leading positions amongst the top 3 in the relevant target markets were either confirmed or improved.

2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG

2.3.1 RESULTS FROM OPERATIONS

Nabaltec AG realized sales revenues of EUR 151.3 million in 2015, and therefore exceeded the prior year's level by a strong plus of 5.6% (2014: EUR 143.3 million). EUR/USD exchange rate effects supported the development of revenues in 2015. Turnover volume across all business areas increased slightly, by 2.5%. The export share increased to 72.3%, up from 71.6% in 2014.

All four quarters equally contributed to the good sales development. The first quarter of 2015 with sales of EUR 38.8 million exceeded prior year's very strong first quarter. Second quarter sales increased compared to the prior year and the preceding quarter, to EUR 39.0 million. In the second half of the year, the third quarter's EUR 37.6 million and fourth quarter's EUR 35.9 million again significantly exceeded the 2014 numbers.

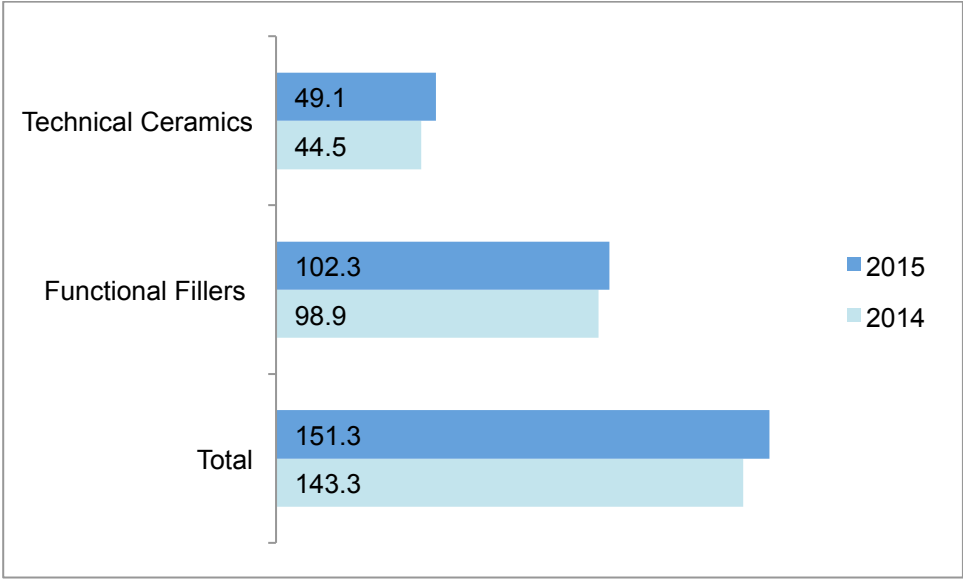
Throughout the year, orders amounted to EUR 155.0 million in total. As a result and compared to last year, a plus of 2.5% was gained. Nabaltec ended the financial year 2015 with an order backlog of EUR 25.9 million.

The division "Functional Fillers" increased its revenues in 2015 from EUR 98.9 million to EUR 102.3 million, an increase of 3.4% compared to prior year. This development primarily resulted from increased concentration on value adding product areas.

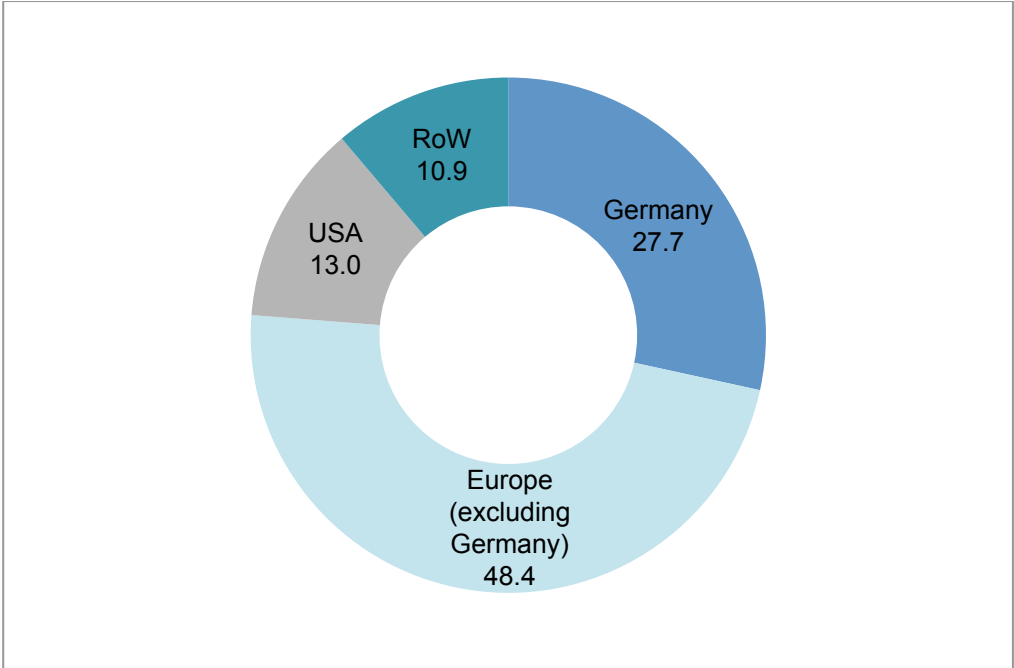
The US subsidiary, Nashtec, could further brace its market position. However, the bankruptcy proceedings under Chapter 11 of the United States Bankruptcy Code filed by Sherwin Alumina LLC could have a negative effect on the company (see report on subsequent events).

In 2015, the business division "Technical Ceramics" achieved revenues of EUR 49.1 million, compared to EUR 44.5 million in prior year, an increase of 10.3%. That increase was primarily due to increased sales volume and a shift towards high-margin product areas in the product mix.

Revenue by business division in 2015
(in EUR million)



Revenue by region 2015
(in %)



Nabaltec AG’s total performance increased in 2015 by 6.9% from EUR 142.8 million to EUR 152.7 million. This is mainly due to sales increases in combination with an increase in the level of finished goods and work in progress of EUR 0.9 million. Capitalized internally generated assets amounted to EUR 0.5 million.

Other operating income of EUR 2.8 million primarily consists of exchange rate gains and other income from goods and services delivered to third parties.

Operational expense ratios compared to total performance		
	2015	2014
Cost of materials	56.1%	55.8%
Personnel expenses	19.3%	18.4%
Other operating expenses	14.7%	14.7%

Compared to prior year, the cost-of-materials-ratio (compared to total performance) of 56.1% remained almost unchanged (2014: 55.8%). In absolute terms, gross profit exceeded the prior year by EUR 3.6 million with EUR 69.8 million in the reporting period and EUR 66.2 million in 2014.

