Nabaltec

OUR KNOW-HOW FOR YOUR SAFETY

ANNUAL REPORT 2020

NABALTEC GROUP

KEY FIGURES

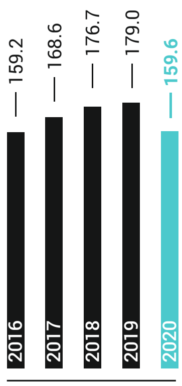
FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

in EUR million	2020 (IFRS)	2019 (IFRS)	Change
Revenues			
Total revenues	159.6	179.0	−10.8%
thereof			
Functional Fillers	114.2	122.2	−6.5%
Specialty Alumina	45.4	56.8	−20.1%
Foreign share (%)	75.1	76.4	
Earnings			
EBITDA	23.6	32.3	−26.9%
EBIT	−15.9[1]	18.6	−185.5%
Consolidated result after taxes	−19.7	10.7	−284.1%
Earnings per share (EUR)	−2.23	1.22	−282.8%
Financial position			
Cash flow from operating activities	24.3	22.4	8.5%
Cash flow from investing activities	−10.3	−20.0	−48.5%
Assets, equity and liabilities			
Total assets	198.6	239.6	−17.1%
Equity	76.8	98.9	−22.3%
Non-current assets	128.1	158.8	−19.3%
Current assets	70.5	80.8	−12.7%
Employees[2] (number of persons)	490	514	−4.7%

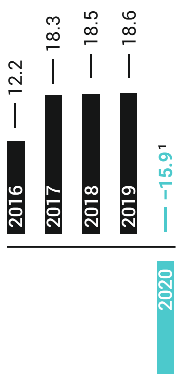
[1] *thereof non-recurring effects in the amount of EUR −25.3 million*
[2] *on the reporting date 31 December, including trainees*

NABALTEC AG

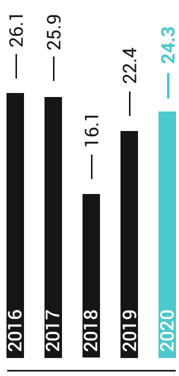
Nabaltec AG, with registered office in Schwandorf, a chemicals business which has received multiple awards for innovativeness, manufactures, develops and distributes highly specialized products based on aluminum hydroxide and aluminum oxide on an industrial scale through its product segments, "Functional Fillers" and "Specialty Alumina." The markets for Nabaltec products indicate stable mid- and long-term growth, although the coronavirus pandemic in 2020 caused a noticeable slump on revenue development.



REVENUES
IN EUR MILLION



EBIT
IN EUR MILLION



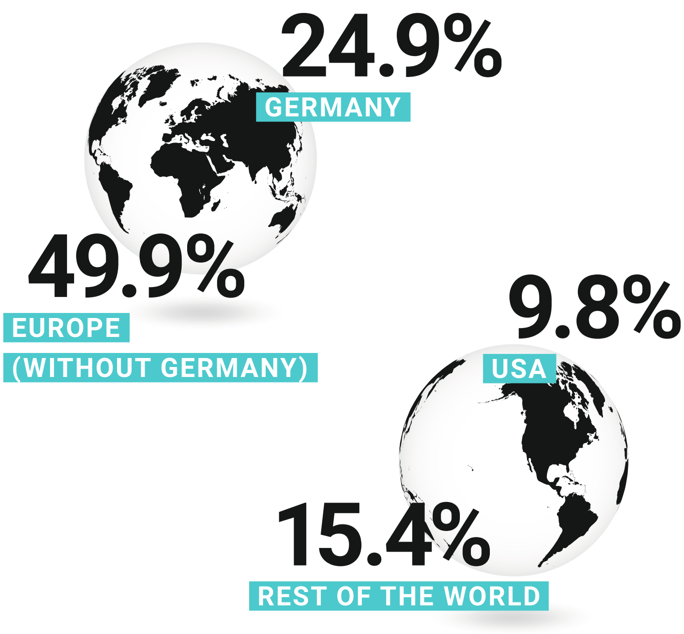
OPERATING
CASH FLOW
IN EUR MILLION

SUSTAINABLE PRACTICES

Nabaltec products have an extremely diverse range of applications and are the preferred choice whenever utmost quality, safety, eco-friendliness and durability are required. The combination of these characteristics creates outstanding prospects for growth for Nabaltec's various specialty chemical products and is the basis for the company's many years of growing financial success.

Beyond economic aspects, however, Nabaltec also attaches particular importance to ecological and social responsibility. Over the years, a certified environmental management system, an occupational health and safety management system and an energy management system have been introduced.

REVENUE SHARES 2020



PRODUCT SEGMENTS

FUNCTIONAL FILLERS

In the product segment "Functional Fillers," Nabaltec produces highly specialized aluminum hydroxide-based products for a wide variety of applications, and is among the leading manufacturers in the world in this area. In addition to current market trends, the development of eco-friendly flame retardant fillers and functional additives is driven above all by the specific requirements of its customers – an example is the relatively young market segment battery for applications in electromobility. Nabaltec assesses itself as one of the world's leading manufacturers of coating materials for separator films based on boehmite.

EUR 114.2 MILLION
REVENUES

EUR 18.3 MILLION
EBITDA

EUR –17.3 MILLION
EBIT

SPECIALTY ALUMINA

In the product segment "Specialty Alumina," Nabaltec manufactures innovative materials for a wide variety of industries and applications based on aluminum oxide. The company is constantly investing in optimizing its production facilities, in innovative technologies and in improving production processes in order to enable the company to consistently supply tailor-made qualities which meet customers' needs.

EUR 45.4 MILLION
REVENUES

EUR 5.3 MILLION
EBITDA

EUR 1.5 MILLION
EBIT

SUSTAINABLE PRACTICES

Nabaltec products have an extremely diverse range of applications and are the preferred choice whenever utmost quality, safety, eco-friendliness and durability are required. The combination of these characteristics creates outstanding prospects for growth for Nabaltec's various specialty chemical products and is the basis for the company's many years of growing financial success.

Beyond economic aspects, however, Nabaltec also attaches particular importance to ecological and social responsibility. Over the years, a certified environmental management system, an occupational health and safety management system and an energy management system have been introduced.

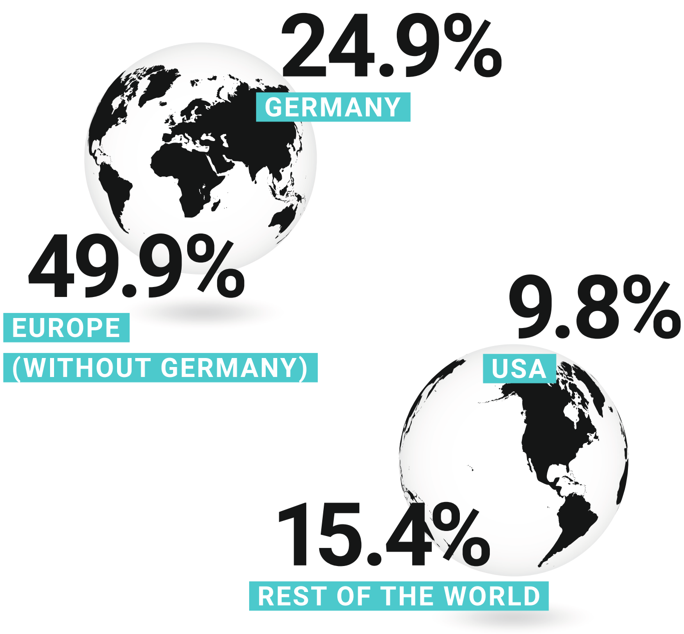
EMPLOYEES

Sustainable employee development is important to Nabaltec AG in order to be prepared for future personnel challenges and in order to position itself as an attractive employer. As a family-friendly company which has been recognized multiple times, Nabaltec is committed to promoting young talent and values work/life balance.

INNOVATIONS

Nabaltec AG is regularly awarded national and international prizes and distinctions for innovation. 2020, for example, the company received once again the "Axia Best Managed Companies Award" for outstandingly managed mid-sized companies, due in part to its highly innovative practices.

REVENUE SHARES 2020



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NABALTEC AG ON THE INTERNET

www.nabaltec.de/en

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FOREWORD
OF THE CEO

From left to right: Dr. Michael Klimes, Johannes Heckmann (CEO), Günther Spitzer

Ladies and Gentlemen,
Dear Shareholders and Business Partners,

Fourth quarter: markets rebounded and Nabaltec's revenues were up 7.7%

2020 was supposed to be a record year for Nabaltec, but then COVID-19 brought the world to a standstill and creating unfamiliar challenges for the economy and for Nabaltec as well. As the year went on, our business performance tracked very closely with the course of the pandemic: a modest first quarter was followed by a difficult second quarter, with revenues down 25.7% from the same quarter of last year. In the third quarter, our markets stabilized at a low level, and revenues were down by just 15.5%. Results in the fourth quarter demonstrated impressively that our markets are recovering and that Nabaltec is well-positioned with its existing product portfolio. Revenues were up 7.7% in the fourth quarter, a figure which was in line with the growth posted in the same period of last year.

But the pandemic had a clear if indirect negative impact on earnings. Triggered by the impairment test for our Nashtec subsidiary in the US, we were forced to write down some of the assets on our balance sheet. The 2020 results also included non-recurring effects because of our strategic decision to discontinue mullite production in the "Specialty Alumina" product segment at our Schwandorf site. These non-recurring effects weighed down earnings by a grand total of EUR 25.3 million, although they did not affect cash flow. Adjusting for these non-recurring effects, EBIT amounted to EUR 9.4 million in 2020. This corresponds to an adjusted EBIT margin of 6.0%, which can be viewed as satisfactory in view of the challenging environment. Without adjusting for these effects, EBIT came to EUR –15.9 million, with a net loss of EUR 19.7 million.

EBIT of EUR 9.4 million after adjusting for non-recurring effects

In this difficult year, it was important for us to implement extensive new spending cuts at an early stage. To a large extent, these cuts were achieved through reductions in personnel expenses, e.g. by reducing working time and eliminating all profit shares for Financial Year 2020. Despite the very difficult conditions, all of our employees displayed outstanding commitment at all times: we would never have been able to overcome the COVID-19 crisis as well as we did without this special effort from our employees. Together, we were able to mitigate the impact of the pandemic as best we could in all areas, and we would like to extend our warmest thanks to our entire team of employees.

In addition to reductions in spending, the clear focus on cash flow and liquidity served to make our company as crisis-proof as possible. We were able to generate EUR 24.3 million in operating cash flow in 2020, up 8.5% from 2019. Our free cash flow increased to EUR 14.0 million in the reporting year, up from EUR 2.3 million in 2019. This improvement underscores our success in keeping the company strictly on course in terms of liquidity, even in a crisis year like 2020, while creating additional space for future alignment.

Nabaltec well-positioned in terms of liquidity, with EUR 14.0 million in free cash flow

Boehmite, our product of the future, played a special role in 2020. Its primary application continues to be use in lithium ion batteries for electric vehicles, particularly in coating for separator film. Unaffected by the pandemic, we were once again able to generate outstanding revenue growth in this product range, with revenues up nearly 50%. Boehmite now accounts for around 10% of consolidated revenues. Once again, 100% of the boehmite sales volume was generated in Asia, which continues to lead the world in the production of lithium ion batteries. We have been able to expand our customer base in Asia, and we now supply customers in South Korea, Japan and China. We are especially proud of our successful entry into the Chinese market, with the aid of our Chinese subsidiary, Nabaltec (Shanghai) Trading. In early 2021, we were able to begin generating revenues in Europe from the coating of separator film. We are still operating on a small scale in this area, but we expect to see the emergence of a significant market here with the development of the European battery consortiums. We are making preparations for this growth, having taken measures to increase capacity in 2020, and we will make further investments in this direction in 2021 as well.

Boehmite revenues once again post strong growth

Our US operations are still an important part of our company's future: one shouldn't allow the write-downs to create the wrong impression. Our decision to bring US operations under our full control and to expand them significantly with the opening of a new plant in Chattanooga was made long before the COVID-19 pandemic. Given the pandemic and the current economic environment in the US, potential customers are unwilling to switch suppliers, which would require them to begin a usually somewhat protracted approval procedure with new partners. In addition, we are attempting to target new sectors in the US, where it will take us some time to build up the market standing which we have long enjoyed in other sectors all over the world. But we consider this reticence on the part of customers to be a temporary effect. We remain convinced of the strength of our products and we believe that the market will open to us, although we also know that it will take patience.

2021 revenue growth expected to fall in a range from 6% to 9% over the previous year's total of EUR 159.6 million

In 2021, our company will get back on track for growth. Things started moving in the right direction in the fourth quarter of 2020, and we got off to a strong start in 2021 as well. Despite the continuing COVID-19 pandemic, we expect 2021 revenue growth to fall in a range from 6% to 9% over last year's total of EUR 159.6 million. We are similarly confident about earnings performance, and we expect an EBIT margin of 8% to 10%, up from an adjusted EBIT margin of 6.0% in 2020. This forecast is based on the assumption of strong economic and industry performance. In other words, results in 2021 should be down slightly from the levels posted in 2019, but we expect to be posting record highs once again by 2022 at the latest.

Schwandorf, March 2021

Yours,

JOHANNES HECKMANN
CEO

REPORT
OF THE SUPERVISORY BOARD

Dr. Dieter J. Braun

Gerhard Witzany (Chairman of the Supervisory Board)

Prof. Dr.-Ing. Jürgen G. Heinrich

Ladies and Gentlemen,
Dear Shareholders,

Nabaltec AG's performance in Financial Year 2020 was shaped by the global coronavirus pandemic, which had a lasting impact on the economy and on workers everywhere. The market environment worsened rapidly in the second quarter due to the impact of the pandemic, and was very slow to recover over the remainder of 2020. Aside from the non-recurring expense represented by the extraordinary write-down at Nabaltec's US subsidiary Nashtec, the impact of the pandemic was moderate in the overall scheme of things. At the same time, the company demonstrated that it is well-prepared for emerging crises and that is capable of maneuvering in a difficult environment. The continuing focus on innovations and, therefore, on the newly developed markets of the future, such as boehmite for electric mobility, will provide the basis for stable corporate performance in the long term.

In the past financial year, Nabaltec has demonstrated that it is well-prepared for emerging crises and that is capable of maneuvering in a difficult environment

COLLABORATION BETWEEN THE SUPERVISORY AND MANAGEMENT BOARDS

The Supervisory Board duly performed its assigned tasks in Financial Year 2020 in accordance with the law, the Articles of Association and the Rules of Procedure and was routinely informed by the Management Board in detail as to the performance and position of the company. The Supervisory Board advised the Management Board in accordance with the underlying information and exercised utmost care in monitoring and supervising the Management Board. The Supervisory Board was involved at an early stage in all decisions of fundamental importance for the company, and was kept fully and directly informed by the Management Board.

The Supervisory Board was kept 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 internally and in conjunction with the Management Board. The Supervisory Board voted

All transactions requiring approval in Financial Year 2020 were decided positively

on the reports and draft resolutions submitted by the Management Board after careful deliberation and review. All transactions requiring approval in Financial Year 2020 were decided positively.

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

The Supervisory Board once again opted not to form committees in the past financial year. With three members, the Supervisory Board is of suitable size for all matters to be considered and decided by the full Supervisory Board. No conflicts of interest for individual Supervisory Board members arose in the course of deliberations or voting by the Supervisory Board, or in the Board's exercise of its supervisory mandate in the 2020 reporting year.

The Supervisory Board once again performed a self-assessment of its activities in the past year (efficiency check) and has reached a positive conclusion. The focuses of this self-assessment were above all on procedures and the timely and adequate provision of information.

MEETINGS OF THE SUPERVISORY BOARD AND FOCUS OF DELIBERATIONS

The Supervisory Board had four meetings in 2020 in which all members were present

Four regular ordinary meetings of the Supervisory Board were held in the reporting year, on 21 April, on 30 June, following the virtual Annual General Meeting, on 29 September and on 15 December. The meetings on 21 April 2020, 30 June 2020 and 29 September 2020 were held in-person, while the meeting on 15 December 2020 was a virtual meeting (video conference). All members were present at all meetings in 2020. No additional meetings took place in 2021 prior to the Supervisory Board meeting on 20 April 2021 (as a video conference), in which the Board votes on adoption of the financial statements. The members of the Supervisory Board also deliberated in writing and by telephone. On four occasions in 2020, resolutions were adopted by the Supervisory Board outside of Supervisory Board meetings.