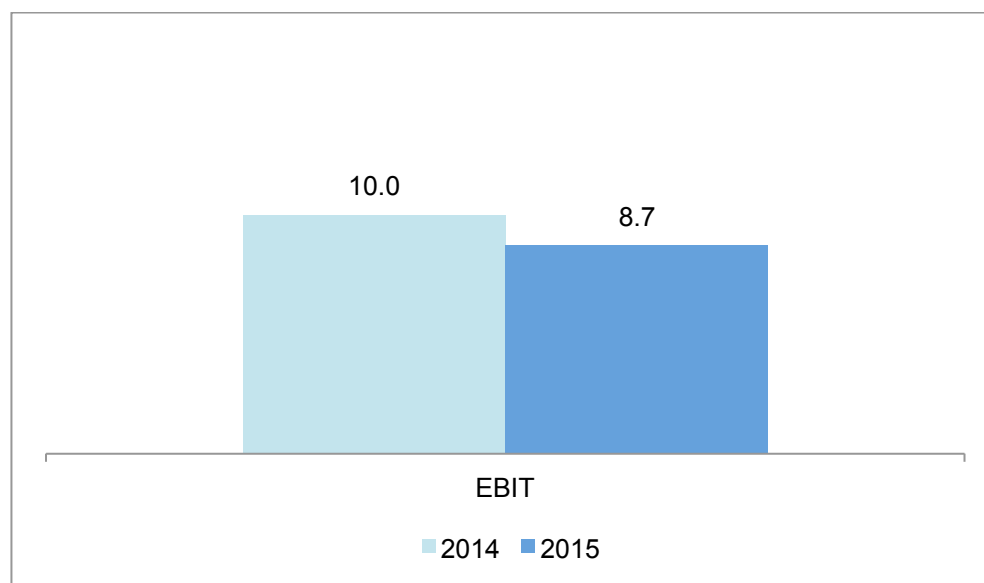
In 2015, the personnel-expenses-ratio (compared to total performance) of 19.3% increased from the prior year level of 18.4%. Included are the effects of a tariff increase and an increase in the number of employees from 422 per 31 December 2014 to 442 as per 31 December 2015.

Other operating expenses increased from EUR 21.0 million to EUR 22.4 million. The expense-ratio (compared to total performance) remained at the prior year's level of 14.7%. The significant cost ratios remained largely the same as in the prior year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 5.3% from EUR 18.9 million to EUR 17.9 million.

Taking into account the scheduled depreciation/amortization in the financial year 2015 in the amount of EUR 9.3 million, the operating result (EBIT) amounts to EUR 8.7 million, compared to EUR 10.0 million in prior year.

EBIT (in EUR million)



Results of ordinary business activity (EBT) in the reporting year amounted to EUR 5.7 million (2014: EUR 6.4 million). This includes the financial result 2015 of EUR -3.0 million. Last year's financial result was EUR -3.6 million. The improvement in the business year is mainly due to the lower interest expense due to partial repayment of the promissory note bonds from 2013, the issue of new promissory note bonds with improved conditions in the second quarter of 2015 and the redemption of existing bank loans.

Tax expense of EUR 2.6 million was incurred in the 2015 business year (2014: EUR 1.9 million).

Net profit for the period amounted to EUR 2.8 million (2014: EUR 4.2 million).

2.3.2 FINANCIAL POSITION

The financial management directly reports to the Management Board and is responsible for, concentrating on managing Nabaltec's capital structure, cash flow management, interest rate as well as currency hedging and fund raising. The US subsidiary, Nashtec, is integrated in the company-wide liquidity management.

Thanks to our own production in the USA by our subsidiary, Nashtec, Nabaltec was able to mainly eliminate exchange rate effects derived from fluctuations between US dollar and EURO. Nabaltec pursues a thorough currency hedging policy regarding any exceeding exchange rate risks, should market volatility or the volume of business transactions denominated in foreign currency require such measures.

Up to the balance sheet date, Nashtec was provided EUR 9.4 million (2014: EUR 8.5 million) in liquid funds. Interest rates and contract terms correspond to those standards used for middle-sized enterprises. In the case of debt financing with variable interest, Nabaltec from case to case avails itself of various interest rate hedging instruments with a middle and longer term fixed interest period (e.g. interest swaps).

Financing needs for Nabaltec's growth as well as for making its investments is primarily secured through bank loans and through promissory note bonds. Therefore, Nabaltec has at its disposal a balanced debt financing structure. Subsidies for EUR 4.15 million from the government of Upper Palatinate for investment projects were approved, of which EUR 3.15 million and EUR 1.0 million were disbursed in 2013 and 2015 respectively.

2.3.2.1 CAPITAL STRUCTURE

Shareholders' equity increased significantly in 2015, from EUR 43.6 million to EUR 45.5 million as of 31 December 2015. The equity ratio decreased, from 30.4% to 27.6% due to the increase in total assets. This capital base can continue to be considered as sound compared to the industry.

Liabilities increased in the reporting period, from EUR 79.4 million to EUR 94.7 million. This includes the promissory note bonds of EUR 76.5 million. Payables to banks increased by EUR 13.9 million as a result of the issue of new promissory note bonds. The retirement benefit obligation increased by EUR 4.0 million to EUR 18.5 in 2015. Trade payables increased from EUR 7.5 million to EUR 9.8 million.

Selected balance sheet items in relation to total assets	12/31/2015	12/31/2014
Equity	27.6%	30.4%
Provisions	14.9%	14.2%
Liabilities	57.5%	55.4%

Other off-balance sheet financing instruments

Nabaltec to a minor degree has entered into leasing contracts with a duration of up 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.

2.3.2.2 INVESTMENTS

In the reporting period, Nabaltec AG invested a total amount of EUR 12.8 million compared to prior year's EUR 8.4 million (respectively net of offsetting the portion of the investment grant). The majority of investments related to technical equipment and machinery for the enlarging of capacities, process optimization and replacement investments.

2.3.2.3 NET ASSETS

Nabaltec AG's total assets increased as at 31 December 2015 from EUR 143.2 million to EUR 164.7 million.

Significant assets in relation to total assets

	12/31/2015	12/31/2014
Fixed assets	52.4%	58.0%
thereof: property, plant and equipment	46.3%	51.6%
Current assets	47.6%	42.0%
thereof: inventories	16.0%	17.2%

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

In addition to the performance figures of Nabaltec AG already published in the financial report (see sections 2.2 Course of Business and 2.3 Overview of the Course of Business), the following financial performance indicators to manage the company are used. This internal controlling and management system enables the company to pursue value-based management.

Significant profitability figures at Nabaltec AG:

Return on sales and capital	2015	2013
Return on equity	6.2%	9.6%
Return on Capital Employed (ROCE)	8.1%	9.8%

Return on equity, consisting of the ratio of net profit to equity, amounted to 6.2% in the reporting period and was therefore below the prior year value of 9.6%. The main reason for this is the decrease in net profit year on year.