The following issues were the subject of particularly intensive consideration in Financial Year 2020:

- the 2019 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- planning for 2021 and mid-term planning through 2023;
- investment and financing planning for the period from 2021 through 2023;
- measures in connection with the coronavirus pandemic (pay cuts, conduct of the 2020 Annual General Meeting in virtual form);
- performance, planned measures, outlook and accounting treatment for the US subsidiary Nashtec.

The goals and realization status of innovative projects, the effectiveness of the risk management system, the accounting processes 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 2020.

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 competition situation, the development of sales, revenues and earnings and the degree to which projections were met in monthly and quarterly reports. The impact of and response to the coronavirus pandemic were routinely discussed. To this end, the Chairman of the Supervisory Board maintained a close and routine exchange of information and thoughts with the Management Board.

The Supervisory Board was notified in detail of market trends, the risk and competition situation, as well as the development of sales, revenues and earnings

AUDIT OF THE 2020 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, prepared in accordance with the German Commercial Code, as well as the consolidated financial statements, prepared based on the IFRS (International Financial Reporting Standards), pursuant to § 315e of the German Commercial Code, as well as the consolidated management report, each for 31 December 2020, 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 2020. The focus of the audit for Financial Year 2020 was set on impairment tests for assets (IFRS consolidated financial statements), as well as financial assets (individual financial statements in accordance with the German Commercial Code) in connection with US operations.

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 reports were the subject of intensive consideration at the session on 20 April 2021. 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 adopts the findings of the auditor Deloitte GmbH. The Supervisory Board has furthermore declared that it has no objections to the audit's findings. The Supervisory Board therefore approved the annual financial statements prepared by the Management Board for Nabaltec AG and Nabaltec Group for 31 December 2020. The annual financial statements of Nabaltec AG for 2020 are therefore adopted.

The annual and consolidated financial statements for 31 December 2020 have been reviewed and approved by the Supervisory Board

The Supervisory Board would like to thank the Management Board and all the employees for their extraordinary achievements and successful work in the past year, which was shaped by many challenges as a result of the COVID-19 pandemic.

Schwandorf, 20 April 2021

Gerhard Witzany

GERHARD WITZANY
Chairman of the Supervisory Board

NABALTEC SHARE

THE STOCK MARKET 2020

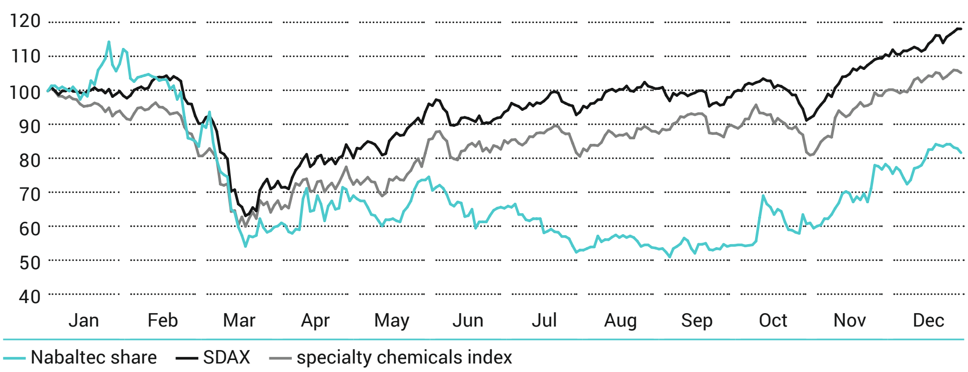
ISIN/WKN: DE000A0KPPR7/A0K PPR
SINCE 24 NOVEMBER 2006, NABALTEC SHARE HAS BEEN LISTED IN THE FRANKFURT STOCK EXCHANGE, WHERE IT IS TRADED IN THE SCALE MARKET SEGMENT.

SHARE PERFORMANCE

High of EUR 37.70 for the year recorded on 24 January 2020, before the slump in the equities markets due to the coronavirus pandemic. Nabaltec share was down 17.9% from the year before

Nabaltec share reached its high for the year on 24 January 2020, trading at EUR 37.70. Following the outbreak of the pandemic and the associated response from the equities markets, the price of Nabaltec share dropped below EUR 20.00 for the first time in three years, to a low of EUR 17.15 on 4 September 2020. Nabaltec share then posted stronger, upwards-trending performance over the course of the fourth quarter of 2020, climbing to a price of EUR 27.10 at the end of the year. This price was down 17.9% from the year before. Unlike the relevant indices, the SDAX and the specialty chemicals index, which sustained severe losses as a result of the coronavirus pandemic but were able to make up those losses earlier, the performance of Nabaltec share remained flat through the start of the fourth quarter of 2020.

PERFORMANCE OF NABALTEC SHARE 2020 (XETRA, INDEXED)



The average price for the year for Nabaltec share was EUR 23.42 in 2020, about as high as the starting price in 2019, Nabaltec's most successful year ever.

Nabaltec AG's market capitalization was EUR 238.48 million at the end of 2020, compared to EUR 290.40 million as of 31 December 2019.

KEY DATA FOR NABALTEC SHARE (XETRA)

	2020	2019
Number of shares	8,800,000	8,800,000
Market capitalization (cutoff date, in EUR million)	238.48	290.40
Average price (in EUR)	23.42	31.50
High (in EUR)	37.70	37.00
Low (in EUR)	17.15	21.90
Closing price (cutoff date, in EUR)	27.10	33.00
Average daily turnover (in shares)	3,797	4,454
Earnings per share (in EUR)	–2.23	1.22

TRADING VOLUME

Nabaltec share's average Xetra daily trading volume in 2020 was 3,797 shares, as trading volume remained at a high level. In the previous year, daily average trading volume was 4,454 shares. A total of about 0.96 million shares were traded on Xetra in the reporting year, representing around 25% of the free float shares. Since it was first listed, the liquidity of Nabaltec share has been reinforced by a voluntary commitment from a designated sponsor. This function is currently performed by Baader Bank Aktiengesellschaft and Hauck & Aufhäuser Privatbankiers AG.

Daily average trading volume of 3,797 shares in 2020

EARNINGS PER SHARE

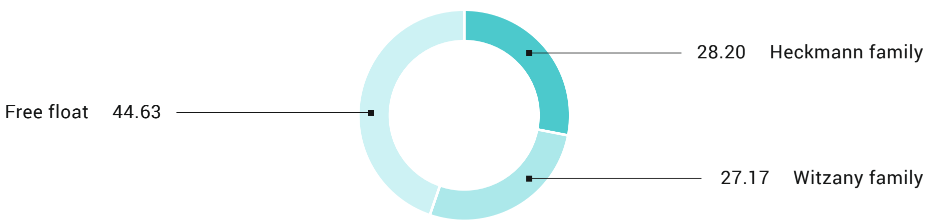
Earnings per share (EPS) came to EUR –2.23 in 2020, compared to EUR 1.22 the year before.

Earnings per share of EUR –2.23 in 2020

SHAREHOLDER STRUCTURE

The majority of Nabaltec's 8,800,000 shares continue to be held by the Heckmann and Witzany families. As of the cutoff date, the Heckmann family held 28.20% of the company's capital stock and the Witzany family held 27.17%. The remaining shares are in free float.

SHAREHOLDER STRUCTURE (IN %)



ANALYST RECOMMENDATIONS

Hauck & Aufhäuser has been analyzing Nabaltec share with research reports consistently since 2011 and published six studies and updates on Nabaltec share last year. Hauck & Aufhäuser issued a "buy" recommendation in each of its analyses. The price target was cut to EUR 32.00 in October 2020, from EUR 40.50 at the start of the year. This price target was confirmed in an update in January as well as in February 2021.

Analyst price targets at EUR 32.00 (Hauck & Aufhäuser) and EUR 31.00 (Baader Bank)

Baader Bank has been reporting on Nabaltec AG routinely since 2013 and published nine studies on the share in the reporting year. In April 2020, as the first wave of the pandemic was beginning, the price target was reduced from EUR 37.00 to EUR 28.00 and the recommendation was changed from “Add” to “Buy.” This rating has remained in effect through the end of the year. The price target was raised again to EUR 31.00 at the beginning of February 2021 and confirmed once again at the end of February.

Analyst assessments for Nabaltec share can be found online in the Investor Relations/Share section of www.nabaltec.de/en.

CAPITAL MARKET COMMUNICATIONS

Nabaltec's reporting has continually exceeded the prescribed minimum standards since its IPO

Since its IPO in the Frankfurt Stock Exchange in 2006, Nabaltec AG has continually kept its investors constantly informed, exceeding the prescribed minimum standards. Examples include quarterly reporting in accordance with IFRS in German and in English, a voluntary commitment to observe a four-month period for publication of its annual report and coverage through routine analyst reports. Nabaltec AG’s participation in the Scale market segment of the Frankfurt Stock Exchange also involves stricter transparency requirements.

Nabaltec AG continued its intensive investor relations activities in Financial Year 2020. It took part in several investor and analyst events with participants from Germany and abroad, held virtually in 2020 for the most part, including the Equity Forum 1on1 Summer Summit in July 2020, the Baader Investment Conference in September 2020 and the German Equity Forum in Frankfurt in November 2020.

Nabaltec’s financial communications activities were supplemented by numerous discussions with members of the press, particularly in connection with the publication of annual and quarterly results.

On the company’s website, www.nabaltec.de/en, investors can find all the information they need about Nabaltec share (in the Investor Relations section) as well as additional information about the company

BASIC DATA FOR NABALTEC SHARE

ISIN (International Security Identification Number)	DE000A0KPPR7
Stock symbol	NTG
Stock exchanges	Frankfurt (Open Market), over-the-counter in Berlin, Dusseldorf, Hamburg, Munich, Stuttgart
Sector	Industrial
Industry group	Products & Services
Index membership (31 December 2020)	Scale All Share, Scale 30, DAXsector All Industrial, DAXsubsector All Industrial Products & Services

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BOEHMITE
BY NABALTEC

COMPONENT OF SUSTAINABLE MOBILITY

The future development of lithium ion batteries will be of decisive importance for the implementation and acceptance of electro mobility.

OUR KNOW-HOW FOR YOUR SAFETY!

The development of electro mobility is in focus of the industry and will play a key role in the development of climate-friendly solutions. As the number of electric vehicles grows, the issue of safety in e-mobility will take on more and more importance.

As a base material, Nabaltec's boehmite has high-performance product properties which ensure a high degree of safety in practice.

FUNCTIONS OF BOEHMITE

Boehmite (Nabaltec brand: APYRAL® AOH) is a high temperature-resistant aluminum-oxide-hydroxide. The functional filler is used as a carrier material for catalysts, as a flame retardant in printed circuit boards and as heat conductive filler in separator film for lithium ion batteries. Boehmite offers a high degree of component reliability and reduces the risk of short circuits in lithium ion batteries, which is important for consumer safety.

There has been growing demand for our boehmite for use in lithium ion batteries in electric vehicles. Demand will continue to grow at a strong pace in the future, especially in Europe and the US, as well as in Asia. Demand for lithium ion batteries will more than triple in the next five years, according to estimates. This trend will create a market for our boehmite with a volume of tens of thousands of tons. We believe that we are ideally positioned to meet the needs of the fast-growing electro mobility market with our production sites in Germany and the US.

Johannes Heckmann, CEO

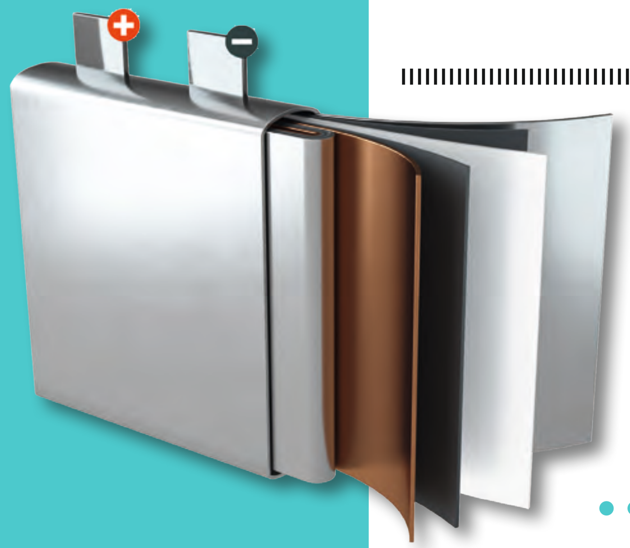
BOEHMITE BY NABALTEC

AN INNOVATIVE MATERIAL

FOR A WIDE VARIETY OF COATINGS

The increasing energy density of lithium ion batteries makes the use of safe ceramic-coated separators all the more important. As an innovating coating material, boehmite is distinguished by the following features:

- high chemical purity
- low absorption of moisture
- low Mohs' hardness relative to aluminum oxide



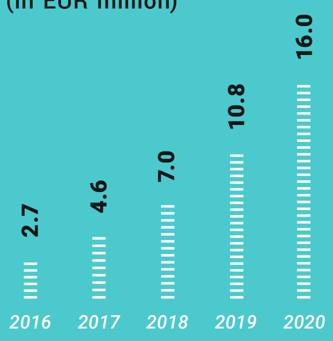
PRODUCTION OF BOEHMITE

TECHNICAL MARKET LEADERSHIP

As a provider of specialty chemicals, Nabaltec AG can rely on decades of know-how, during which it has consistently optimized its production. Today, the company produces the raw materials it needs to manufacture boehmite internally, based on the highest technological standards.

Through its global presence in key sales markets, with production sites in Europe and the US and sales companies in Japan and China, Nabaltec has ideal market access in close proximity to relevant battery and automotive plants.

NABALTEC BOEHMITE REVENUES 2016 – 2020
(in EUR million)

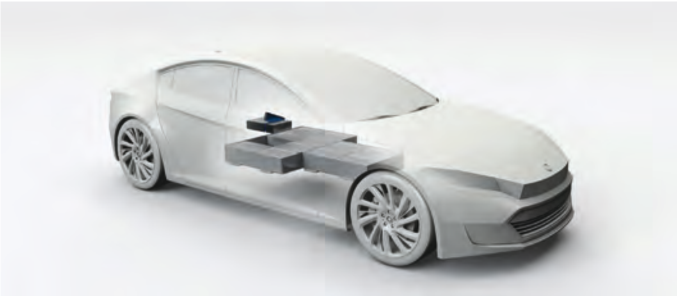


THE HEART OF THE ELECTRIC VEHICLE: THE BATTERY

An electric vehicle's battery is not a simple component, like the batteries in other electrical devices. Rather, it consists of many different modules, which in turn are comprised of multiple battery cells.

Lithium has a chemical property which is of decisive importance for the battery, in that it is very willing to release its electrons into the current flow, and it has established itself as a core component of electric vehicle batteries.

Lithium ion batteries provide the highest energy storage currently available on the market: they have high energy density, are long-lasting and low-maintenance and deliver constant capacity even after extended use.



BOEHMITE IN PRACTICE

CHARGING AND DISCHARGING

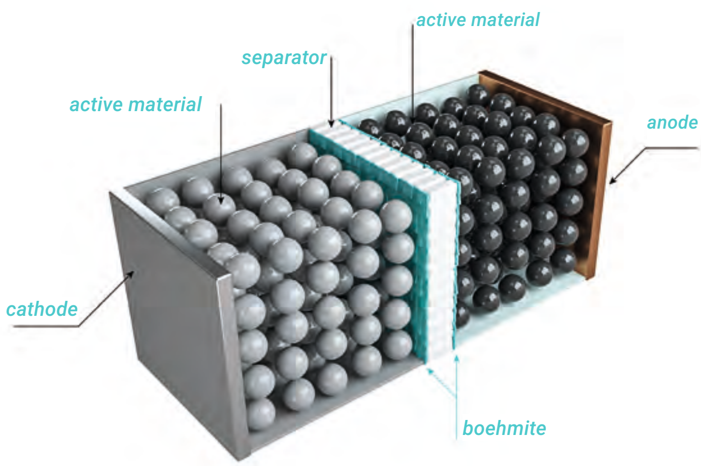
The functioning of lithium ion batteries is based on the constant motion of ionized lithium between the electrodes. The lithium ion flow equals the external current flow when charging or discharging the battery, so that the electrodes themselves remain electrically neutral.

ENSURING SAFETY: REDUCING SHORT-CIRCUIT RISK THANKS TO BOEHMITE

At the heart of today's electric vehicles is a high-performance lithium ion battery, which itself consists of individual "battery packs" and cells.