Return on Capital Employed (ROCE) compares EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 8.1% after 9.8% in prior year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

At the end of 2015, Nabaltec AG employed in total 442 employees (31 December 2014: 422). All employees are employed in Germany. This figure includes 48 apprentices (31 December 2014: 50). Nabaltec sets a high value on sound professional training. Therefore, also in 2015, the rate of apprentices of 10.8% traditionally represented a remarkably large portion of the workforce. This rate also exceeded the industry average significantly in 2015. Nabaltec's apprentices regularly belong to the best of their class. The company currently has vacancies relating to training positions for male or female industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

Nabaltec AG regularly belongs to the 100 best employers in the German middle market, according to the national multi-sector company comparison 'TOP JOB'. Such distinctions, which Nabaltec received for the fourth time in 2015 indicate how seriously the company takes its responsibility towards its employees. Nabaltec's central concern is to offer its employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees' corporate identity, commitment and involvement.

Customer Relations

Over the last few years, Nabaltec was able to again strengthen its own market standing. Imperative arguments in collaboration with customers are proven delivery reliability and quality consistency. Nabaltec has 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.

Also, due to the consequent development of consulting expertise in technical and personnel investments for R&D, Nabaltec excels as a competent and potent supplier.

In order to secure a 360 degree access to markets and technologies, Nabaltec is engaged in several European associations. In addition to the two Cefic-professional groups pinfa & EPSA, Nabaltec is also involved with the Research Foundation Plastics e.V. In the USA, Nabaltec is involved in the pinfa North America. Through these engagements, very early larger trends in the main sales markets "ceramics" and "flame retardants" become accessible to Nabaltec on a global scale and enable Nabaltec to react early on.

Prerequisite for Nabaltec's market success are products of the ongoing optimal quality, developed, optimized and delivered in need-based numbers of units over a long period of time based on specific customer needs. The company's products are continuously geared so as to help our customers make safer, environmentally friendlier, more robust and competitive products and simultaneously optimize customer production processes. Therefore, joint development projects as well as business relations result in long term supply contracts and sustainable co-operations. Particularly regarding to new products, Nabaltec often has to go through a long and thorough release-process with customers. In most cases, the successful conclusion results in long term supply agreements on the basis of reliable conditions and quantities.

Management Systems

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and workmen's compensation board requirements, Nabaltec already decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001, respectively, ISO 14001, to also introduce a health and safety management system in compliance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series). In 2015, a monitoring audit of the existing management systems based on ISO 9001 and ISO 14001 was performed in the Schwandorf and Kelheim locations. On the site in Corpus Christi, a monitoring audit on the quality management system (ISO 9001) was also successfully conducted. Within the context of a reoccurring audit, recertification was conducted for the occupational and health management system in accordance with BS OHSAS 18001.

In order to be able to effectively meet the requirements of a continuously changing energy market, Nabaltec AG already introduced a certified energy management system in the year 2010. In 2015 a monitoring audit of ISO 50001 took place at the locations in Schwandorf and Kelheim.

Environmental Protection

Nabaltec requires its own products to significantly contribute toward environmental protection and toward the improvement of the eco balance of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. For instance, they replace heavy metal-based additives, such as lead, and halogenated flame retardant components, such as bromine, in plastics. In this respect, it is of central importance that research and development, production as well as up and downstream logistics are conducted as environmentally friendly as possible. The conservation of natural resources is of central concern for Nabaltec and a prerequisite for the social acceptance of the company. Nabaltec AG actively accepts responsibility for the environment; a commitment that extends well beyond her own sites. The production expansion related to products requiring large amounts of washing water and the increased quality demands led to a higher water usage. Reducing water usage even further is a future target.

As in prior years, special emphasis was placed on optimizing energy processes in production, as a means of cutting costs. Also in 2015, many projects were performed in this area. Through joint efforts with external partners, Nabaltec developed techniques requiring much less process energy, leading to a substantial reduction in CO2 emissions. Participation continues in the task force energy management of "Bayern Innovativ GmbH". 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. Regarding the handling of chemicals, e.g. sodium hydroxide solution, which is required for the production of fine hydroxide, Nabaltec consequently seeks to prevent the dispersion thereof into the environment. Rather, we ensure that such chemicals can be completely used for the re-employment in an entirely closed production cycle.

Capital Market

Since the initial public offering in 2006, Nabaltec has an intact access to the capital market. This is proven by the bond offering in 2010 as well as the promissory note bonds in 2013 and 2015. This market access, 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.

3. REPORT ON SUBSEQUENT EVENTS

The following events that have a significant impact on Nabaltec AG's net assets, financial position or earnings capacity occurred subsequent to the balance sheet date 31 December 2015.

Nabaltec AG holds a 51% interest in Nashtec LLC (USA). Its partner, Allied Alumina LLC, holds a 49% interest. Nashtec LLC sources key raw materials, particularly the aluminum hydroxide required for the production of APYRAL®, from Sherwin Alumina LLC, a wholly-owned subsidiary of Allied Alumina LLC. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code ("Chapter 11 process") at the United States Federal Bankruptcy Court in Corpus Christi, Texas, USA. Sherwin Alumina LLC continues to conduct business as usual, so that Nashtec has not yet been impacted with regard to production and deliveries to customers.

The further development of the situation at Sherwin Alumina LLC, especially the results of the Chapter 11 process, cannot be estimated reliably at this point in time. Nabaltec AG is reviewing and developing courses of action for potential scenarios with the support of legal and business consultants in order to minimize any negative effects on Nashtec LLC and Nabaltec AG. In particular, Nabaltec AG is developing alternatives in order to be able to continue delivering to customers in the event of production disruptions at Nashtec LLC due to a lack of raw materials. From today's standpoint, Nashtec LLC's business operations could be impacted. It cannot be excluded that Sherwin Alumina LLC's Chapter 11 process will have a negative effect on revenues and net profit of Nashtec, and also Nabaltec AG, starting in the 2016 financial year. Nabaltec AG's continued existence is not threatened by this situation.

In the first quarter of 2016, Nabaltec established a wholly-owned subsidiary, Nabaltec Asia Pacific K.K., based in Tokyo, Japan, which will market and distribute Nabaltec AG's entire portfolio in Asia and will closely cooperate with the regional distribution partners.

4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

4.1 OUTLOOK

Overall statement on the prospective development

For its own products, Nabaltec also foresees intact sales markets in 2016, as well as stable demand, if the market environment does not change fundamentally. The company has taken a top international position within its markets. Thanks to the further expansion of its market position in 2015 and the reputation built up over a longer period, Nabaltec sees good future prospects for its own key products.

Economic and industry development

The global economy expanded slowly in 2015. According to the Kiel Institute for the World Economy (IfW), the economy will recover gradually in the next two years, but show little momentum at first. The IfW expects the global GDP to grow by 3.4% in 2016. Growth in Asia is expected to be over-proportional at 6.3%, while a plus of 2.8% is expected in the USA. As per the IfW, economic growth should strengthen gradually in the advanced economies in the next two years. An overall continuation of expansive monetary policy and incentives provided by the oil prices should continue to support the economy in the upcoming year and bear fruit considering the continuing debt relief processes within the private sector. Growth in emerging markets will continue to be subdued for the time being by low prices for raw materials and structural problems.