Each battery is comprised of different membranes, and these membranes contain the energy source. Positioned between the positively charged cathode and its negative counterpart, the anode, is a so-called separator, which acts as a dividing membrane.

When the battery is charged, the ions in its interior reach a higher energy level, and this energy is released when the battery is used. In both cases, the ions pass through the separator, whose basic structure is porous and permeable, allowing the ions to flow through.



Charging and discharging a lithium ion battery generates heat. If a critical temperature is exceeded, short circuits may occur, causing the separator film to shrink. As a result, the anode and cathode will come into direct contact.

In order to prevent such a scenario, the separator film is usually equipped with a ceramic coating. It is essential that the coated separator must remain permeable and not interfere with the ion flow.

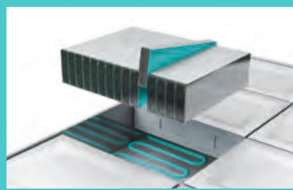
Thanks to this ceramic coating, the separator can now withstand temperatures of up to 250°C, depending on the substrate. By contrast, untreated separators will already shrink at temperatures of around 100°C.

To find out more about our boehmite products, see the video footage in the Nabaltec media library, which can be found in the press section of our website.

FROM POWDER TO BATTERY

Boehmite powder

Coated separator film



Battery

Electric vehicle

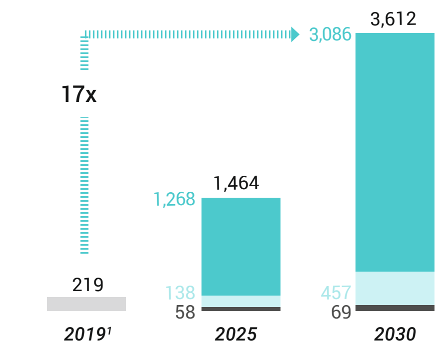
MARKET SHARE OF BOEHMITE

GLOBAL GROWTH IN DEMAND

Boehmite's share in the ceramic-coated separator film market for lithium ion batteries has increased sharply. This trend will continue in the future as steady improvements are made to the manufacturing process and as market acceptance of boehmite increases.

BOEHMITE BY NABALTEC IS USED TODAY PRIMARILY FOR ELECTRO MOBILITY APPLICATIONS

BATTERY DEMAND BY APPLICATION
in GWh in 2030, target case

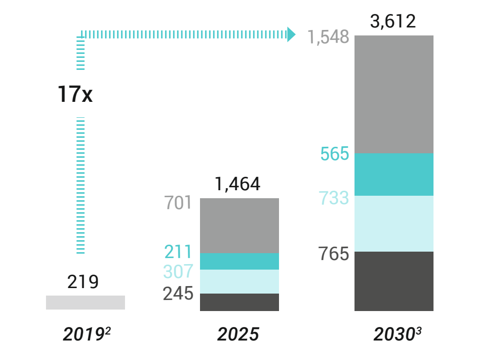


Electric mobility
Energy storage
Consumer electronics

Source: Global Battery Alliance, World Economic Forum, McKinsey

[1] In 2019, demand for consumer electronics equaled 40 gigawatt hours (GWh); for energy storage, 7 GWh; and for electric mobility, 171 GWh.

BATTERY DEMAND BY REGION
in GWh in 2030, target case



China
US
EU
RoW

[2] In 2019, regional demand totaled 26 GWh for United States, 24 GWh for European Union, 155 GWh for China, and 14 GWh for rest of world.

[3] Figures do not sum to total, because of rounding.

Source: "Powering up sustainable energy", McKinsey Quarterly, June 2020

CONSOLIDATED MANAGEMENT REPORT 2020

CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2020

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE GROUP'S BUSINESS MODEL

BUSINESS OPERATIONS

Environmentally friendly and highly specialized products

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials. The company belongs to the world's leading suppliers of functional fillers and specialty alumina on the basis of aluminum hydroxide (ATH) and aluminum oxide. The production capacity entails approximately 265,000 tons per annum (t.p.a.) with an export share of around 75%.

The range of applications of Nabaltec products is highly diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment;
- fillers and additives, e.g. as separator coating in lithium ion batteries, as an all-natural barrier layer in foil or as white pigments in paint;
- 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.

Outstanding growth prospects for Nabaltec products

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 to use more eco-friendly products. 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, 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's relatively new battery market segment for electrical mobility applications serves a market which will post strong growth in the coming years. Nabaltec sees itself as one of the world's leading manufacturers of boehmite-based coating material.

In the “Specialty Alumina” product segment as well, Nabaltec products have excellent long-term growth potential thanks to a wide range of applications and relevant target markets, particularly for reactive aluminum oxides, due to stricter quality requirements in the refractory industry.

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. This proximity to our clients is fundamental for the concerted development of our products with a focus on market needs and applications.

CORPORATE STRUCTURE

Nabaltec, based in Schwandorf, was formed in 1994 and, in 1995, acquired the specialty alumina division of VAW aluminium AG. In September 2006, the company was transformed into a stock corporation and has been listed in the Open Market division of the Frankfurt stock exchange since November 2006 and has consistently been traded in high-quality segments of the exchange, including the Scale segment as of March 2017.

Nabaltec share listed since 2006 in the Open Market division of the Frankfurt Stock Exchange

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

Nabaltec AG holds a 100% interest in Nashtec LLC (USA) and Naprotec LLC (USA) through Nabaltec USA Corporation, which was formed in 2018. In addition to administrative functions such as accounting for all US companies, sales activities for Nabaltec Group in North America will also be concentrated in Nabaltec USA Corporation.

Naprotec LLC and Nashtec LLC bundled in Nabaltec USA Corporation

Nabaltec AG acquired all shares in Nashtec LLC in March 2017; until then, Nabaltec AG had held 51% of shares in the company. The shares were acquired with the goal of continuing to operate Nashtec LLC based on a stand-alone solution after Nashtec was forced to temporarily suspend production of fine hydroxides due to the insolvency of its supplier, Sherwin Alumina LLC. Nashtec LLC resumed production at the end of 2018.

In addition, Naprotec LLC was formed as a production company in 2018 in Chattanooga, USA, and its shares are also held by Nabaltec USA Corporation, paving the way for construction of a production facility for milled hydroxides. Nabaltec has therefore significantly expanded its product portfolio in the US for non-halogenated flame retardant applications. The facility went online in the first half of 2020.

In order to strengthen its operations in the Southeast Asian market, Nabaltec established a wholly-owned subsidiary in 2016, Nabaltec Asia Pacific K.K., based in Tokyo, Japan, which will market and distribute Nabaltec AG’s entire portfolio of products.

Nabaltec (Shanghai) Trading Co., Ltd., based in Shanghai, China, was formed in October 2018. This company is a wholly-owned subsidiary of Nabaltec AG and maintains an in-country warehouse, allowing it to offer shorter delivery times and invoicing in the national currency.

Nabaltec Asia Pacific K.K. is not included in Nabaltec AG's consolidated financial statements, since it is not material for Nabaltec AG's financial, earnings and liquidity position.

Nabaltec AG does not currently have any other participations or subsidiaries.

Reflecting the characteristics of the target and buyers' markets, Nabaltec AG's operations are divided into two product segments, each in turn comprised of market segments.

PRODUCT SEGMENTS "FUNCTIONAL FILLERS" AND "SPECIALTY ALUMINA"

Market segments:
- Wire & Cable
- Resins & Dispersions
- Rubber & Elastomers
- Batteries
- Adsorption & Catalysis
- Refractory
- Technical Ceramics
- Polishing
- Others

1.2 OBJECTIVES AND STRATEGIES

For the further development of the company and the Group, Nabaltec AG has set the following objectives and core strategic areas:

1. GLOBAL GROWTH STRATEGY IN TARGET MARKETS WITH A FOCUS ON SUSTAINED DOUBLE-DIGIT EBIT MARGINS

Nabaltec is one of the leading suppliers of flame retardant fillers

Fire safety concerns within the plastics and cable & wire industry will continue growing in the years to come, which is supported by recent market research results by among others Frost & Sullivan and Roskill. In order to benefit from this trend disproportionately high, we have specifically expanded our production capacity for aluminum hydroxide both at the Schwandorf site and in the US. Electric mobility is also gaining importance. With our boehmite, we can make an important contribution towards industrial safety in the production of lithium ion batteries. As a result, we are expanding production capacity in this area as well and will continue to do so in the future. Today, Nabaltec is already one of the world's leading suppliers in this area.

Stricter quality requirements in the refractory industry have resulted in steady growth in reactive aluminum oxides. Accordingly, we have expanded our capacity in this product area as well.

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

2. STRATEGIC ALIGNMENT TOWARDS GROWTH MARKETS

Environmentally friendly products and processing solutions are globally advancing forward. This trend is supported in part by voluntary industry initiatives, as well as by the requirements of laws and standards. With an export share of around 75%, we already profit from these worldwide trends. By adopting a deliberate global growth strategy and expanding our capacity, we are pursuing the goal of posting double-digit EBIT margins on a sustained basis.

3. OPTIMIZING CUSTOMER BENEFITS BY CONTINUOUSLY IMPROVING PRODUCTION PROCESSES AND PRODUCT QUALITY

Product and process development are continually optimized

Through our constant exchange with our customers, the company's product and process development activities are continuously optimized and directed toward specific customer requirements. Product improvements and upscaling take place in close consultation with customers. Particularly customers in the electric mobility sector pose new challenges which require us to continually adapt our processes in order to keep pace with the dynamic changes in this market.

Nabaltec continuously invests in internal research and development departments, the analysis center, its own testing facility and a pilot plant. Nabaltec has also been collaborating with various research institutions for years, as well as taking part in research consortia. Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both aspects of which represent major competitive factors. Nabaltec has taken extensive measures in order to reduce energy consumption, operate with virtually no waste water and minimize emissions.

4. SYSTEMATIC EXPANSION OF OUR PRODUCT RANGE

Nabaltec develops its own product portfolio along three dimensions:

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

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

5. FLEXIBLE AND QUICK ADAPTION OF CAPACITIES AND COST STRUCTURES THANKS TO HIGH-RESOLUTION CONTROLLING PROCESSES

Nabaltec pursues a margin oriented capacity policy

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

6. SECURING FUTURE INVESTMENTS THROUGH A STRONG FINANCING BASE

In order to take full advantage of market potential relating to both product segments, further investments are necessary. This investment activity, along with possession of the necessary know-how, are at the same time a high market entry barrier for potential new suppliers. In order to ensure that the required investment capital will be available, Nabaltec relies on a financing base consisting of a balanced mix of equity and debt.

1.3 CONTROLLING

Target agreement process defines responsibilities

Nabaltec AG has implemented a companywide incentive scheme, assigning responsibilities and defining specific objectives for even for the smallest units of the company. Comprehensive earnings, cost and performance forecasts facilitate analysis for achievement of the company's objectives. Comparisons of estimates against results are available online, indicating a need for action at an early stage and promoting the process of agreement on targets. Comparisons of estimates against results are conducted on a monthly basis for all cost centers and cost units.

"Microsoft Dynamics NAV" ERP software is used in all commercial departments. All cost accounting at Nabaltec, including earnings statements, are presented based on the "macs complete" controlling software. Revenues, EBIT and EBIT margin are the key control parameters which are used as a basis for business decisions in the Group. Performance indicators which are derived from these figures, such as return on equity and ROCE, are also used.

1.4 BASICS OF THE REMUNERATION SYSTEM FOR CORPORATE OFFICERS

The remuneration of the Management Board and Supervisory Board members is explained in greater detail in the Consolidated Notes (Section 7.4).

THE MANAGEMENT BOARD

Variable remuneration system for members of the Management Board

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

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

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

Management Board members are covered by a D&O insurance policy with an insured sum of EUR 25.0 million, with a deductible amounting to 10% of the claim, as required by law, up to one and half times the amount of their fixed annual compensation. Insurance premiums are paid by the company.

THE SUPERVISORY BOARD

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

In the interest of the company, the members of the Supervisory Board are covered by a company D&O insurance policy with an insured sum of up to EUR 25.0 million, and with no deductible for the insured Supervisory Board members. The insured sum was raised from EUR 20.0 million to EUR 25.0 million effective 1 January 2020 by shareholder resolution of 27 June 2019. Insurance premiums are paid by the company.

In the interest of the company, members of the Supervisory Board are covered by a company D&O insurance

1.5 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec's overall strategy. A key element of the research and development strategy is close collaboration and joint development efforts with customers. In all product segments, the focus is on providing customers with an optimal product and helping them achieve a competitive advantage. As a leading supplier of highly specialized products, Nabaltec considers research and development to be one of its central core competencies. Research and development expenses accounted for 2.6% of revenues in 2020.

R&D activities play a key role in the company

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

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

Trend radar and megatrend calibration methods are used to identify developments extending beyond existing markets at an early date. These methods use the products offered by commercial vendors as well as inter-departmental internal workshops.

Nabaltec works intensively with universities and institutions to examine trends which are identified as relevant. A total of seven public-funded industrial collective research projects were worked on by Nabaltec employees in 2020, working through project committees. Research partners include multiple Fraunhofer Institutes, RWTH Aachen University, the German Plastics Center (Süddeutsches Kunststoff-Zentrum e.V., SKZ) in Würzburg, the German Institute for Refractories and Ceramics (Deutsches Institut für Feuerfest und Keramik GmbH) and Forschungsgemeinschaft Feuerfest, a refractory products research association, both in Höhr-Grenzhausen, and the Federal Institute for Materials Research and Testing in Berlin.

International awards and distinctions for innovativeness

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

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

As part of the strategy development process, interdisciplinary teams comprised of employees from development, sales, plant and process development, depending on the market segment and application, analyze market data in light of identified trends. This ensures that new applications, processes and products are implemented in a timely manner, in conformance with the strategy.

R&D activities remain marked in particular by challenges relating to electric mobility

Research and development in the 2020 reporting year was once again marked in particular by challenges relating to electric mobility. Separator film for lithium ion batteries with ceramic coating had very high growth rates in 2020. Nabaltec's boehmite products have been further optimized in order to meet the growing demand and stricter quality requirements, and key developments have been achieved in the course of production. At the same time, key fundamental developments have been launched in order to meet the requirements of the next generation of separator film, with higher energy density resulting in higher storage capacity. The separator film which will be required for this purpose will have to be equipped with even thinner coating.

Another key aspect of electric mobility is managing the heat generated by battery systems. Given the demand for significantly faster charging times and, in particular, plans for a dense network of rapid charging stations, the issue of thermally conductive materials is becoming increasingly important. Nabaltec has devoted itself to the issue of thermally conductive fillers for some years now, and was able to report substantial progress in 2020 in the development of products and applications. These developments culminated in the launch of a product family designed for thermal conductivity, consisting of the APYRAL® HC, NABALOX® HC and ACTILOX® HC product groups. Aluminum hydroxide-based APYRAL® HC products allow very high filler loads und thermal conductivity of nearly 3 W/mK with very low abrasion.

APYRAL® HC is manufactured at the Schwandorf site as well as at the Chattanooga site by Naprotec in the US. Commercial deliveries of thermal management products commenced over the course of 2020, closely supervised by our application engineers. We expect the growth in this area to accelerate in 2021.

Mineral-based flame retardants continue to ensure growth for Nabaltec's innovative and eco-friendly products

Mineral-based flame retardants continue to ensure growth for Nabaltec AG's innovative and eco-friendly products. In addition to the issues of flue gas development and flue gas toxicity, the stricter fire safety requirements in connection with the new EU Construction Products Regulation have become increasingly important. The new rules require plastic components with a high share of aluminum hydroxide, which must be highly processable as well. A long and intensive collaboration between our application engineers and our customers has culminated in the market launch of ACTILOX® PA-B2 in 2020. ACTILOX® PA-B2 is a processing aid which also acts as a flame retardancy booster. This product allows our customers to equip APYRAL®-based HFFR compounds for the highest flame retardancy requirements without having to compromise processability or other properties.

For years, we have been seeing a trend in the refractory industry towards increased use of highly reactive aluminum oxides. As a result, Nabaltec AG's development activities in the refractory industry have been heavily oriented towards expanding its know-how with regard to reactive alumina. We were able to place a new highly reactive aluminum oxide on the market in 2020, NABALOX® NO 530. With its bimodal grain size distribution, NABALOX® NO 530 is optimized for the viscosity requirements of the refractory castable and the mechanical strain on mixers.

Collaboration with customers in connection with the GRANALOX® product family, which has traditionally been highly individualized, was characterized by a geographical extension of the customer base to Asian users in 2020 as well. The successes in this area include the development of new ultra-pure materials and obtaining the first approvals. The newly developed products have been successfully placed in automotive applications in particular, in addition to applications in the electronics sector. Electrical mobility has also opened up potential new applications in engineering ceramics and ceramic components are being increasingly used in high-voltage electronics and sensors.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

Economic performance in 2020 sustainably impacted by the occurrence of the coronavirus pandemic

The emergence of the coronavirus pandemic and the consequences of measures taken in an effort to contain its spread had a lasting impact on economic performance in 2020, and this impact continues to do this day. In particular, the first big lockdown in the first and second quarters of 2020 resulted in a global economic downturn. In its October outlook and its update in January 2021, the International Monetary Fund (IMF) continues to describe a steep recession in 2020, although the magnitude of the recession was somewhat weaker than had been expected in the June 2020 outlook. As a result, many economies were able to recover faster than originally expected through autumn of 2020. The IMF 2020 outlook in October 2020 called for world output to drop by 4.4% relative to 2019. In January 2021, this forecast was raised slightly, and the IMF now expects a drop of 3.5%.

The two main reasons why the recession in 2020 was weaker than expected, according to the IMF, are China's return to growth, which was stronger than expected, and the extensive, rapid and unprecedented fiscal, monetary and regulatory measures which have been adopted in many countries. These measures had the effect of preserving household disposable income, protecting corporate cash flow and facilitating lending. On the whole, the IMF contends that it is thanks to these measures that a repetition of the financial crisis of 2008/2009 has been avoided.

Germany in 2020 with declining GDP of 5.0%

Germany's GDP is expected to drop by 5.0% in 2020, according to the Federal Ministry of Economics and Energy. The strong recovery in the third quarter, with 8.5% growth for the quarter, was slowed by the partial lockdown in November and the subsequent intensification and extension of lockdown measures. The Ministry expects stagnation at best in the fourth quarter.

Evidently, the industrial sector has been less affected by the new lockdown. Production in the manufacturing industry in November 2020 was up slightly from the previous month, by 0.9%, as production was up in both the industrial and the construction sectors (by 1.2% and 1.4% respectively). The IMF provides a similar description of developments on the global scale, pointing out that, unlike previous recessions, the downturn triggered by the pandemic has affected service-oriented sectors most of all, while the industrial sector has been affected to a somewhat lesser extent.

Despite the recession and the severity of the pandemic, the IMF is optimistic for 2020 and the coming years, due in particular to the expansion of coronavirus testing, improved treatment methods and the speed of the vaccine roll-out, as well as the heightened sense of international solidarity with regard e.g. to the lifting of trade restrictions for medical equipment and financial support for at-risk countries.

2.1.2 INDUSTRY SITUATION

The year 2020 left its mark on the German chemical industry as well, as industry revenues were down 6.0% to EUR 186.4 billion and chemicals production was down 3.0%. The total workforce remained stable, at 464,000.

The long-term trend of growing demand for non-halogenated flame retardant fillers, and aluminum hydroxide in particular, remains intact. Independent market forecasts call for annual global demand growth of 4.2% through 2025 (ATH-based, source: Frost & Sullivan, 2019). Market growth is stimulated above all by the growing public awareness as to the need for fire safety as well as the ongoing replacement of potentially hazardous flame retardants with eco-friendly, halogen-free aluminum hydroxide. This trend has had a particularly positive effect on the fine precipitated aluminum hydroxide product segment. The long-term outlook for boehmite is also excellent, in the estimation of Nabaltec AG, with a wide variety of applications, above all in electric vehicles. We expect European production of lithium ion batteries to ramp up significantly in the next one to two years. As a result, the potential for boehmite in Europe will be gradually increased, alongside the Asian market.

The long-term trend of growing demand for non-halogenated flame retardant fillers remains intact

In the “Specialty Alumina” product segment, the refractory market is shaped by demand within the steel industry. That sector is currently in a weak state, resulting in a significant downturn especially for manufacturers of refractory products in Europe, and therefore for Nabaltec as well. The trend towards high-quality refractory products and wear-resistant ceramics is continuing. Market experts estimate that the market for refractory products and technical ceramics will grow at a rate of 2.6% per year through 2025 (source: Roskill, 2019).

2.2 COURSE OF BUSINESS

Nabaltec’s course of business in 2020 was largely shaped by the impact of the coronavirus pandemic. The market environment worsened as early as the first quarter, so that results in the first three quarters were down sharply from the previous year, and it was not until the fourth quarter of 2020 that the company was once again able to generate growth.

Course of business in 2020 was largely shaped by the coronavirus pandemic

Consolidated revenues were EUR 159.6 million in 2020, compared to EUR 179.0 million in the previous year (down 10.8%). Revenues in the “Functional Fillers” product segment came to EUR 114.2 million, compared to EUR 122.2 million in the previous year (down 6.5%), while revenues in the “Specialty Alumina” product segment were EUR 45.4 million, compared to EUR 56.8 million in the previous year (down 20.1%).

Costs were reduced thanks to the quick adoption of cost-cutting measures, such as cutting working hours and reducing the number of temporary employees. Starting in April 2020, Nabaltec took advantage of the opportunity offered by the collective bargaining agreement to reduce weekly working time. Specifically, working time was cut by 12% through 31 October 2020, with a corresponding reduction in pay. Pay for all non-collective employees was reduced by the same amount, as well as for the Management Board. As of 1 November 2020, working time for collective employees was cut by 6.7%, with a corresponding reduction in pay.

As was announced in an ad-hoc notice on 27 October 2020, Nabaltec will be writing down the book value of Nashtec’s property, plant and equipment in the US in its 2020 financial statements, resulting in an expense in the amount of EUR 23.7 million. This expense was offset by price gains from the consolidation of other operating income, in the amount of EUR 1.1 million. This move was prompted by the fact that capacity utilization at Nashtec

Writing down the book value of Nashtec’s property, plant and equipment in the US resulted in an expense in the amount of EUR 23.7 million

LLC had dropped below 50% due to COVID-19, and sales in the North American market are expected to be slow to recover in the coming years. This was in addition to write-downs on inventories and non-recurring expenses due to abandonment of the mullite product range in the amount of EUR 2.7 million. Non-recurring effects weighed down earnings by a combined total of EUR 25.3 million. Accordingly, Nabaltec AG reported EBIT of EUR –15.9 million in its 2020 financial statements, compared to EUR 18.6 million in the previous year. In addition to EBIT, these measures also had the effect of reducing consolidated earnings and consolidated assets. The non-recurring effects had no impact on liquidity.

Adjusting for non-recurring effects yields an operating profit (EBIT) of EUR 9.4 million

Adjusting for non-recurring effects yields an operating profit (EBIT) of EUR 9.4 million in 2020 and an EBIT margin (EBIT as a percentage of total performance) of 6.0%. This was attributable in particular to the aforementioned cost-cutting measures. EBITDA amounted to EUR 23.6 million at the end of 2020, compared to EUR 32.3 million in 2019 (down 26.9%).

Due to the uncertainty of the economic and sector environment, as well as mounting pressure on sale prices, Nabaltec had originally expected slight revenue growth in Financial Year 2020 and an EBIT margin in the high single digits. The forecast was suspended on 30 April 2020 due to the unforeseeable impact of the coronavirus pandemic, and was not updated through the end of 2020. On the whole, thanks to its strong fourth quarter, Nabaltec AG's 2020 results were better than could have been expected at the end of the third quarter.

2.3 SITUATION

2.3.1 EARNINGS POSITION

Nabaltec revenues amounted to EUR 159.6 million (–10.8%) in 2020

Nabaltec Group earned EUR 159.6 million in revenues in Financial Year 2020, compared to EUR 179.0 million in the previous year (down 10.8%). A further optimized product mix, thanks in particular to the outstanding performance of the boehmite product area, played a key part in stabilizing revenues, as did the return to growth in the fourth quarter for nearly all product ranges.

The quarterly results reflect the economic situation in the course of the coronavirus pandemic. Revenues came to EUR 45.4 million in the first quarter, compared to EUR 48.5 million in the same quarter of last year (down 6.4%). The steepest revenue loss came in the second quarter, when revenues were down 25.7% from the same period of last year, dropping from EUR 49.0 million to EUR 36.4 million. The situation stabilized in the third quarter, as revenues were down 15.5% from the third quarter of 2019 (EUR 43.9 million), to EUR 37.1 million. In the fourth quarter, revenues were up 7.7% from the same period of last year.

The export ratio was down slightly on the year, but remains at a very high level: dropping from 76.4% in the previous year to 75.1% in 2020. The drop in the export ratio was especially steep during the first lockdown, as deliveries had to be temporarily reduced due to the closure of international borders, making it temporarily more difficult to supply markets in the US and the rest of Europe. But this trend reversed itself as the year went on, and the export ratio in the fourth quarter was 77.4%.

Incoming orders amounted to EUR 163.6 million for the year as a whole, compared to EUR 162.3 million in the previous year. Nabaltec ended the year 2020 with EUR 39.9 million in orders on hand, compared to EUR 35.9 million in the year before. This figure once again reflects the fact that customers have been placing shorter-term orders due to the uncertainty of the current environment.

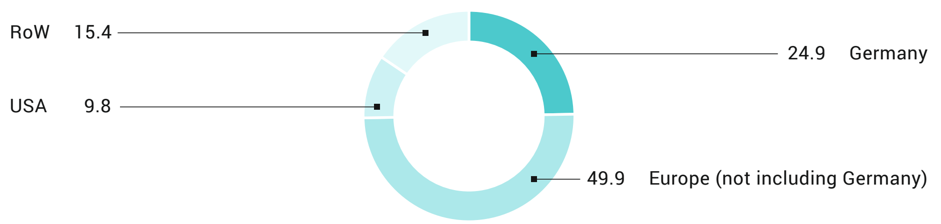
Revenues in the "Functional Fillers" product segment amounted to EUR 114.2 million in Financial Year 2020, compared to EUR 122.2 million in the previous year. The decrease in revenues is largely attributable to the worsening in market conditions as a result of the pandemic, as well as increased price pressure. Revenues in the boehmite product range were up throughout the year, as revenues were up 48.1% over the previous year. Boehmite revenues accounted for around 10% of total revenues (previous year: 6%).

Revenues in the "Functional Fillers" product segment at EUR 114.2 million; boehmite product range with revenue growth of 48.1%

Revenues in the "Specialty Alumina" product segment came to EUR 45.4 million in Financial Year 2020, down 20.1% from the previous year. The decrease in revenues is due to the general weakening in the refractory industry, which has resulted in weaker demand and lower prices.

REVENUES BY PRODUCT SEGMENT, 2020 (IN EUR MILLION)

REVENUES BY REGION, 2020 (IN %)



Nabaltec Group's total performance was EUR 155.7 million in 2020, compared to EUR 181.7 million in the previous year. The decrease in total performance can be attributed to two factors: weaker revenue performance relative to the year before and the deliberate drawdown in inventories of finished goods and merchandise and work in process.

Total performance in the year 2020 at EUR 155.7 million

Other operating income increased to EUR 2.6 million (previous year: EUR 1.5 million) and included non-recurring effects from price gains arising from consolidation in the amount of EUR 1.1 million, in addition to currency gains and other income from services and deliveries to third parties.

OPERATING EXPENSE RATIOS AS A PERCENTAGE OF TOTAL PERFORMANCE (IN %)

	2020	2019
Cost of materials	48.2	46.5
Personnel expenses	20.6	19.6
Other operating expenses	17.8	17.0

Write-downs arising from the non-recurring effects in the amount of EUR 24.1 million

The depreciation ratio (depreciation as a percentage of total performance) was 25.3% in 2020, compared to 7.5% the year before. Depreciation amounted to a grand total of EUR 39.4 million, including write-downs arising from the non-recurring effects described above, in the amount of EUR 24.1 million, in connection with the impairment of Nashtec's property, plant and equipment and the second-quarter write-down of equipment which is no longer needed following closure of the mullite production facility at the Schwandorf site. Not including this extraordinary write-downs, the depreciation ratio would be 9.8% in 2020.

Additional non-recurring effects in the US and in connection with the closure of the mullite production facility, in the amount of EUR 2.3 million, largely resulted from the write-down of inventories, which went towards cost of materials in 2020. Accordingly, the cost of materials ratio (cost of materials as a percentage of total performance) increased to 48.2% (2019: 46.5%). The gross earnings ratio (gross earnings as a percentage of total performance) fell from 54.4% to 53.4% due to price discounts, as well as the non-recurring effects described above. In absolute terms, gross earnings amounted to EUR 83.2 million, down EUR 15.6 million from the year before.

The personnel expense ratio (personnel expenses as a percentage of total performance) increased from 19.6% in the previous year to 20.6% in 2020. The number of Group employees decreased from 514 on 31 December 2019 to 490 on 31 December 2020. Measures taken to cut costs and a lower allocation to pension reserves had the effect of reducing personnel expenses by EUR 3.6 million relative to last year's value.

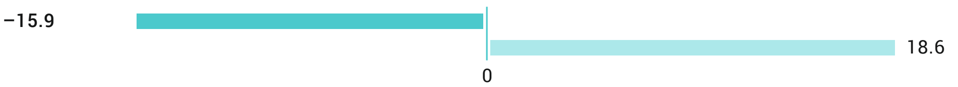
Other operating expenses fell from EUR 30.9 million to EUR 27.7 million, largely due to the decrease in freight costs because of the demand situation and lower commissions for commercial agents, as well as the significantly lower cost of business travel and trade shows due to the COVID-19 situation. The expense ratio (ratio of other operating expenses to total performance) increased from 17.0% in the previous year to 17.8%.

EBITDA 2020 at EUR 23.6 million, compared to EUR 32.3 million in the previous year

Earnings before interest, taxes, depreciation and amortization (EBITDA) were EUR 23.6 million, compared to EUR 32.3 million in 2019 (down 26.9%). The EBITDA margin (EBITDA as a percentage of total performance) was 15.2% in 2020.

Adjusting for depreciation and amortization in Financial Year 2020 yields an operating profit (EBIT) of EUR –15.9 million, including non-recurring effects, compared to EUR 18.6 million in the year before.

EBIT (IN EUR MILLION)



The non-recurring effects in 2020 had a corresponding impact on earnings before taxes (EBT) as well as consolidated earnings. As a result, EBT came to EUR –17.8 million in the reporting year (2019: EUR 15.9 million), including EUR –2.0 million in net financial income. In the previous year, net financial income amounted to EUR –2.7 million. This improvement resulted from repayment of the first tranche of the loan against borrower's note in April 2020, in the amount of EUR 31.0 million, and the receipt of a bilateral loan with improved terms, in the amount of EUR 20.0 million.

Tax expenses came to EUR 1.8 million in Financial Year 2020 (2019: EUR 5.2 million), including deferred taxes in the amount of EUR –0.5 million (2019: EUR –1.0 million). A tax expense was incurred despite the consolidated net loss as a result of the income tax situation in Germany.

Consolidated earnings came to EUR –19.7 million in the financial year just closed, compared to EUR 10.7 million the year before. As a result, earnings per share were EUR –2.23 in the reporting year, compared to EUR 1.22 in 2019.

Earnings per share was EUR –2.23

Segment report: developments in the product segments

FUNCTIONAL FILLERS (IN EUR MILLION)

	2020	2019
Revenues	114.2	122.2
EBITDA	18.3	22.1
EBIT	–17.3	11.9
Investments	7.0	15.3

Revenues in the "Functional Fillers" product segment were down 6.5% in 2020, to EUR 114.2 million. The revenue losses were largely attributable to worsening market conditions in the first nine months of the year as a result of the pandemic, as well as mounting price pressure. The segment once again posted growth in the fourth quarter of 2020, which underscores the fact that the fundamental market drivers for products in the "Functional Fillers" segment remain intact. Non-halogenated flame-retardant fillers remain on the rise worldwide due to their eco-friendly nature.

The "Functional Fillers" product segment once again posted growth in the fourth quarter

REVENUES IN THE "FUNCTIONAL FILLERS" PRODUCT SEGMENT BY QUARTER (IN EUR MILLION)

EBITDA decreased by 17.2% in the reporting year, from EUR 22.1 million to EUR 18.3 million.

"Functional Fillers" product segment was the focus of investments in 2020

The "Functional Fillers" product segment was the focus of investments within Nabaltec Group in 2020, accounting for around 68% of total investments, which were made primarily for the construction of production facilities at Naprotec LLC in the US, increasing capacity in the boehmite product area, further optimizing production processes, improving infrastructure and replacement investments at the Schwandorf site.