For the EURO zone, after a decline of 1.5% in 2015, IfW anticipates an increase in economic performance of 1.7%. The EUROFRAME Group experts expect a somewhat better GDP of 1.8% for 2016. This is based on the continuation of highly stimulating monetary policy, a weak euro, the lack of fiscal restrictions on budget consolidation and the still low oil price. According to EUROFRAME, the mere moderate increase in the growth rate despite these factors is primarily due to the global economy's lack of momentum.

IfW foresees the German economy to grow slightly by 2.2% in 2016. Deutsche Bank is (DB) somewhat more cautious and anticipates a plus of 1.9%, while assuming that exports will no longer contribute to growth based on the ongoing weaker world trade, lack of economic momentum in important emerging markets and less significant euro depreciation.

GDP Growth Forecast		
in % compared to prior year	2016	2017
World	3.4	3.8
USA	2.8	3.0
EURO zone	1.7	2.0
Germany	2.2	2.3
France	1.2	1.4
Italy	1.4	1.7
Great Britain	2.3	2.3
Japan	1.0	0.5
China	6.5	6.3
India	7.2	7.5

Source: IfW, "Weltkonjunktur im Winter 2015", 11 December 2015

Based on the economic stabilization in Europe, the robust upward trend in the US and the ongoing demand in Asia, VCI (Verband der Chemischen Industrie e.V.) also expects a 1.5% increase in chemical production in Germany for 2016. In view of a consistent price level, total sales are also expected to rise by 1.5% to EUR 193.6 billion, which should be driven primarily by international business.

In Nabaltec's opinion, the prospects in the most important target markets are quite positive. Political requirements globally result in additional stimuli for environmentally friendly flame retardants. The German construction industry as well as the automotive industry continues to appear stable. Also in 2015, the Consumer electronics sector clearly remained behind expectations. The cable industry benefits from temporary booms, e.g. the expansion of the electricity network, specifically through the connection of locally generated renewable energy, such as wind and solar power. The cable industry will therefore increasingly demand high-quality, halogen-free, flame-retardant solutions – Nabaltec AG's domain.

Outlook on the course of business

For 2016, Nabaltec intends to remain on its moderate growth course. The start in 2016 set off positively. The increase in revenue shall primarily be achieved via growth in quantities and growth in higher value-added products. From today's standpoint, it cannot be excluded that the business operations of our US subsidiary, Nashtec LLC, will be impacted by raw materials supplier Sherwin Alumina LLC's bankruptcy process according to Chapter 11 of the US Federal Bankruptcy Code.

Order backlog per 31 December 2015 amounted to EUR 25.9 million.

In the business division "Functional Fillers", the product range relating to fine hydroxide will continue to be by far the most significant product line in 2016, with good growth prospects at the same time. The growth drivers remain unchanged and intact, particularly in the areas in which the substitution of applied halogenated material is the focus. For 2016, Nabaltec also expects triggers from the product ranges relating to mullite and ceramic masses.

Expected earnings, net assets and financial position

Based on the unforeseeable development of the situation at Sherwin Alumina LLC with regard to its Chapter 11 process, a reliable forecast of the earnings, net assets and financial position of Nabaltec AG for the 2016 financial year is not possible at this time.

Capital expenditures for 2016 are expected to increase compared to the prior year level. Investment priority lies in the expansion of infrastructure and the optimization of processes.

The financial result in 2016 shall continue to improve compared to prior year. Nabaltec will redeem payables as scheduled in the amount of approximately EUR 11 million.

Note with respect to uncertainties in the outlook

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

4.2 RISKS AND OPPORTUNITIES REPORT

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, such 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 Nabaltec's strong market position as innovation and quality leader as well as the continuous monitoring of target markets, such risks can be confined and the corresponding market mechanisms can, at the same time, be used as an opportunity within global competition.

Procurement Market

Nabaltec monitors its suppliers' economic situation very closely and deliberately builds up alternatives for all products. For the procurement of raw materials, Nabaltec AG operates on the basis of medium and long term contracts. The supply of the most important energy sources such as electricity, gas and vapor for the production process is secured by long term agreements. The accrediting of the energy management system in accordance with ISO 50001 supports these efforts. In addition, permanent efforts are being made to optimize production processes in order to reduce the specific energy usage. An additional risk is the more disproportional increase in logistics costs. On the one hand, Nabaltec AG can counter this risk by passing on logistics costs to customers, and on the other hand, by finding a balanced logistics mix. For example, Nabaltec AG has own railway siding, which makes transport per rail very attractive.

The arrangement in the US is a special situation: Nashtec LLC is directly connected to Sherwin Alumina LLC in view of the supply of raw materials. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code ("Chapter 11 process") at the United States Federal Bankruptcy Court in Corpus Christi, Texas, USA. Sherwin Alumina LLC continues to conduct business as usual during the bankruptcy process. According to the current assessment, Nashtec LLC will be supplied with aluminum hydroxide pursuant to the existing supply contract until Sherwin Alumina LLC's business operations are sold within the context of the bankruptcy process. Any further forecasts are not possible from today's standpoint.

Financial Market

If necessary, exchange rate risks are specifically restricted by hedging instruments covering risks arising from US dollar exposure. In the case of medium term financing, interest risks are hedged by swaps or credit agreements with fixed interest rates are entered into. Nabaltec AG as well as its US subsidiary have at their disposal a detailed financial and liquidity budget which is monitored periodically by a target-actual comparison. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. Interest rate fluctuations are partially covered by hedge instruments. Credit agreements of Nabaltec AG are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period, covenants valid as at 31 December 2015 were not violated.

Factoring contributed towards financing a majority of the receivables.

Personnel

Particularly the fluctuation of employees in key positions gives rise to personnel risks. Nabaltec responds to these risks through various measures: intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, employee substitution arrangements that govern the temporary replacement of key employees, and early advance plans for successors. Furthermore, the company offers good career prospects and advancement possibilities. Our market position, the earned reputation in the industry, the high degree of reliability and the well-known focus in our research and development activities contribute toward making Nabaltec an attractive employer within its own market segments and region.

Production, Process and IT AREA

Nabaltec disposes of an integrated quality management system with ISO 9001 accreditation that is put to practice company-wide. Therefore, Nabaltec considers the production-specific risks clear and 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 data protection directive which is based on the most recent legal framework is guaranteed at all times within the company and is additionally monitored by an external data protection official.

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 counters these risks by means of extensive environmental management based on ISO 14001, which is accredited and is periodically further developed and audited. Nabaltec's production processes are based on closed circuits, e.g. for water and lye.

Technological Development

Potential technological risks could result from customers substituting Nabaltec products due to a change in technology, from the disuse of newer technology or from not recognizing technological development. As the innovation leader, Nabaltec tries to minimize these risks by engaging in continuous and intensive research and development efforts, by maintaining pronounced 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 occupying new markets through fast-pace product adjustments and by creating process and quality advantages together with our clients; thereby, setting the stage for economic success.

Legal Framework

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

Nabaltec's with its intensive usage of electricity faces international competition and will be favored by the EEG levy in 2016 as well. However at Nabaltec, the provisions of the EEG 2014 will lead to an increase of the EEG expenses by a low six-digit amount.