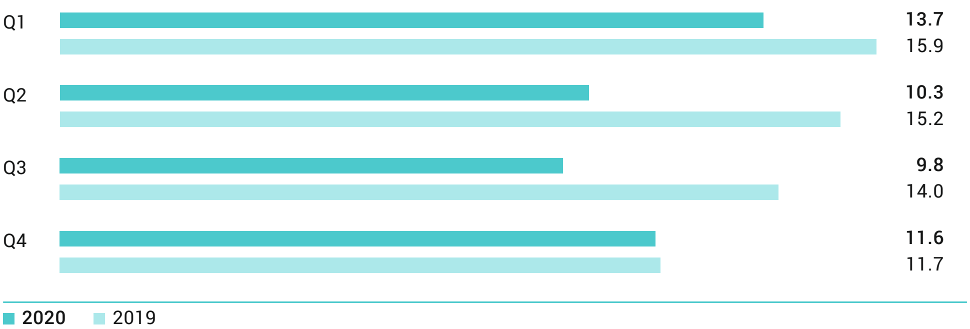
SPECIALTY ALUMINA (IN EUR MILLION)

	2020	2019
Revenues	45.4	56.8
EBITDA	5.3	10.3
EBIT	1.5	6.7
Investments	3.3	4.7

Investments in the "Specialty Alumina" product segment went primarily into expanding capacity for high value-added products

Revenues in the "Specialty Alumina" product segment decreased by 20.1% in the reporting year, from EUR 56.8 million to EUR 45.4 million. This change was particularly attributable to the pre-existing downturn in the European steel industry and the resulting weakening in the refractory industry, exacerbated by the effects of the pandemic, as well as by the drop in prices.

REVENUES OF THE "SPECIALTY ALUMINA" PRODUCT SEGMENT BY QUARTER (IN EUR MILLION)



EBITDA in the "Specialty Alumina" product segment was down 48.5% from the year before, from EUR 10.3 million to EUR 5.3 million.

Around 32% of total investments went into the "Specialty Alumina" product segment, primarily into expanding capacity for high value-added products and optimizing production processes.

2.3.2 LIQUIDITY POSITION

Financial management is assigned to the Management Board directly and primarily includes managing the capital structure, managing liquidity, interest rate and currency hedging and obtaining funds. The subsidiaries are integrated into the Group's liquidity management system.

Nabaltec counters fluctuations in the USD/EUR exchange rate by using exchange rate hedging instruments when such a course is indicated due to the volatility of the markets or the scope of the foreign exchange transactions.

Fluctuations in exchange rates are neutralized in most cases

Nabaltec also uses various interest rate hedging instruments with a mid- to long-term interest rate lock period (e.g. interest rate swaps) on a case-by-case basis in connection with variable-interest outside financing.

Funding to finance growth and investments is secured by means of existing loans and through operating cash flow.

Nabaltec AG's loans against borrower's notes are subject to covenants tied to Group "leverage coverage ratios" and the Group equity ratio. None of the covenants in effect as of 31 December 2020 were breached in the 2020 reporting year.

The first tranche of the 2015 loan against borrower's note, in the amount of EUR 31.0 million, was repaid as agreed in April 2020. The payment was made by taking out a bilateral loan with a volume of EUR 20.0 million, paid out in April 2020, and by extending overdraft lines by EUR 20.0 million.

In addition, a loan against borrower's note from 2013 with a volume of EUR 0.5 million was repaid on time in October 2020.

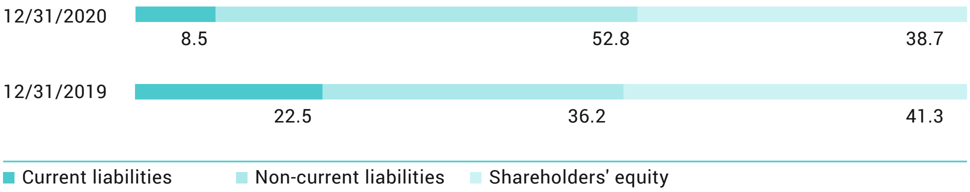
2.3.2.1 CAPITAL STRUCTURE

Nabaltec AG's capital stock is EUR 8.8 million. Due to the impact of non-recurring effects and the associated reduction in earnings, consolidated shareholders' equity decreased to EUR 76.8 million as of 31 December 2020, down from EUR 98.9 million on 31 December 2019. The equity ratio was 38.7% on 31 December 2020. This still represents a very strong capital base by industry standards.

Equity ratio of 38.7%

Non-current liabilities amounted to EUR 104.8 million on 31 December 2020, compared to EUR 86.7 million at the end of 2019. Current liabilities decreased from EUR 53.9 million on 31 December 2019 to EUR 16.9 million. This was due to the repayment in April 2020 of the first tranche of the 2015 loan against borrower's note, in the amount of EUR 31.0 million, and the addition of EUR 20.0 million in non-current liabilities through a new loan.

LIABILITIES STRUCTURE (IN %)



Other off-balance sheet financing instruments

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

2.3.2.2 INVESTMENTS

Nabaltec made EUR 10.3 million in investments in 2020

Nabaltec Group made EUR 10.3 million in investments last year, compared to EUR 20.0 million the year before. Around 30% of the investments went towards projects in the US, primarily in order to build up production capacity at Naprotec LLC. Around 70% of investments were made in the Schwandorf site, and particularly in technical equipment and machinery for capacity expansion, infrastructure, process optimization and replacement investments.

In 2021, Nabaltec AG expects investments to go primarily towards expanding boehmite capacity, process optimization and infrastructure.

2.3.2.3 CASH FLOW

Nabaltec Group's operating cash flow increased from EUR 22.4 million to EUR 24.3 million in 2020. The increase in depreciation and changes in working capital, particularly the decrease in inventories, had the effect of increasing cash flow.

Spending on investments decreased from EUR 20.0 million in the year before to EUR 10.3 million. Around 30% of this total went towards investments in US subsidiaries. Another focus of investment was increasing production capacity for boehmite and reactive alumina at the Schwandorf site.

A dividend payout in the amount of EUR 1.3 million took place in 2020

Net cash flow from financing activity was EUR –14.6 million in 2020, compared to EUR –3.7 million in 2019, due to payments in connection with amortization of the debt against borrower's note. A dividend payout in the amount of EUR 1.3 million took place in the year just closed. Interest paid in the reporting year amounted to EUR 1.8 million.

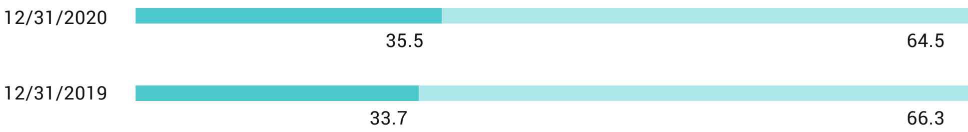
Nabaltec AG's free cash flow was EUR 14.0 million in 2020, compared to EUR 2.3 million in 2019.

Nabaltec Group's total funds, consisting of the sum of cash and cash equivalents, amounted to EUR 26.4 million on 31 December 2020, compared to EUR 29.0 million on the reporting date of the year before.

2.3.2.4 FINANCIAL POSITION

Total assets decreased from EUR 239.6 million on 31 December 2019 to EUR 198.6 million. This decline was driven by the write-down, which affected non-current assets.

ASSET STRUCTURE (IN %)



Current assets   Non-current assets

As part of assets, property, plant and equipment decreased from EUR 155.6 million on 31 December 2019 to EUR 123.9 million in 2020, due in particular to the extraordinary write-down. Total non-current assets fell accordingly, dropping to EUR 128.1 million on 31 December 2020 from EUR 158.8 million on 31 December 2019. Non-current assets accounted for 64.5% of total assets as of 31 December 2020, while current assets amounted to 35.5% of total assets.

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

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

Revenue growth, EBIT and EBIT margin are used as key performance indicators

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

Other ratios used by Nabaltec AG:

RETURN ON SALES AND CAPITAL (IN %)

	2020	2019
Return on equity	–25.7	10.8
Return on capital employed (ROCE)	–10.2	9.9

Return on equity, consisting of the ratio of consolidated net income to shareholders' equity, amounted to –25.7% in the reporting year, compared to 10.8% in the year before.

Return on capital employed (ROCE) is the ratio of EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to –10.2%, compared to 9.9% in the previous year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Trainee ratio of 11.0% in 2020, well above the industry average

At the end of 2020, Nabaltec Group had a total of 490 employees (31 December 2019: 514), of whom 474 work in Germany (31 December 2019: 498). This figure also includes 54 trainees (31 December 2019: 53). Nabaltec sets a high value on good training. In 2020 as well, the trainee rate represented a remarkably large share of the workforce, 11.0%. This rate again exceeded the industry average significantly in 2020. Nabaltec's trainees are regularly among the best of their class. Training positions are currently available (m/f/d) for industrial clerks, digitization management clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists, as well as for chemicals production workers.

Nabaltec offers its employees prospects and opportunities for advancement within the company in order to promote identification with the company by these means as well, and to encourage hard work and commitment. Nabaltec AG is a family-friendly company which has been recognized multiple times. Nabaltec supports its employees in all life situations, offering individual arrangements to improve work/life balance. The company also offers numerous programs designed to maintain and improve employee health within the framework of health management. In this context, Nabaltec AG has received silver-standard "Healthy Company" certification from the health insurance provider AOK Bayern in recognition of its strong commitment to corporate health management.

Customer relations

In recent years, Nabaltec has been able to continually strengthen its market position and develop it in certain areas. With Nashtec LLC in the US resuming production, the production site in Chattanooga, USA, going online, and the operations of the distribution subsidiary in Shanghai, China, Nabaltec has taken more significant steps for even closer collaboration with its customers all over the world.

Distribution subsidiary in Shanghai significantly expanded sales in the reporting year

Nabaltec's distribution subsidiary in Shanghai significantly expanded its operations and revenues in the reporting year. E-mobility customers in emerging markets in particular, both in China and throughout the Asia-Pacific region, have received timely and satisfactory service thanks to effective cooperation from the distribution subsidiaries in Shanghai and Tokyo. Reliable and comprehensive on-site service pays off, particularly for commercial and technical solutions and in connection with the successful launch of newly developed product solutions in thermal management applications for energy storage systems. In addition to deliveries for e-mobility applications, the company has also succeeding in acquiring and developing new business in the conventional filler and specialty alumina markets thanks to its unique proximity to customers.

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

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

Nabaltec products are deliberately developed to meet customer needs

A basic prerequisite for Nabaltec's market success is products which are specifically developed and optimized to meet customers' requirements, and which are steadily supplied in the needed quantities over long periods of time in consistently optimal quality. Joint development projects often result in long-term supply contracts and lasting relationships. Particularly for new products, Nabaltec often undergoes long and intensive approval procedures with its customers. In most cases, the successful conclusion of these procedures results in long-term supply agreements. Nabaltec confronts customer requirements e.g. in the fields of electrical mobility and lithium ion battery applications with a high density of communications, e.g. in its subsidiaries, and through the quick deployment of working groups, which take on a variety of tasks in close cooperation with customers, such as quality management, ensuring reliable delivery and optimizing products. Process development and approval procedures continue to be expedited in order to promote the successful development of e-mobility operations in particular.

Management systems

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and trade association requirements, Nabaltec decided as far back as 2007 to introduce a health and workplace safety management system in accordance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series) in addition to its existing quality and environmental management systems in accordance with ISO 9001 and ISO 14001. In 2020, successful surveillance audits for the existing management systems based on ISO 9001 and ISO 14001 were performed at the Schwandorf site. In addition, the existing workplace safety and health management system in accordance with BS OHSAS 18001 was successfully transitioned to the new ISO 45001 standard in the course of a transition audit.

Nabaltec introduced a certified energy management system as early as 2010

In order to be able to effectively meet the requirements of a continuously changing energy market, Nabaltec introduced a certified energy management system as early as 2010. The energy management system was successfully updated in 2020 in the course of a surveillance audit.

The accreditation of Nabaltec AG's analysis center in accordance with the ISO/IEC 17025 standard was confirmed and updated in a 2020 surveillance audit.

A surveillance audit was also successfully performed in 2020 for US subsidiary Nashtec LLC's quality management system in accordance with the ISO 9001 standard.

EcoVadis awarded Nabaltec AG a silver medal in 2020 for its commitment to sustainability.

Environmental protection

Conservation of natural resources is a major concern for Nabaltec

Nabaltec requires its own products to significantly contribute toward environmental protection and toward the improvement of the eco balance of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. They are used in diesel particulate filters and catalyzers and play an important role in reducing particulate matter and soot. Other product families are used in plastics, where they are replacing largely brominated flame retardants. This makes products safer and easier to recycle. In this respect, it is of central importance that research and development, production as well as up- and downstream logistics to be as environmentally friendly as possible. The conservation of natural resources is a central concern for Nabaltec and a prerequisite for social acceptance of the company. Nabaltec AG actively accepts responsibility for the environment: a commitment that extends well beyond its own site.

Reduction of CO_2 emissions by obtaining thermal energy from the neighboring waste-to-energy plant in Schwandorf

Technical ceramics materials are recycled and reintegrated into the production process, a practice which contributes to the sustainable use of raw materials. In addition, a very substantial percentage of Nabaltec's energy requirements are met through renewable energy in collaboration with the Schwandorf special-purpose association for waste recycling. By obtaining thermal energy from the neighboring waste-to-energy plant in the form of steam and electricity, Nabaltec AG is doing its part to reduce CO_2 emissions.

In general, Nabaltec endeavors to develop production processes with a closed loop for all production facilities. Regarding the handling of chemicals, such as lye, which are used for the production of fine hydroxide, Nabaltec consistently seeks to keep them from being released into the environment and instead to ensure that they are reused in a closed-loop production cycle.

In waste management, collecting individual categories of waste in compactors has significantly reduced shipments. This in turn will reduce traffic volume to and from Nabaltec and emissions of carbon dioxide, nitrous gases and particulate matter in the immediate vicinity of the company. Nabaltec will continue to pursue this goal. With regard to maintaining air purity, the focus is on future requirements. Nabaltec AG participates in the Sevilla Process, which defines the best available techniques for industrial equipment within the EU.

However, the non-financial performance indicators mentioned above are not used for centralized management of the company or the Group.

3. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

3.1 OUTLOOK

OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

Nabaltec foresees largely intact sales markets for its products in 2021 as well, but with an uncertain market environment and increased volatility. The company has taken a leading international position within its markets. Based on its existing market position and the reputation it has built up over many years, Nabaltec sees good future prospects for its key products.

Nabaltec foresees largely intact sales markets for its own products in 2021

ECONOMIC AND SECTOR CONDITIONS

In its January 2021 outlook update, the IMF projects global GDP growth of about 5.5% in 2021 and around 4.2% in 2022. The IMF expects global GDP growth to weaken to about 3.5% in the medium term. Progress in reaching the pre-pandemic growth forecast through 2025 will be limited, as advanced economies as well as emerging markets and developing economies will be confronted with production losses and increased personnel shortages. For all three groups, the IMF expects that efforts to improve the standard of living will suffer a severe setback and goes so far as to state that the pandemic will have the effect of reversing the progress which had previously been made in the fight against global poverty, resulting in higher inequality.

At the same time, the IMF's forecast for this year involves an unusually high amount of uncertainty, as it is based on assumptions which are shakier than is typically the case, in terms of both public health and economic performance. For example, the IMF notes in its outlook that progress in treatment and vaccination may come slower than expected, and that not every country may have equal access to these resources. Although the recent vaccine approvals give reason to hope for a turnaround over the course of this year, the emergence of new waves and new variants of the virus raises concerns and makes the outlook less bright.

IMF's forecast for this year involves an unusually high amount of uncertainty

In Germany, the economic recovery is already slowing, now that measures have once again been taken for a nationwide shutdown after the pandemic flared up again in November 2020. Because of these continuing measures, which will run into the first quarter of 2021, the Kiel Institute for the World Economy (IfW) expects Germany's Gross Domestic Product to decrease, although not as sharply as in the spring of 2020. On the whole, IfW expects Germany's GDP to grow by 3.1% in 2021. Assuming Germany is successful in combating the pandemic, IfW expects to see a strong recovery in 2022, with 4.5% GDP growth. However, the second wave of the pandemic has slowed the job market recovery and imposed an even greater burden on public finances than was foreseeable in autumn of last year. Significant losses are expected in these areas in both 2021 and 2022.

GDP GROWTH FORECAST OVER PRIOR YEAR (IN %)

	2021	2022
World	6.1	4.5
USA	3.7	3.5
Euro zone	4.9	4.0
Germany	3.1	4.6
France	6.3	3.6
Italy	5.3	3.6
United Kingdom	6.5	4.0
Japan	3.7	2.0
China	9.2	5.9
India	11.6	8.8

Source: IfW, Kieler Konjunkturberichte No. 73 "Weltkonjunktur im Winter 2020," 16 December 2020

The chemicals industry association VCI (Verband der Chemischen Industrie e.V.) expects production to increase by 1.5% in 2021, with revenues climbing by 2.5%. But VCI expects the total number of employees to drop slightly, by 1.0%, due to structural changes in the industry, a process which was accelerated by the coronavirus pandemic. According to a VCI survey, the association's members generally expect that the chemical industry will be slow to return to where it was before the pandemic broke out: 47% of the companies surveyed expect the crisis to be overcome no earlier than 2022.

Long-term outlook in key target markets is largely positive

The long-term outlook in key target markets is largely positive, in Nabaltec's view. We are expecting moderate growth in the short term given the difficulty of the general economic environment, which will be associated with high volatility in the company's target markets.

OUTLOOK ON THE COURSE OF BUSINESS

Sales improved at the start of 2021

Sales improved at the start of 2021, resulting in a high utilization ratio for Nabaltec. However, incoming orders still tend to be short-term in nature, reflecting the current uncertainty in the market. In the US, Nabaltec expects Nashtec's production to slowly normalize over the medium term. The launch of Naprotec's products was delayed because of the coronavirus pandemic, and the originally expected revenues will not be realized until a later date due to delays in customer approval procedures. Because of the current situation, it will take longer than expected to build the market.

Orders on hand amounted to EUR 39.9 million as of 31 December 2020.

In 2021 as well, fine hydroxides will continue to be the most important product range by far within the "Functional Fillers" product segment. Boehmite is also continuing to gain importance due to the positive trend in electric mobility. Products with high added value are increasingly gaining importance in the "Specialty Alumina" product segment.

EXPECTED EARNINGS, NET ASSETS AND FINANCIAL POSITION

Nabaltec is expecting revenue growth in a range from 6% to 9% in 2021 and an EBIT margin in the range from 8% to 10%

Due to the economic and industry environment and continuing pressure on sale prices, Nabaltec is expecting revenue growth in a range from 6% to 9% in 2021. On the earnings side, Nabaltec is expecting an EBIT margin in a range from 8% to 10%. This forecast assumes positive performance in the economy and in the sectors of relevance for Nabaltec. At the time the forecast was prepared, in late February 2021, it was not yet clear how the continuing efforts to contain the coronavirus pandemic will affect the course of business. If the pandemic spreads, a negative impact on earnings cannot be ruled out.

Intensified political measures to curb the coronavirus pandemic, such as closure of some international borders and lockdowns, remain in effect. These measures may continue to affect Nabaltec AG's economic performance. If the consequences of the pandemic intensify in 2021, revenues and earnings may decline. At the time this report was prepared, Nabaltec's supply chains remained intact, with no disruptions in either procurement or sales.

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 are not under Nabaltec Group's control, affect future sales and earnings. As a result, actual results may deviate from the statements and forecasts made in this report.

3.2 RISKS AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

Effective risk management is decisive to secure the company's prospects in the long term

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

Nabaltec is constantly working to develop the company's and the Group's risk management system. The continuous optimization of risk prevention tools in all areas enables the early identification and elimination of business risks. Integral elements include risk management as an ongoing process, risk controlling, extensive communication and documentation processes, as well as an internal monitoring system. All discernable internal and external risks are identified, documented, assessed and included in a risk matrix as efficiently as possible. This risk matrix represents the basic framework for the assessment of potential risks and for the identification of key risks.

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

Implementation of a strategic planning system in order to take advantage of medium and long-term opportunities and to identify risks

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

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

SALES MARKET

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

PROCUREMENT MARKET

Supply of key energy sources is secured through long-term contracts

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

FINANCIAL MARKET

When necessary, foreign exchange risks are strategically minimized using hedging instruments covering risks arising from US dollar exposure. In case of medium-term financing, interest risks are hedged using swaps or loan agreements are concluded with fixed interest rates. Nabaltec Group has a detailed financial and liquidity forecast which is subjected to routine comparisons of estimates against results. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. The risk of changes in interest rates is countered in part through hedging. Nabaltec AG's loan agreements are subject in some cases to covenants which are tied e.g. to Group leverage coverage ratios as well as the Group's equity ratio. If the covenants are not observed, the lender has the option to increase the interest margin or exercise its right of extraordinary termination. Covenants valid as of 31 December 2020 were not breached in the reporting year.

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

PERSONNEL

Intensive continuing education and management training programs

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

PRODUCTION, PROCESSES AND IT

Production-specific risks are clear and manageable

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

ENVIRONMENTAL PROTECTION

Environmental risks can arise from exceeding admissible thresholds for noise and dust pollution or through the emission of hazardous substances. Nabaltec counters these risks by means of extensive environmental management based on ISO 14001, which is accredited and is periodically further developed and audited. Nabaltec uses largely closed-loop production processes, e.g. for water and lye.

TECHNOLOGICAL DEVELOPMENT

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

LEGAL FRAMEWORK

Statutory conditions at the moment are creating additional market opportunities

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

As an intensive electricity user in international competition, Nabaltec will benefit from the renewable energy surcharge in 2021 as well. Nabaltec uses fossil fuels, for which it will be charged a carbon price in Germany starting in 2021. This will result in an additional cost burden in the mid-six figures for Nabaltec in 2021.

CORONAVIRUS

Reference is made to the section on "expected earnings, net assets and financial position" with regard to the procurement and sales risks posed by the coronavirus pandemic.

SUBSEQUENT EVENTS

Due to the winter onset of the century in mid-February 2021 in Texas, USA, energy prices for gas and electricity have increased exorbitantly during this period. Nashtec is directly affected by this one-time event, accordingly we expect additional energy costs in the USA in the low single-digit million range for the month of February 2021.

OVERALL ASSESSMENT

Group-risks are well managed

Based on 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 current and potential customers, the company's future development is currently not exposed to any significant risks. On the whole, potential impact of the company's and the Group's risk is limited, in our estimation. Subject to unexpectedly grave negative economic consequences from the coronavirus pandemic, which is not yet over, there are currently no discernable risks which could jeopardize the future existence of the company or the Group.

Schwandorf, 22 March 2021

Nabaltec AG
The Management Board

JOHANNES HECKMANN **GÜNTHER SPITZER** **DR. MICHAEL KLIMES**

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2020	1/1/ – 12/31/2019
Revenues	5.1	159,576	179,034
Change in inventories of finished goods and work in progress		–4,283	1,877
Own work capitalized	5.2	367	772
Total performance		**155,660**	**181,683**
Other operating income	5.3	2,571	1,543
Cost of materials	5.4	–74,987	–84,433
Gross earnings		**83,244**	**98,793**
Personnel expenses	5.5	–31,993	–35,596
Depreciation	5.7	–39,415	–13,713
Other operating expenses	5.8	–27,699	–30,856
Operating profit (EBIT)		**–15,863**[1]	**18,628**
Interest and similar income	5.10	67	132
Interest and similar expenses	5.11	–2,039	–2,817
Earnings before taxes (EBT)		**–17,835**	**15,943**
Taxes on income	5.12	–1,818	–5,242
Net after-tax earnings		**–19,653**	**10,701**
Earnings per share (in EUR)[2]	7.5	**–2.23**	**1.22**

[1] *thereof non-recurring effects in the amount of EUR –25.3 million*
[2] *also see 6.9*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2020	1/1/ – 12/31/2019
Net after-tax earnings		–19,653	**10,701**
Items which may be reclassified to profit and loss in the future			
Currency translation (after taxes)		–3,182	704
Net income from hedge accounting (after taxes)		407	388
Total		–2,775	**1,092**
Items which will not be reclassified to profit and loss in the future			
Actuarial gains and losses (after taxes)		1,638	–6,875
Total		1,638	**–6,875**
Other comprehensive income		–1,137	**–5,783**
Total comprehensive income		–20,790	**4,918**

CONSOLIDATED BALANCE SHEET

FOR 31 DECEMBER 2020

ASSETS

in TEUR	See Notes	12/31/2020	12/31/2019
Non-current assets		**128,127**	**158,831**
Intangible assets			
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments)	6.1	452	502
Property, plant and equipment		123,940	155,563
Land, leasehold rights and buildings, including buildings on unowned land	6.2	37,571	47,237
Technical equipment and machinery	6.2	75,604	90,902
Other fixtures, fittings and equipment	6.2	3,964	4,079
Advance payments and assets under construction	6.2	6,801	13,345
Financial assets		78	78
Shares in affiliated companies	6.3	78	78
Deferred tax assets	5.12	3,657	2,688
Current assets		**70,485**	**80,761**
Inventories		32,888	40,502
Raw materials and supplies	6.4	20,460	23,871
Work in process	6.4	1,235	1,029
Finished goods and merchandise	6.4	11,193	15,602
Other assets and accounts receivable		11,243	11,275
Trade receivables	6.5	5,128	5,582
Taxes receivable	6.5	432	0
Other assets	6.7	5,683	5,693
Cash and cash equivalents	6.8	26,354	28,984
TOTAL ASSETS		**198,612**	**239,592**

LIABILITIES

in TEUR	See Notes	12/31/2020	12/31/2019
Shareholders' equity		**76,835**	**98,945**
Subscribed capital	6.9	8,800	8,800
Capital reserve	6.9	47,029	47,029
Earnings reserve	6.9	9,699	9,699
Profit carry-forward		49,772	40,391
After-tax earnings		–19,653	10,701
Other changes in equity with no effect on profit and loss	6.9	–18,812	–17,675
Non-current liabilities		**104,830**	**86,711**
Pension reserves	6.10	44,492	46,373
Other provisions	6.10	1,361	1,378
Accounts payable to banks	6.11	58,977	38,960
Current liabilities		**16,947**	**53,936**
Accounts payable from income taxes	6.11	0	3,122
Other provisions	6.10	446	187
Accounts payable to banks	6.11	505	31,924
Trade payables	6.11	11,610	13,395
Other accounts payable	6.11	4,386	5,308
TOTAL LIABILITIES		**198,612**	**239,592**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

CONSOLIDATED CASH FLOW STATEMENT

in TEUR		See Notes	1/1/ – 12/31/2020	1/1/ – 12/31/2019
Cash flow from operating activity				
Earnings before taxes			–17,835	**15,943**
+	Depreciation of fixed assets	5.7	39,415	13,713
–/+	Income/loss from the disposal of assets		–1	8
–	Interest income	5.10	–67	–132
+	Interest expenses	5.11	2,039	2,817
Net operating income before changes in working capital			23,551	**32,349**
+/–	Increase/decrease in provisions		329	184
–/+	Increase/decrease in trade receivables and other assets not attributable to investment of financing activity		464	727
+/–	Increase/decrease in inventories		7,614	–5,878
+/–	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity		–1,899	272
Cash flow from operating activity before taxes			30,059	**27,654**
–	Income taxes paid		–5,745	–5,286
Net cash flow from operating activity			24,314	**22,368**

CONSOLIDATED CASH FLOW STATEMENT

in TEUR		See Notes	1/1/ – 12/31/2020	1/1/ – 12/31/2019
Cash flow from investment activity				
+	Payments received from the disposal of property, plant and equipment		10	0
–	Payments made for investments in property, plant and equipment	6.2	–10,209	–19,854
–	Payments made for investments in intangible assets	6.1	–124	–168
Net cash flow from investment activity			**–10,323**	**–20,022**
Cash flow from financing activity				
–	Dividends		–1,320	–1,760
+	Payments received from loans	6.11	20,000	0
–	Payments made for the amortization of loans	6.11	–31,500	0
–	Interest paid		–1,782	–2,036
+	Interest received		17	63
Net cash flow from financing activity			**–14,585**	**–3,733**
Net change in cash and cash equivalents			**–594**	**–1,387**
Change in funds due to changes in exchange rates			**–2,036**	**82**
Funds at start of period		6.8	28,984	30,289
Funds at end of period		6.8	**26,354**	**28,984**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholders' equity attributable to shareholders of Nabaltec AG		
in TEUR	Subscribed capital	Capital reserve	Earnings reserve
1 January 2019	**8,800**	**47,029**	**9,699**
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	**–**	**–**	**–**
31 December 2019	**8,800**	**47,029**	**9,699**
1 January 2020	**8,800**	**47,029**	**9,699**
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	**–**	**–**	**–**
31 December 2020	**8,800**	**47,029**	**9,699**

Profit carry-forward	Other changes in equity with no effect on profit and loss	Consolidated shareholders' equity
42,151	**–11,892**	95,787
–1,760	–	–1,760
–	–6,875	–6,875
–	704	704
–	388	388
–	–5,783	–5,783
10,701	–	10,701
10,701	**–5,783**	4,918
51,092	**–17,675**	98,945
51,092	**–17,675**	98,945
–1,320	–	–1,320
–	1,638	1,638
–	–3,182	–3,182
–	407	407
–	–1,137	–1,137
–19,653	–	–19,653
–19,653	**–1,137**	–20,790
30,119	**–18,812**	76,835

STATEMENT OF CONSOLIDATED FIXED ASSETS

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

in TEUR	Cost of acquisition/production 1/1/2020	Additions	Disposals	Reclassification	Currency differences	12/31/2020
Intangible assets	**3,410**	**124**	**0**	**0**	**0**	**3,534**
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	3,313	48	0	84	0	3,445
Advance payments	97	76	0	−84	0	89
Property, plant and equipment	**286,750**	**10,208**	**22**	**0**	**−6,331**	**290,605**
Land, leasehold rights and building, including buildings on unowned land	64,756	255	0	105	−1,562	63,554
Technical equipment and machinery	195,439	5,682	0	9,738	−4,516	206,343
Other fixtures, fittings and equipment	13,210	723	22	107	−111	13,907
Advance payments and assets under construction	13,345	3,548	0	−9,950	−142	6,801
Financial assets	**78**	**0**	**0**	**0**	**0**	**78**
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	**290,238**	**10,332**	**22**	**0**	**−6,331**	**294,217**

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

in TEUR	Cost of acquisition/production 1/1/2019	Additions	Disposals	Reclassification	Currency differences	12/31/2019
Intangible assets	**3,242**	**168**	**0**	**0**	**0**	**3,410**
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	3,133	120	0	60	0	3,313
Advance payments	109	48	0	−60	0	97
Property, plant and equipment	**265,687**	**19,854**	**21**	**0**	**1,230**	**286,750**
Land, leasehold rights and building, including buildings on unowned land	54,030	831	0	9,714	181	64,756
Technical equipment and machinery	164,913	7,919	8	22,234	381	195,439
Other fixtures, fittings and equipment	11,823	1,173	13	209	18	13,210
Advance payments and assets under construction	34,921	9,931	0	−32,157	650	13,345
Financial assets	**78**	**0**	**0**	**0**	**0**	**78**
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	**269,007**	**20,022**	**21**	**0**	**1,230**	**290,238**

Depreciation					Book value	
1/1/2020	Additions	Disposals	Currency differences	12/31/2020	12/31/2020	12/31/2019
2,908	**174**	**0**	**0**	**3,082**	**452**	**502**
2,908	174	0	0	3,082	363	405
0	0	0	0	0	89	97
131,187	**39,241**	**13**	**–3,750**	**166,665**	**123,940**	**155,563**
17,519	9,438	0	–974	25,983	37,571	47,237
104,537	28,892	0	–2,690	130,739	75,604	90,902
9,131	911	13	–86	9,943	3,964	4,079
0	0	0	0	0	6,801	13,345
0	**0**	**0**	**0**	**0**	**78**	**78**
0	0	0	0	0	78	78
134,095	**39,415**	**13**	**–3,750**	**169,747**	**124,470**	**156,143**

Depreciation					Book value	
1/1/2019	Additions	Disposals	Currency differences	12/31/2019	12/31/2019	12/31/2018
2,733	**175**	**0**	**0**	**2,908**	**502**	**509**
2,733	175	0	0	2,908	405	400
0	0	0	0	0	97	109
117,310	**13,538**	**14**	**353**	**131,187**	**155,563**	**148,377**
15,389	2,049	0	81	17,519	47,237	38,641
93,755	10,530	1	253	104,537	90,902	71,158
8,166	959	13	19	9,131	4,079	3,657
0	0	0	0	0	13,345	34,921
0	**0**	**0**	**0**	**0**	**78**	**78**
0	0	0	0	0	78	78
120,043	**13,713**	**14**	**353**	**134,095**	**156,143**	**148,964**

CONSOLIDATED NOTES

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

1. GENERAL

Nabaltec AG, with registered office in Schwandorf, Germany[1], was formed by Company Agreement of 14 December 1994 with the corporate name Nabaltec GmbH and registered office in Schwandorf (entered into the Commercial Register of the Local Court of Amberg under Commercial Register No. B 3920). It acquired the specialty oxides business of VAW aluminium AG in 1995 and was transformed into a joint-stock company in 2006.