Risk Management System

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 as well as the complexities of the global economy. Nabaltec AG's success considerably depends on recognizing the related 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, completely 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 the managing directors and management and discussed by the management circle. 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 provisions and 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 reviewing the efficiency of applied hedging instruments and the reliability of controlling systems. There is insurance coverage for casualty and liability risks, thus limiting the financial consequences for the company's liquidity, financial position and earnings as well as preventing situations that could jeopardize the continued existence of the company.

Overall assessment

Due to our continuous surveillance of relevant markets, as described above, as well as the constant efforts to improve our products and adapt to the needs of existing and potential customers, the company's future development is currently not exposed to any significant risks, except the risks described above associated with Nashtec based on the Chapter 11 process of raw materials supplier Sherwin Alumina LLC. On the whole, the company's risks are well-managed and their potential impact is therefore limited. Nabaltec AG's future existence is secured.

5. CORPORATE GOVERNANCE STATEMENT AND REPORT

The activities of Nabaltec AG's executive and supervisory committees are governed by the principles of responsible management. Since the company is listed on the Open Market of the Frankfurt stock exchange with admission to the Entry Standard, 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) – simultaneously also for the Supervisory Board. The declaration is published on the company's website www.nabaltec.de under Investor Relations/Corporate Governance.

Schwandorf, 1 March 2016

Nabaltec AG

The Management Board

Johannes Heckmann

Gerhard Witzany

Balance Sheet as of December 31, 2015, Nabaltec AG, Schwandorf

ASSETS	12/31/2015	12/31/2014	EQUITY & LIABILITIES	
	EUR '000	EUR '000	12/31/2015	12/31/2014
			EUR '000	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	324	308		
2. Advance payments	125	65		
	449	373		
II. Property, Plant and Equipment				
1. Land, leasehold rights and buildings, including buildings on non-freehold land	15,458	15,641		
2. Technical equipment and machinery	50,012	51,606		
3. Other fixtures, fittings and equipment	2,665	2,599		
4. Advance payments as well as plant and machinery under construction	8,080	4,049		
	76,215	73,895		
III. Financial Assets				
1. Shares in affiliated companies	163	163		
2. Loans to affiliated companies	9,382	8,521		
	9,545	8,684		
	86,209	82,952		
B. CURRENT ASSETS				
I. Inventories				
1. Raw materials and supplies	14,018	13,217		
2. Finished goods and purchased products	12,413	11,345		
	26,431	24,562		
II. Accounts Receivable and other Assets				
1. Trade receivables	5,202	4,551		
2. Other assets	6,378	5,621		
	11,580	10,172		
III. Cash and cash equivalents	40,369	25,469		
	78,380	60,203		
C. PREPAID EXPENSES	81	94		
	164,670	143,249		
			45,478	43,599
			5	6
			18,535	14,482
			1,565	1,377
			4,415	4,422
			24,515	20,281
			82,830	68,939
			9,772	7,490
			291	595
			1,779	2,339
			94,672	79,363
			164,670	143,249

Income Statement, Nabaltec AG, Schwandorf
for the period January 1 to December 31, 2015

	01/01 - 12/31/2015		01/01 - 12/31/2014	
	EUR '000	EUR '000	EUR '000	EUR '000
1. Revenue		151,346		143,335
2. Change in finished goods		869		-867
3. Other capitalized own services		450		364
Total performance		152,665		142,832
4. Other operating income		2,815		3,068
- thereof exchange rate differences: EUR 1,628 thousand (PY: EUR 1,536 thousand)				
		155,480		145,900
5. Cost of materials:				
a) Cost of raw materials and supplies and purchased goods	84,814		78,679	
b) Cost of purchased services	870	85,684	1,047	79,726
Gross profit		69,796		66,174
6. Personnel expenses:				
a) Wages and salaries	21,930		20,869	
b) Social security and other pension costs	7,509		5,433	
- thereof for pension costs: EUR 3,640 thousand (PY: EUR 1,847 thousand)				
7. Amortization/Depreciation of intangible assets and property, plant and equipment	9,271		8,961	
8. Other operating expenses	22,429	61,139	20,960	56,223
- thereof exchange rate differences: EUR 415 thousand (PY: EUR 292 thousand)				
		8,657		9,951
9. Income from securities and loans (financial assets)	242		182	
- thereof from affiliated companies: EUR 242 thousand (PY: EUR 182 thousand)				
10. Interest and similar income	135		30	
11. Interest and similar expenses	3,330		3,808	
- thereof for compounding interest: EUR 740 thousand (PY: EUR 715 thousand)				
Financial result		-2,953		-3,596
12. Result from ordinary operating activities		5,704		6,355
13. Exceptional expenditures	267		267	
14. Exceptional result		267		267
		5,437		6,088
15. Income taxes	2,547		1,851	
16. Other taxes	51	2,598	50	1,901
17. Net result for the year		2,839		4,187
18. Profit carried forward		3,815		588
19. Accumulated profit		6,654		4,775

Statement of changes in non-current assets, Nabaltec AG
for the period January 1 to December 31, 2015

	Historical Cost					Cumulative Depreciation/Amortization					Book Value	Book Value
	January 1, 2015	Additions	Transfers	Disposals	December 31, 2015	January 1, 2015	Additions	Appreciation	Disposals	December 31, 2015	December 31, 2015	December 31, 2014
	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	2,573,399.78	85,674.73	65,261.97	38,714.72	2,685,621.76	2,265,222.25	134,631.41	0.00	37,755.35	2,362,098.31	323,523.45	308,177.53
2. Advance payments	65,261.97	125,226.86	-65,261.97	0.00	125,226.86	0.00	0.00	0.00	0.00	0.00	125,226.86	65,261.97
	<u>2,638,661.75</u>	<u>210,901.59</u>	<u>0.00</u>	<u>38,714.72</u>	<u>2,810,848.62</u>	<u>2,265,222.25</u>	<u>134,631.41</u>	<u>0.00</u>	<u>37,755.35</u>	<u>2,362,098.31</u>	<u>448,750.31</u>	<u>373,439.50</u>
II. Property, plant and equipment												
1. Land, leasehold rights and buildings on non-freehold land	22,404,073.14	534,766.20	15,643.87	234,594.97	22,710,888.24	6,762,641.46	712,353.03	0.00	222,312.62	7,252,681.87	15,458,206.37	15,641,431.68
2. Technical equipment, plant and machinery	111,229,247.58	4,290,338.09	1,855,395.36	219,565.51	117,155,415.52	59,623,773.15	7,739,207.50	0.00	219,562.96	67,143,417.69	50,011,997.83	51,605,474.43
3. Other fixtures, fittings and equipment	7,923,024.43	751,480.09	46.10	127,099.18	8,547,451.44	5,324,260.04	685,074.38	0.00	126,793.31	5,882,541.11	2,664,910.33	2,598,764.39
4. Advance payments as well as plants and machinery under construction	4,048,983.44	5,901,760.03	-1,871,085.33	0.00	8,079,658.14	0.00	0.00	0.00	0.00	0.00	8,079,658.14	4,048,983.44
	<u>145,605,328.59</u>	<u>11,478,344.41</u>	<u>0.00</u>	<u>590,259.66</u>	<u>156,493,413.34</u>	<u>71,710,674.65</u>	<u>9,136,634.91</u>	<u>0.00</u>	<u>568,668.89</u>	<u>80,278,640.67</u>	<u>76,214,772.67</u>	<u>73,894,653.94</u>
III. Financial assets												
1. Shares in affiliated companies	162,930.73	0.00	0.00	0.00	162,930.73	0.00	0.00	0.00	0.00	0.00	162,930.73	162,930.73
2. Loans to affiliated companies	8,535,230.44	1,149,797.73	0.00	303,135.39	9,381,892.78	14,442.43	0.00	14,442.43	0.00	0.00	9,381,892.78	8,520,788.01
	<u>8,698,161.17</u>	<u>1,149,797.73</u>	<u>0.00</u>	<u>303,135.39</u>	<u>9,544,823.51</u>	<u>14,442.43</u>	<u>0.00</u>	<u>14,442.43</u>	<u>0.00</u>	<u>0.00</u>	<u>9,544,823.51</u>	<u>8,683,718.74</u>
	<u>156,942,151.51</u>	<u>12,839,043.73</u>	<u>0.00</u>	<u>932,109.77</u>	<u>168,849,085.47</u>	<u>73,990,339.33</u>	<u>9,271,266.32</u>	<u>14,442.43</u>	<u>606,424.24</u>	<u>82,640,738.98</u>	<u>86,208,346.49</u>	<u>82,951,812.18</u>

Nabaltec AG, Schwandorf

Notes for the financial year 2015

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 Modernization of Accounting Regulations ("Bilanzrechtsmodernisierungsgesetz", also referred to as "BilMoG") effective 25 May 2009. The amended provisions were adopted for the first time in the financial year 2010. Additionally, the provisions of the German Stock Corporation Act (hereafter referred to as "AktG") and the Articles of Association were complied with. The total cost method was applied to the income statement.

Nabaltec AG, Schwandorf, is a large corporation as defined by Section 267 Paragraph 3 HGB.

Basic principles, methods and significant accounting policies

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

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

Property, plant and equipment are carried at cost less scheduled 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"). Depreciation is recognized pro rata temporis in the year of acquisition. Long term production costs contain interest on borrowed capital. Independently usable minor 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.

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 strict lower of cost or 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 strict 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. Specific allowances for doubtful debts are recognized for receivables based on estimated individual, irrecoverable amounts. No lump sum allowance on receivables was 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 amortized periodically.

Deferred taxes are determined for temporary differences arising between commercial and tax valuation of assets, liabilities and prepaid items. The determination of deferred taxes is based on the combined income tax rate of currently 28.08%. The combined income tax rate encompasses corporate income 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 would not be exercised. In the financial year, a deferred tax asset (not capitalized) arose.

Subscribed capital is carried at nominal value.

Investment grants for property, plant & equipment 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 3.95% p.a. on the basis of the mortality tables 2005 G of Prof. Dr. Klaus Heubeck. By virtue of the right of choice according to Article 67 Paragraph 1 Sentence 1 of the Introductory Law to the German Commercial Code (hereafter referred to as "EGHGB") and as in prior years, EUR 267 thousand was transferred to the retirement benefit obligation in the financial year (1/15 of the balance determined as at 1 January 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. In valuing the amounts required to settle the obligation, necessary cost increases are included. Other provisions with a remaining term of more than one year are shown at respective discounted values with a discount rate published by the Federal Reserve Bank.

Payables are measured at their amounts repayable.

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

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

Derivative financial instruments are each measured at fair value as at the balance sheet date. Underlying transactions are measured as a valuation unit with their corresponding hedging transactions if according to Section 254 HGB the prerequisite conditions for measurement based on a valuation unit are met.

Notes to the balance sheet

Non-current assets

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

In the reporting period, interest on borrowed capital in the amount of EUR 172 thousand was included in cost of production.

Receivables and other assets

Other assets consist mainly of receivables from factoring (EUR 2,873 thousand), VAT-return claims (EUR 2,911 thousand), a petroleum tax-return claim (EUR 252 thousand), as well as an electricity tax-return claim (EUR 283 thousand). Receivables and other assets have a term to maturity of less than one year.

Prepaid expenses

Prepaid expenses amounting to EUR 81 thousand consist of expenses paid in advance for the coming financial year.

Equity

a) Subscribed capital EUR 8,000,000.00

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

b) Authorized capital

As of 31 December 2015, the following capital was authorized
(Expires 8 June 2016) EUR 4,000,000.00

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

c) Conditional capital EUR 4,000,000.00

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

d) Capital reserve EUR 30,824,219.38

As of 31 December 2015, the capital reserve amounts to EUR 30,824 thousand (PY: EUR 30,824 thousand).

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

e) Accumulated profits	EUR 6,653,903.55
1 January 2015	EUR 4,774,474.41
Dividend according to shareholder resolution	EUR -960,000.00
Net annual profit 2015	<u>EUR 2,839,429.14</u>
31 December 2015	<u>EUR 6,653,903.55</u> =====

Non-current assets investment grants

The special balance sheet item non-current assets investment grants is amortized over the useful lives of the subsidized assets.

Retirement benefit obligation

The retirement benefit obligation has been measured in accordance with the 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. 3.95%, rate of compensation increase p.a. 2.75% and rate of pension increase p.a. 2.00%. The interest rate used for discounting is based on the average market interest rate from the last 7 years 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 1 January 2010 results in a difference of EUR 4,009 thousand; in the reporting period, an amount of EUR 267 thousand (1/15 according to Article 67 Paragraph 1 Sentence 1 EGHGB) was transferred to the retirement benefit obligation as in prior years, the remaining shortfall as at 31 December 2015, therefore amounts to EUR 2,405 thousand.

To safeguard direct pension commitments, pension plan reinsurances have been pledged, hence providing security against other creditors. Therefore, the liabilities can be netted against the corresponding assets as well as the expenses can be netted against the corresponding income. Insofar, the asset value of the pension plan reinsurance amounting to EUR 1,617 thousand has been netted with the repayable amount of the provision in the amount of EUR 20,152 thousand, resulting in a net amount in the balance sheet of EUR 18,535 thousand as per the balance sheet date. The line item interest and similar expenses include gains arising from the reinsurance in the amount of EUR 127 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 2,624 thousand) and invoices not yet received (EUR 1,411 thousand).

Provisions for anniversary benefits are measured based on the PUC method applying an interest rate of 3.95% p.a. and a rate of compensation increase of 2.75% p.a.

Payables

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

(Prior year figures in parentheses)

	Total amount	Terms to maturity			Collateralized amounts	Type of collateralization
		< 1 year	1 – 5 years	> 5 years		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	
Payables to banks	82,830 (68,939)	11,330 (8,086)	32,500 (43,853)	39,000 (17,000)	5,853 (13,939)	Land charges, security assignment
Trade payables	9,772 (7,490)	9,772 (7,490)	0 (0)	0 (0)	0 (0)	
Payables to affiliated companies	291 (595)	291 (595)	0 (0)	0 (0)	0 (0)	
Other payables	1,779 (2,339)	1,779 (2,339)	0 (0)	0 (0)	0 (0)	
	94,672 (79,363)	23,172 (18,510)	32,500 (43,853)	39,000 (17,000)	5,853 (13,939)	

Liabilities increased during the financial year, mainly due to taking up long-term bank debt, including promissory notes.