The corporate purpose pursuant to § 2 of the Articles of Association is the manufacture of products based on mineral raw materials, particularly aluminum hydroxide and aluminum oxide, and the distribution of those products.

The shares of Nabaltec AG have been listed in the open market division of the Frankfurt Stock Exchange since 24 November 2006. They have been listed in the new "Scale" segment since 1 March 2017.

The present consolidated financial statements were approved by the Management Board on 22 March 2021.

2. ACCOUNTING POLICIES

The recognition and measurement methods presented below are consistently applied in all of the reporting periods presented here.

2.1 PRINCIPLES OF ACCOUNTING

The consolidated financial statements for 31 December 2020 (including disclosures for the year before as of 31 December 2019) were prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU, as well as the provisions of the German Commercial Code which are to be observed additionally in accordance with § 315e (1) of the German Commercial Code. The IFRS include the International Financial Reporting Standards and International Accounting Standards (IAS) published by the International Accounting Standards Board, as well as the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All valid standards adopted by the EU were applied for Financial Year 2020.

[1] *Nabaltec AG, Alustraße 50 – 52, 92421 Schwandorf, Germany*

The consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position.

Nabaltec AG's financial year runs from 1 January to 31 December of each year.

The consolidated financial statements are presented in Euros (EUR). Unless otherwise indicated, all values are rounded up or down to the nearest thousand Euros (TEUR) using commercial rounding. It should be noted that differences may arise when using rounded numbers and percentages.

Disclosures distinguish between current and non-current assets and liabilities, which in some cases are detailed in the Consolidated Notes according to their time to maturity.

The consolidated statement of comprehensive income is prepared in accordance with the total cost method.

2.2 ACCOUNTING STANDARDS APPLIED

All accounting standards whose application is mandatory for annual periods beginning on 1 January 2020 were applied for Financial Year 2020. This particularly includes the following standards and interpretations, which were to be applied for the first time:

- **Amended references to the Conceptual Framework in IFRS:** The Conceptual Framework for Financial Reporting is not an accounting standard and none of the concepts it contains takes precedence over any of the concepts or requirements in the individual standards. The revised Conceptual Framework contains a few new concepts, updated definitions and criteria for the recognition of assets and liabilities, as well as clarifying a few key concepts. The Conceptual Framework particularly serves to help the IASB develop standards and help entities develop consistent accounting methods in cases where the accounting treatment of a transaction is not determined by any existing standard, as well as helping all parties understand and interpret the standards. The changes affect references to the Conceptual Framework in the individual standards, as well as citations from the Conceptual Framework. These amendments had no impact on the consolidated financial statements.

- **Amendments to IAS 1 and IAS 8: "Definition of materiality":** The amendments contain a new definition of "materiality." They clarify that information is deemed "material" if omitting, misstating or obscuring it could reasonably be expected to influence decisions by the primary users of the financial statements. This new definition of materiality includes the concept of "obscuring" information for the first time as a standard for determining whether disclosures are material. It relates to the primary users of the financial statements, as defined in the Conceptual Framework since 2010. It also states that, to be material, this information must be reasonably expected to influence decisions. These changes were made so as to adjust the definition of materiality in order to conform with the statements regarding materiality in the 2018 Conceptual Framework and make them generally easier to apply. The revised definition of materiality is only found in IAS 1. IAS 8 merely points out that the definition in IAS 1 is to be applied accordingly. Application of the amendments had no impact on the consolidated financial statements.

- **Amendments to IFRS 3: "Definition of a business":** The amendments to IFRS 3 serve to clarify the definition of a business. They help the entity ascertain whether a transaction should be recognized as a business combination or as the acquisition of assets. They specify the minimum requirements for an entity to be considered a "business" (presence of at least one input factor and a substantive process that together significantly contributes to the ability to create outputs). The former requirement for an assessment as to whether market participants are capable of replacing any missing elements in this process has been removed. Additional guidance is to be added in order to help entities determine whether a substantive process has been acquired. In addition, the definitions of business and output have been narrowed by focusing on services to customers. The amendments also introduce an optional concentration test which is to permit a simplified assessment. In addition, illustrative examples have been added in order to demonstrate how the amendments are to be applied. These amendments had no impact on the consolidated financial statements but may in theory have an impact in future periods if the Group executes business combinations.

- **Amendments to IFRS 9, IAS 39 and IFRS 7:** The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The amendments are relevant for the Group because of a variable-interest loan against borrower's note in the amount of TEUR 39,000 which is hedged by an interest rate swap. The amendments allow for the continuation of hedge accounting even if there is uncertainty as to the amount and timing of hedged cash flows due to the reform of interest reference rates. The amendments did not result in any adjustments to the consolidated income statement or the balance sheet.

- **Amendments to IFRS 16: "COVID-19-related rent concessions":** On 28 May 2020, the IASB published amendments to IFRS 16. The amendments provide relief to lessees from applying IFRS 16's guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-related lease concession from a lessor is a lease modification. A lessee that makes this election accounts for any qualifying change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. The amendments take effect for annual reporting periods beginning on or after 1 June 2020, but earlier application is permitted. These amendments had no impact on the consolidated financial statements because the Group did not exercise this option in the reporting year.

The following standards and interpretations, which have been published but are not yet mandatory, have not been applied early:

- **Amendments to IAS 1 – Classification of liabilities as current or non-current:** In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 (Presentation of Financial Statements) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - what is meant by a right to defer settlement;
  - that the right to defer settlement must exist at the end of the reporting period;
  - that classification is unaffected by the likelihood that an entity will actually exercise its deferral right;
  - that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

  The amendments take effect for annual reporting periods beginning on or after 1 January 2023, subject to adoption into EU law, and are to be applied retrospectively. The amendments are not expected to have an impact on current accounting practices.

- **Amendments to IFRS 3 (Business Combinations) – Reference to the Conceptual Framework:** In May 2020, the IASB published amendments to IFRS 3. The amendments replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing the existing provisions of the Standard. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "Day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, if incurred separately. At the same time, the Board decided to add a clarifying statement pointing out that existing rules for contingent assets in IFRS 3 would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments take effect in annual reporting periods beginning on or after 1 January 2022, subject to adoption into EU law, and are to be applied prospectively.

- **Amendments to IAS 16 (Property, Plant and Equipment – proceeds before intended use):** In May 2020, the IASB published amendments to IAS 16 under which entities would no longer be permitted to deduct from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the entity is to recognize these proceeds, and the cost of producing those items, in profit or loss. The amendments will take effect in reporting periods beginning on or after 1 January 2022, subject to adoption into EU law, and are to be applied retroactively for property, plant and equipment that become operational on or after the beginning of the earliest reporting period presented in the financial statements in which the amendments are first applied. The Group does not expect the amendments to have any impact on the consolidated financial statements.

- **Amendments to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets): Onerous Contracts — Cost of Fulfilling a Contract:** In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. These amendments will take effect in annual reporting periods beginning on or after 1 January 2022, subject to adoption into EU law. The Group will apply these changes to contracts for which it has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- **Improvements to Various International Financial Reporting Standards (2018 – 2020):** As part of its annual improvements to the IFRS for the 2018 – 2020 cycle, the IASB has made amendments to IFRS 1 (First-Time Adoption of International Financial Reporting Standards: subsidiary as a first-time adopter), IAS 41 (Agriculture: taxation in fair value measurements) and IFRS 9 (Financial Instruments: fees in the "10%" test for derecognition of financial liabilities). The amendments will take effect in annual reporting periods beginning on or after 1 January 2022, subject to adoption into EU law. Earlier application is permitted. The Group does not expect any notable impact on the consolidated financial statements.

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 based on Phase 2 of the IBOR reform project:** In August 2020, the IASB published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments relate to the reform of interest reference rates (IBOR reform), and especially to associated changes in contractual cash flows and hedging transactions. The amendments affect the following:

  - **Changes in contractual cash flows:** if reform of the interest reference rate results in a change in contractual cash flows, the carrying amount of the affected financial instruments is not to be adjusted or derecognized; rather, the effective interest rate is to be updated.
  - **Hedge accounting:** hedging relationships need not be discontinued based only on changes required as a result of IBOR reform, provided the hedging relationship meets the other requirements for the recognition of hedging relationships.
  - **Disclosure requirements:** entities are required to disclose information about new risks arising from the IBOR reform and about how the transition to the new reference interest rates is being managed.

  The amendments are to be applied in reporting periods beginning on or after 1 January 2021. Earlier application is permitted. The amendments are not expected to have a material impact on the consolidated financial statements.

2.3 SUBSIDIARIES AND CONSOLIDATED COMPANIES

The consolidated financial statements include the financial statements of the parent company and the companies it controls (its subsidiaries), insofar as they are material for presentation of the financial, earnings and liquidity position. The company obtains control when it

- can exercise power over the investee;
- is exposed to variable returns from its investment; and
- has the ability to affect those returns through its power over the investee.

The composition of the Group is evident from the table below:

NUMBER OF COMPANIES

	2020	2019
Nabaltec AG and fully consolidated subsidiaries		
Domestic	1	1
Foreign	4	4
Unconsolidated subsidiaries		
Foreign	1	1

The following subsidiaries were included in the consolidated financial statements of Nabaltec AG as fully consolidated companies:

NAME OF SUBSIDIARY

			Share of capital and voting rights	
Name of subsidiary	Main business	Registered office	12/31/2020 in %	12/31/2019 in %
Nashtec LLC	Production of aluminum hydroxides	Corpus Christi, USA	100.00	100.00
Nabaltec USA Corporation	Administration and distribution	Corpus Christi, USA	100.00	100.00
Naprotec LLC	Production	Chattanooga, USA	100.00	100.00
Nabaltec (Shanghai) Trading Co., Ltd.	Marketing and distribution	Shanghai, China	100.00	100.00

There has been no change to the consolidation base since the consolidated financial statements for 31 December 2019.

In Financial Year 2018, Nabaltec AG acquired land and buildings in Chattanooga, Tennessee for the construction of a production plant for refined hydroxide. Naprotec LLC was formed as a production company for this purpose. The shares in Naprotec LLC were contributed into the newly formed subsidiary Nabaltec USA Corporation in Financial Year 2018. The shares in Nashtec LLC were also contributed into Nabaltec USA Corporation.

Nabaltec AG also formed Nabaltec (Shanghai) Trading Co., Ltd. in October 2018, based in Shanghai, China. The formation of this trading company represents the logical continuation of Nabaltec's expansion of operations in Asia.

The following subsidiary was not included in the consolidated financial statements of Nabaltec AG since it is not material for presentation of the financial, liquidity and earnings position.

NAME OF SUBSIDIARY

Name of subsidiary	Main business	Registered office	Share of capital and voting rights 12/31/2020 in %	12/31/2019 in %
Nabaltec Asia Pacific K.K.	Marketing and sales	Tokyo, Japan	100.00	100.00

All individual financial statements of the consolidated companies, which are prepared in accordance with national law, were reconciled to IFRS and adapted to the Group's accounting policies.

The reporting dates of all companies included in the consolidated financial statements are 31 December.

2.4 CONSOLIDATION METHODS

Capital consolidation for the subsidiaries was performed by netting out the book value of each investment with each subsidiary's remeasured capital at the time of the acquisition (remeasurement method). The cost of acquisition is equal to the fair value of the assets paid, the equity instruments issued and the liabilities incurred and assumed on the transaction date (the date of exchange), plus the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities in connection with a business combination are measured upon initial consolidation at their fair value as of the acquisition date, regardless of the amount of non-controlling interests. The amount by which the cost of acquisition exceeds the Group's share in the net assets of the subsidiary, measured at fair value, is recognized as goodwill. If the cost of acquisition is lower than the net assets of the acquired subsidiary, measured at fair value, the difference is recognized immediately in the consolidated statement of comprehensive income, following additional review.

The impact of all material intra-Group transactions is eliminated by netting out income and expenses and accounts receivable and payable between Group companies. Interim results from intra-Group sales of assets which have yet to be resold to third parties are eliminated. The tax deferrals required in accordance with IAS 12 are performed on temporary differences arising from consolidation measures.

The results of subsidiaries which are acquired or sold over the course of the year are included in the consolidated statement of comprehensive income from the time the Group begins to exercise control until the time that such control ceases.

2.5 CURRENCY TRANSLATION

The consolidated financial statements are prepared in Euros.

Foreign-currency monetary items (liquid funds, accounts receivable, accounts payable) in the individual financial statements of consolidated companies which are prepared in the local currency are measured at the closing rate. Exchange differences are recognized in profit and loss. Non-monetary items denominated in foreign currency are recognized at the historical rates.

The translation of the financial statements of the consolidated companies, which are prepared in a foreign currency, is performed based on the functional currency concept in accordance with IAS 21, “The effects of changes in foreign exchange rates,” using the modified closing rate method. Since the subsidiaries essentially operate independently in financial, economic and organizational terms, the functional currency is identical to each company’s national currency.

Accordingly, assets and liabilities are translated at the closing rate, shareholders’ equity at the historical rate and income and expenses at the average rate for the year. Differences arising from currency translation are not recognized in profit and loss and are instead recognized separately in shareholders’ equity under “other changes in shareholders’ equity with no effect on profit and loss.”

Currency differences relative to currency translation in the year before are recognized in shareholders’ equity under “other changes in equity with no effect on profit and loss.”

Initial historical costs and depreciation of fixed assets are translated at the exchange rate in effect on the last reporting date, while depreciation and all other transactions during the year are translated at the average exchange rate for the year. The translation of the foreign subsidiaries’ fixed assets results in translation differences which are presented in separate columns in the statement of fixed assets.

3. USE OF ASSUMPTIONS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions which affect the measurement of assets and liabilities, the disclosure of contingent assets and liabilities as of the reporting date and the recognition of income and expenses. However, due to the uncertainty associated with these assumptions and estimates, events may occur which require substantial adjustments to the book values of the affected assets and liabilities in future periods. Estimates and discretionary decisions are subject to added uncertainty given the currently unforeseeable global consequences of the coronavirus pandemic. The global economy underwent a severe slump in 2020 due to the pandemic, and Nabaltec Group's performance was weighed down substantially by its effects, resulting in a negative impact on consolidated revenues, EBIT and EBIT margin. Given the lack of clarity as to the future development of the coronavirus pandemic, the general economic outlook is difficult to predict, particularly for 2021, which may have a corresponding impact on the forecast. The Management Board's current estimates call for significant growth in consolidated revenues and EBIT as early as 2021, based on the expectation that demand will continue to recover. These expectations are based on the assumption that there will be no material impact as a result of possible slumps in demand due to the pandemic. Moreover, the estimates are generally based on the assumption that the effects of the pandemic will be overcome over the course of Financial Year 2021 and that business operations will continue to recover, with the related expectation that market performance will return to pre-crisis levels in the medium term. If the coronavirus advances further and continues to spread, this may result in revenue losses and unexpected effects on earnings and liquidity. In view of the fact that infections are rising once again, and with the emergence of highly infectious mutations of the virus, the associated risks are difficult to measure. Effects on the consolidated financial statements relating to the coronavirus may also arise from volatile foreign exchange rates, payment defaults, changing revenue and cost structures and uncertain forecasts with respect to the amount and timing of cash flows. These factors may affect the fair values and carrying amounts of assets and liabilities and the amount and timing of income realization, as well as cash flow. As a result, negative deviations from the assumptions made in advance may require impairment of goodwill and/or other non-current assets, while positive deviations may lead to the reversal of impairments. Estimates and discretionary decisions of relevance to the consolidated financial statements have been updated with due regard for available information about expected economic performance, as well as government measures in specific countries.