Payables to banks mainly relate to loans taken out at standard market interest rates. The fair value corresponds to the carrying amount.

A bank loan of EUR 5,000 thousand was repaid prematurely on 31 March 2015.

In April 2015, Nabaltec AG successfully issued a promissory note amounting to EUR 70,000 thousand and secured financing at improved conditions over the long term. The issue of the promissory note was performed in various tranches with five and seven year terms at variable interest rates, for which hedges were concluded.

The promissory note issue enables Nabaltec AG to finance upcoming projects, expand its scope for action with higher liquidity, optimize financing structure as well as improve financial results. In this context, Nabaltec AG prematurely terminated part of the promissory note that was issued in October 2013 in the amount of EUR 50,000 thousand as of 23 April 2015. The part of the loan terminated was subject to variable interest rates with terms of five and seven years amounting to EUR 43,500 thousand.

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 853 thousand as at 31 December 2015, were classified as other payables. These grants relate to an investment subsidy approved in September 2013 for EUR 4,150 thousand of which a partial amount of EUR 3,150 thousand was paid on 3 December 2013. The remaining amount of EUR 1,000 thousand was paid on 29 December 2015.

Notes to the income statement

Revenue

Revenue by geographical location is specified below:

	2015		2014	
	EUR '000	%	EUR '000	%
Germany	41,888	27.7	40,744	28.4
Rest of Europe	73,203	48.4	68,541	47.8
USA	19,708	13.0	18,016	12.6
RoW	16,547	10.9	16,034	11.2
	151,346	100.0	143,335	100.0

Revenue by business division:

	2015		2014	
	EUR '000	%	EUR '000	%
Functional Fillers	102,275	67.6	98,850	69.0
Technical Ceramics	49,071	32.4	44,485	31.0
	151,346	100.0	143,335	100.0

Other operating income

Other operating income includes the gains arising from exchange rate differences in the amount of EUR 1,628 thousand.

Extraordinary expenses

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

Other disclosures

Disclosures relating to off-balance sheet transactions

In order to improve the Company's liquidity position, Nabaltec entered into lease agreements with an annual expense of EUR 139 thousand and sold receivables to a factor in the amount of EUR 16,848 thousand. In 2015, the transfer of payment risks to the factor based on the factoring agreement are offset by the processing and pre-funding of the sale of the receivables amounting to EUR 199 thousand.

Other financial obligations

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

	12/31/2015	12/31/2014
	EUR '000	EUR '000
a) Obligations arising from rental, lease, service and consulting agreements	1,046	1,162
Thereof		
- maturing within 1 year	471	431
- maturing within 1 – 5 years	462	560
- maturing in more than 5 years	113	171
b) Obligations arising from capital expenditures contracts (order obligations) thereof	5,971	549
- maturing within 1 year	5,971	549
Total	7,017	1,711
- 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 AktG. 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 2015 financial statements amounts to EUR 87 thousand (including the consolidated financial statements 2015). For other assurance services, the auditor received a fee of EUR 12 thousand. The fee for tax advisory services amounts to EUR 41 thousand, the fee for other services amounts to EUR 5 thousand.

Related parties transactions in terms of Section 285 Paragraph 21 HGB

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

Share ownership pursuant to Section 285 Paragraph 11 HGB

	Share in equity		Last year's equity *) Nashtec		Last year's earnings *) Nashtec	
	in %	in USD	in USD	in EUR	in USD	in EUR
Direct participation						
Nashtec LLC, Texas (USA)	51.0	210,266.00	1,328,694.00	1,219,768.66	1,660,134.00	1,495,750.97

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

In 2015, the subsidiary Nashtec LLC, was provided with additional funds of USD 1,000 thousand.

Derivatives

On 4 October 2011, the Company entered into an interest rate swap agreement effective 6 October 2011. The underlying nominal amount is in the order of EUR 10,000 thousand as well as a variable interest rate based on the 3 month EURIBOR. Both the variable and the fixed amounts are due on a quarterly basis on the 6th of the month through the end of the agreement term, 8 October 2012. The bank has the option of prolonging the term by one year, respectively, at the latest until 6 October 2016. As per 8 October 2015, as in prior year, the agreement was not terminated. As there is no hedging relation, the fair value of the interest rate swap amounts to EUR -98 thousand as at 31 December 2015 (PY: EUR -186 thousand). In the financial year, provisions for contingent losses of EUR 88 thousand were released.

On 23 December 2011, the Company entered into an interest rate swap agreement effective 30 December 2011 to hedge an existent bank loan with a secured and agreed upon variable interest rate based on the 3 month EURIBOR. The underlying nominal amount follows the redemption schedule of the loan and initially amounted to EUR 3,000 thousand. As in prior year, a total amount of EUR 600 thousand was repaid in 2015. Both the variable and the fixed amounts are due on a quarterly basis at month's end through the end of the agreement term, 30 December 2016. The fair value of the interest rate swap amounts to EUR -8 thousand (PY: EUR -22 thousand) as at 31 December 2015.

In addition, in connection with the promissory notes raised in the previous years, the following interest rate derivatives to hedge interest risks arising from the promissory notes with variable interest rate were entered into based on the 6 month Euribor.

Nominal amount EUR '000	Duration period	Fair value EUR '000 PY
27,000	10/23/2013 – 10/23/2018	-1,271
16,500	10/23/2013 – 10/23/2020	-1,425

These were terminated prematurely on 23 April 2015 and taken out again as follows:

Nominal amount EUR '000	Duration period	Fair value EUR '000
31,000	4/23/2015 – 4/23/2020	-1,188
39,000	4/23/2015 – 4/23/2022	-1,167

Pursuant to Section 254 HGB, these hedges and the underlying loans form a valuation unit. Therefore, a provision for contingent losses does not need to be accounted for.

In addition for the first time in the financial year 2013, the company entered into US Dollar foreign exchange contracts to hedge purchases of raw materials. The derivative extends over two years and covers the company's monthly USD purchases at fixed exchange rates. Total volume of the transaction is USD 25,200 thousand. This forward exchange transaction expired on 1 December 2015.

Deferred taxes

The determination of deferred taxes is based on the combined income tax rate of currently 28.08%, which consists of corporate income 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 assets					
Retirement benefit obligation	-20,152	-12,137	-8,015	2,251	
Other provisions	-4,414	-3,949	-465	130	
Financial assets (Loan Nashtec)	9,382	9,382	0	0	
	-15,184	-6,704	-8,480	2,381	
Deferred tax liability					
Trade and other receivables	5,202	5,177	25		7
Trade payables	-9,772	-9,782	10		3
	-4,570	-4,605	35		10
Balance				2,371	

Employees

The average number of employees during the business year:

	2015 Number
Blue-collar employees	226
White-collar employees	155
Part-time employees	5
	386

In addition, an average of 46 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 determined 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 as chairman.

Members of the **Management Board**:

Mr. Johannes Heckmann

Industrial Engineer

Mr. Gerhard Witzany

Business Graduate

In line with the exemption provisions of Section 286 Paragraph 4 HGB, the disclosure of the total remuneration of the Management Board as required by Section 285 Sentence 1 No. 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)

Physicist 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 49 thousand for the financial year 2015.

Schwandorf, 1 March 2016

Nabatec AG

The Management Board

Johannes Heckmann

Gerhard Witzany

Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Nabaltec AG, Schwandorf, for the business year from 1 January 2015 to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Nuremberg, 21 March 2016

Deloitte & Touche GmbH

Wirtschaftsprüfungsgesellschaft

(Poneleit)

Wirtschaftsprüfer

[German Public Auditor]

(Thiermann)

Wirtschaftsprüfer

[German Public Auditor]

Appropriation of distributable profit

The management board proposes that the distributable profit of the 2015 financial year, amounting to EUR 6,653,903.55, will be used as follows:

An amount of EUR 1,200,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.15 per share on the 8,000,000 non par value shares entitled to dividend payments for the 2015 financial year. The remainder in the amount of EUR 5,453,903.55 will be carried forward.

Schwandorf, April 2016

The Management Board

Johannes Heckmann

Gerhard Witzany

Report of the supervisory board

Ladies and Gentlemen,
Dear Shareholders,

Nabaltec AG has yet another successful year behind it. Revenues have increased noticeably, and the company has met its own forecasts for both revenues and earnings. In general, Nabaltec AG operated in a stable market environment in 2015, as market drivers remained intact and the company was able to strengthen its market position. Moreover, we see further potential in our target markets. We are particularly focused on closely observing developments in the market and being prepared to act at any time. In light of this situation, the Supervisory Board will continue to work intensively to supervise and advise the Management Board in Financial Year 2016.

The Supervisory Board duly performed its assigned tasks in Financial Year 2015 in accordance with the law, the Articles of Association and the Rules of Procedure and was routinely informed by the Management Board in detail as to the performance and position of the company. It advised the Management Board in accordance with the underlying information and exercised utmost care in monitoring and supervising the Management Board. The Supervisory Board was involved at an early stage in all decisions of fundamental importance for the company, and was kept directly and fully informed by the Management Board.

Major events, as well as questions relating to strategy, planning, business development, the risk position, risk management and compliance, were considered by the Supervisory Board both on its own and in conjunction with the Management Board. The Supervisory Board voted on the reports and draft resolutions submitted by the Management Board after careful deliberation and review. All transactions requiring approval in Financial Year 2015 were decided positively.

The Supervisory Board of Nabaltec AG expounded on the objectives for composition of the Supervisory Board in 2015, and this addition was published in the Corporate Governance Report.

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

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

Financial Year 2015

The Supervisory Board once again opted not to form committees in the past financial year. The Supervisory Board of Nabaltec AG consists of three members, and is therefore of suitable size for all matters to be considered and decided by the full Supervisory Board. No conflicts of interest for individual Supervisory Board members arose in the course of

deliberations, in draft resolutions or through exercise of the Board's supervisory mandate in the 2015 reporting year.

The Supervisory Board met in four regular sessions: on 16 April 2015, on 30 June 2015 following the Annual General Meeting, on 1 October 2015 and on 15 December 2015. No further sessions were held in 2016 until the Supervisory Board meeting in April, in which the Board votes on adoption of the financial statements. All members were present at all meetings in 2015. The members of the Supervisory Board also deliberated in writing and by telephone, and in four cases draft resolutions were approved in writing. Among the Board's decisions were draft resolutions with regard to the issuance of a new loan against borrower's note, partial redemption of the 2013 loan against borrower's note and the supply of raw material.

Focus of deliberations

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

Following issues were the subject of particularly intensive consideration by the full Supervisory Board in Financial Year 2015:

- the 2014 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- corporate governance, particularly the goals for composition of the Supervisory Board;
- the composition of the Management Board as of 2016/2017;
- the formation of a subsidiary in Japan;
- planning for 2016 and mid-term planning through 2018;
- investment and financing planning for 2016-2018;
- IT security activities;
- development of Nashtec LLC.

The goals and realization status of innovative projects, the effectiveness of the risk management system, the accounting process in Nabaltec AG and Nabaltec Group, as well as the monitoring of the internal controlling system were also focuses of the Supervisory Board's work in Financial Year 2015.

On 6 March 2015, the joint 2015 Declaration of Conformity with the German Corporate Governance Code was issued by the Supervisory Board and Management Board and has been permanently made available for shareholders on the company's website, www.nabaltec.de. The amendments to the German Corporate Governance Code as of 5 May 2015 were the subject of intensive discussion in both bodies. Further information about corporate governance at Nabaltec AG can be found in the Corporate Governance Report on the company's website, www.nabaltec.de, in the Investor Relations/Corporate Governance section.

2015 annual financial statements and consolidated financial statements

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, which were prepared in accordance with the German Commercial Code, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to § 315a of the German Commercial Code, and the consolidated management report, each for 31 December 2015, and has issued an unqualified auditor's opinion.

The Supervisory Board engaged the auditor in accordance with the resolution of the Annual General Meeting of 30 June 2015. The auditor's independence declaration was obtained by the Supervisory Board in advance pursuant to Section 7.2.1 of the German Corporate Governance Code. No circumstances were evident which established doubts as to the auditor's independence. Moreover, the auditor was obligated to immediately notify the Supervisory Board of circumstances which could establish a bias on its part and to report any services it performed in addition to the audit. The focus of the audit for Financial Year 2015 was set on "inventory capitalization" and "financial management."

All documents relating to the financial statements, as well as the auditor's audit reports, were made available to the Supervisory Board in a timely manner for independent review. These documents and the auditor's report were the subject of intensive consideration at the session of 14 April 2016. The auditor was present at this meeting, reported on the key findings of the audit and was available for further questions. Based on its independent review of the annual financial statements, the consolidated financial statements, the management report and the consolidated management report, the Supervisory Board has raised no objections and adopts the findings of the auditor Deloitte & Touche GmbH. The Supervisory Board therefore approved the annual financial statements prepared by the Management Board for Nabaltec AG and Nabaltec Group for 31 December 2015. The annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all the employees for their consistently strong, trusting and constructive collaboration, for the work they performed and for their special commitment last year, and looks forward with confidence to the company's development in the future.

Schwandorf, 14 April 2016

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

FINANCIAL CALENDAR

	2016
Interim Report 1/2016	31 May
Annual General Meeting	30 June
Interim Report 2/2016	30 August
Interim Report 3/2016	29 November

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Text

Nabaltec, Schwandorf
Better Orange, Munich

Concept and realization

CAT Consultants, Hamburg

Photos

Herbert Bürger, Andre Forner, Stefan Hanke, Oliver Heint

Statements relating to the future

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

Rounding

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

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