These assumptions and estimates relate primarily to the following:

- Determining the **useful lives** of property, plant and equipment and intangible assets: the useful lives of fixed assets are based on management's estimates. The Group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each year. There were no changes to estimated useful lives during the current year.

- The option in accordance with IFRS 1.16, in conjunction with IFRS 1.18, for measurement of **land and buildings** at fair value in the IFRS opening balance sheet was exercised. The remeasurement of land and buildings on 1 January 2007 was performed with due regard for outside expert opinions, and recently based on fair value.

- **Pensions** and other **post-employment employee benefits**: pension plans are measured based on actuarial calculations. Actuarial measurement is performed based on assumptions with regard to discount rates, expected income from plan assets, future increases in wages and salaries, mortality and future pension increases. Such estimates are subject to considerable uncertainty in view of the long-term nature of these plans. Provisions for pensions and similar obligations amounted to TEUR 44,492 on 31 December 2020 (year before: TEUR 46,373). Further details are presented in Section 6.10, “Current and non-current provisions.”

- Measurement of **other provisions**: provisions are measured using management’s best estimate of the amount necessary to settle the current obligation as of the reporting date. As of 31 December 2020, the book value of recognized other provisions was TEUR 148 (year before: TEUR 187). We refer to the explanations in Section 6.10, “Other current and non-current provisions,” for further statements and information.

- Recognition of **deferred taxes**: in assessing the realizability of deferred taxes, the Management Board ascertains the likelihood that all deferred tax assets will be realized. The ability to realize deferred tax assets is ultimately contingent upon whether sufficient taxable income is earned in the periods in which temporary differences are deductible. If that is not the case, the deferred tax assets are not used and are therefore not recognized. Deferred tax assets as of 31 December 2020 (prior to netting out with deferred tax liabilities) amounted to TEUR 12,979 (year before: TEUR 12,300).

- **Impairment** of non-financial assets: impairment tests of other intangible assets and property, plant and equipment are performed as the circumstances require and are generally based on the estimated future discounted net cash flows which are to be expected from continued use of the asset and from disposal of the asset at the end of its useful life. Factors such as diminished revenues, resulting in lower net cash flows, as well as changes in discounting factors, may result in impairment or a write-up, if permissible.

Actual results in future periods may deviate from estimates. If better information becomes available, changes are made with effect on profit and loss.

4. MAJOR ACCOUNTING POLICIES

4.1 REVENUE REALIZATION

Revenues from the sale of goods are recognized in accordance with the criteria established in IFRS 15 in the amount of the expected consideration once the customer obtains control over the goods and can derive benefits from them.

The point in time at which control over the delivered goods is transferred typically confirms to the time of delivery or the contractual date for the passage of risk. Nabaltec's revenues are realized exclusively at specific points in time. Accordingly, the timing of revenue realization at Nabaltec does not involve significant discretionary decisions. Customers' payment targets are set within narrow periods and no financing components exist.

Revenues are diminished by variable consideration (cost of sales and discounts).

For more detailed information, please see Section 5.1, "Revenues."

4.2 REALIZATION OF EXPENSES

Expenses are recognized on an accrual basis. Operating expenses are recognized in profit and loss at the time of their accrual, or at the time the service is utilized.

4.3 RESEARCH AND DEVELOPMENT COSTS

Nabaltec AG invests part of its financial resources in research and development performances. In addition to internal development activities relating to the individual optimization of purchased software, this particularly includes research and development activities for the improvement of existing products and processes and the development of new products and processes.

Research costs are recognized as expenses in the period in which they accrued. The Group only recognizes development costs in connection with individual projects as intangible assets if it can demonstrate the technical feasibility that the asset will be completed so that it will be available for internal use or sale, as well as its intention to complete the asset and use or sell it. The Group must also show that the asset will generate a future economic benefit, the availability of resources to complete the asset and the ability to reliably determine the expenses attributable to the asset during its development.

Following the first-time recognition of development costs, the cost model is applied, i.e. the asset is recognized at cost less accrued depreciation and impairment costs. Costs include directly attributable personnel expenses and other direct costs, as well as a reasonable share of overhead costs. The capitalized amounts are depreciated over the useful life of the asset once it is commissioned.

Capitalized development costs are tested for impairment once a year if the asset has yet to be used or if there are indications of impairment over the course of the year.

Nabaltec AG generally capitalizes all material development costs which accrue in the development phase of internally developed software. These costs are depreciated over the expected useful life of the software beginning with initial use.

Since the Group's development projects are often subject to official approval procedures and other unpredictable events, the requirements for the capitalization of costs accruing prior to approval are generally not met, or the amount of such costs in the brief period between the research/approval and market launch is immaterial.

No development costs were capitalized as of 31 December 2020 (year before: TEUR 0).

4.4 INTANGIBLE ASSETS

Purchased intangible assets are recognized at cost less straight-line depreciation. Depreciation of intangible assets is generally performed in straight-line fashion over the useful life of the asset.

The depreciation term is as follows:

- IT software 4 – 5 years

The residual values of assets, useful lives and depreciation methods are examined at the end of each year and adapted if necessary.

Intangible assets with an indefinite useful life do not exist.

Reference is made to Section 4.3, "Research and development costs," for the capitalization of development costs as self-created intangible assets.

4.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at cost less depreciation, in accordance with the expected useful life of the asset. The cost includes a reasonable share of attributable overhead costs in addition to direct costs.

Depreciation on property, plant and equipment is performed using the straight-line method.

The depreciation terms are as follows:

- Production and office buildings 20 – 50 years
- Technical equipment and machinery 5 – 22 years
- Fixtures, fittings and equipment 3 – 20 years

The residual values of assets, useful lives and depreciation methods are examined at the end of each year and adapted if necessary.

4.6 BORROWING COSTS

Borrowing costs directly associated with the acquisition, construction or production of qualified assets (i.e. assets which take a substantial period of time to get ready for use or sale) are included in the cost of the asset until such time as the asset is ready for its intended use or sale; see Section 6.2, “Property, plant and equipment.”

Income earned from the temporary investment of specifically borrowed funds is subtracted from capitalizable borrowing costs until those funds are spent on qualified assets.

All other borrowing costs are recognized with effect on profit and loss in the period in which they accrue.

4.7 GOVERNMENT GRANTS

Government grants are deducted from the cost of the relevant asset (IAS 20.24). They are reversed over the useful life of the subsidized asset in the form of reduced depreciation.

4.8 LEASES WITH THE GROUP AS LESSEE

The Group makes an evaluation upon the commencement of each contract to determine whether the contract establishes or contains a lease. That is the case if the contract entitles a party to control use of an identified asset in exchange for payment of a fee over a defined period of time.

In accordance with IFRS 16, the Group recognizes right-of-use assets and corresponding lease liabilities at present value, provided those assets or liabilities are material. Exercising the option in accordance with IFRS 16.4, the Group does not apply the new rules to leases of intangible assets.

Nabaltec has resolved to take advantage of the exemption and not to recognize rights of use and lease liabilities based on low-value assets or for short-term leases. The Group recognizes lease payments accruing in connection with leases in straight-line fashion over the term of the lease.

The Group recognized no right-of-use assets or corresponding lease liabilities as of 31 December 2020 due to materiality considerations.

4.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The capitalized book value of intangible assets with a limited useful life and property, plant and equipment is checked for impairment based on the expected future cash flows arising from use of the asset (discounted at a rate commensurate with the risk) and based on the net sale price of the asset (impairment test) if certain events or market developments indicate an adjustment of the estimated useful life of the asset, or that the value of the asset has decreased. On each reporting date, an assessment is made as to whether indications are present that non-current assets may be impaired. If such indications exist, the recoverable amount of the asset is determined and compared to its book value. If individual assets do not generate separate cash inflows that are largely independent of those of other assets or groups of assets, the impairment test is performed based on the smallest overarching cash-generating unit. In addition, intangible assets which are not yet ready for use are tested for impairment annually. If the net book value of the asset is higher than the recoverable amount (the higher of the asset’s value in use and net realizable value), a write-down is performed. The determination of expected future cash flows takes into account current and expected future income as well as technological, economic and general developments and developments in the specific field of business. If the reason for an earlier write-down no longer applies, a write-up to the amortized cost of the asset is performed, to the extent permissible.

4.10 FINANCIAL ASSETS

Upon initial recognition, financial assets are classified and measured as follows in accordance with IFRS 9:

- financial assets at amortized cost (AC);
- debt instruments at fair value through other comprehensive income (FVOCI): investments in debt instruments recognized at fair value with changes recognized in other comprehensive income (FVOCI - debt);
- equity instruments at fair value through other comprehensive income (FVOCI): equity investments recognized at fair value with changes recognized in other comprehensive income (FVOCI – equity);
- financial assets at fair value through profit and loss (FVTPL): investments at fair value with changes in value in profit and loss.

Financial assets are not reclassified after initial recognition unless the Group changes its business model for the management of financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period which follows the change in the business model.

Financial assets are recognized at amortized cost if two of the following conditions are met and if the asset is not designated as a financial asset at fair value through profit and loss (FVTPL):

- the asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated as a financial asset held at fair value through other comprehensive income (FVOCI) if one of the following two conditions are met and if the instrument is not designated as a financial asset at fair value through profit and loss (FVTPL):

- the debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of an equity investment not held for trading, the Group may irrevocably elect to recognize subsequent changes in the fair value of the investment in other comprehensive income. This election is made individually for each investment.

All financial assets not held at amortized cost or at fair value through other comprehensive income (FVOCI) are recognized at fair value through profit and loss (FVTPL). This includes all derivative financial assets as well as financial instruments held for trading which are voluntarily designated as financial assets at fair value through profit and loss (FVTPL).

INITIAL MEASUREMENT

Upon initial recognition, financial assets are measured at fair value. For financial assets which are not measured at fair value through profit and loss, the measurement includes transaction costs which are directly attributable to acquisition of the asset.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the Group entered into an obligation to buy or sell the asset or liability. Regular way purchases and sales are purchases or sales of financial assets which call for the assets to be delivered within a period defined by market rules or conventions.

SUBSEQUENT MEASUREMENT

Financial assets at amortized cost (AC)

Assets at amortized cost are measured using the effective interest method in subsequent measurement. Impairment costs are subtracted from the amortized cost of the asset. Interest income, exchange rate gains and losses and impairments are recognized in profit and loss. Gains or losses from derecognition are also recognized in profit or loss.

Debt instruments at fair value through other comprehensive income (FVOCI)

These assets are recognized at fair value in subsequent measurement. Interest income calculated using the effective interest rate method, exchange rate gains and losses and impairments are recognized in profit or loss. Other net gains or losses are recognized in other comprehensive income. Upon derecognition, cumulative other comprehensive income is reclassified as profit or loss.

Equity investments at fair value through other comprehensive income (FVOCI)

These assets are recognized at fair value in subsequent measurement. Dividends are recognized as income in profit and loss unless the dividends are clearly being paid in order to cover part of the cost of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified as profit or loss.

Financial assets at fair value through profit and loss (FVTPL)

These assets are recognized at fair value in subsequent measurement. Net gains and losses, including any interest or dividend income, are recognized in profit and loss.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized when the company loses its ability to dispose over contractual rights to the cash flows comprising the financial asset.

If the Group transfers its contractual rights to the cash flows generated by an asset but neither transfers nor retains substantially all of the risks and rewards associated with ownership of the asset, so that the Group retains its ability to dispose over the transferred asset, the Group continues to recognize the transferred asset to the extent that it has a continuing involvement in the asset.

In some cases, trade receivables are sold to a factor in order to secure early payment. The affected receivables are derecognized at the time of the sale, since all risks and opportunities associated with ownership of the receivables are transferred to the buyer. The security deposit charged by the factoring partner is recognized under other current financial assets, consistent with the general rules of IFRS 9.

4.11 IMPAIRMENT OF FINANCIAL ASSETS

On each reporting date, a test is performed to determine whether financial assets or groups of financial assets are impaired. An impairment loss is recognized immediately in profit and loss.

Financial assets are subject to a standardized expected loss impairment model, which is broken down into a simplified approach for trade receivables and the three-stage general approach for all other financial assets. In the three-stage approach, expected losses upon acquisition of the asset are recognized in the amount of the present value of the expected losses over 12 months (Level 1). If there is a significant increase in credit risk, the loss allowance is to be increased up to the amount of the expected losses over the lifetime of the credit risk (Level 2). If there is objective evidence of impairment, interest is calculated based on the net carrying amount (the carrying amount minus the loss allowance; Level 3).

Trade receivables are recognized at amortized cost less reasonable allowances. Allowances on accounts receivable are performed based on the expected loss.

Allowances are performed on a case-by-case basis if doubts exist as to the recoverability of other assets recognized at amortized cost or financial instruments at fair value through other comprehensive income (FVOCI).

4.12 INVENTORIES

Inventories are measured at cost or at net realizable value, whichever is lower.

Raw materials and supplies are recognized upon addition at cost plus ancillary costs less price reductions. Costs are determined by applying the weighted average method.

Finished goods and work in process are capitalized at their production cost. Production costs include directly attributable production costs as well as a share of attributable fixed and variable overhead production costs. The share of overhead costs is determined based on normal employment. Cost of sales, cost of general administration and borrowing costs are not capitalized.

Finished goods are combined into measurement units as part of a group valuation.

On the reporting date, inventories are written down to account for risks arising from extended storage or diminished realizability, taking into account their net realizable value.

4.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet include cash on hand, bank balances and short-term deposits within original terms to maturity of less than three months. The same definition is used for the purposes of consolidated cash flow statement. Accordingly, the Group’s funds correspond to the “cash and cash equivalents” reported in the balance sheet. Measurement is performed at amortized cost.

4.14 TAXES

Actual taxes on income

Actual tax liabilities and refund claims for the current and all earlier periods are recognized in the amount of the expected payment to or refund from the tax authority. This amount is calculated based on the tax rates and laws in effect as of the reporting date.

Deferred taxes

Deferred tax assets and liabilities are recognized for all temporary differences between tax and IFRS measurement and for consolidation measures with effect on profit and loss using the balance sheet method in accordance with IAS 12, “Income taxes.” Pursuant to IAS 12.34, deferred tax assets for loss carry-forwards or temporary differences may only be recognized to the degree that it is likely that future taxable income will be earned so as to enable deduction of these loss carry-forwards.

Deferred taxes are calculated based on the tax rates in effect at the time of realization, based on the current legal situation. Changes in tax rates are taken into account insofar as they can be expected with adequate certainty.

Deferred tax assets and liabilities are netted out where possible.

4.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING INSTRUMENTS

The Group uses derivative financial instruments to hedge against interest rate and currency risks arising from operations. Financial instruments are measured at fair value as of the reporting date. Changes in value are recognized at profit and loss unless the requirements for hedge accounting are met. Changes in the market value of derivative financial instruments subject to hedge accounting are recognized either in profit and loss (fair value hedge) or as a component of shareholders' equity (cash flow hedge). Hedge accounting was applied in the financial year for cash flow hedges relating to interest rate risks. No currency hedges were used in the reporting year.

Derivative financial instruments which are not designated as hedging instruments are classified as financial assets at fair value through profit and loss. Derivatives are classified as financial assets if their fair value is positive or as financial liabilities if their fair value is negative. Derivative financial instruments are measured at fair value. Changes in the fair value of these derivative financial instruments are recognized in profit and loss.

4.16 SHAREHOLDERS' EQUITY

Shareholder contributions and payments into the capital reserve are recognized, less transaction costs directly associated with the acquisition of shareholders' equity, and with due regard for a possible tax effect.

4.17 OTHER PROVISIONS

Pursuant to IAS 37, "Provisions, contingent liabilities and contingent assets," provisions are recognized insofar as a present obligation towards third parties arises from a past event which is likely to result in a future payment and which can be reliably estimated. This means that the probability of occurrence must be higher than 50%. Provisions are recognized for identifiable risks and contingent liabilities in their probable amount and recourse claims are not taken into account. Non-current other provisions are discounted. The settlement amount includes cost increases as of the reporting date.

Provisions were made for existing service anniversary bonus obligations established by works agreements using the same calculation assumptions as for pension reserves and pension-like liabilities. Service anniversary bonus obligations are calculated using the projected unit credit method.

4.18 PENSION RESERVES

Pension reserves are calculated using the projected unit credit method in accordance with IAS 19. This method takes into account known pensions and vested rights as of the reporting date as well as expected future increases in pensions and salaries, based on a careful assessment of the relevant factors. The calculation is based on an actuarial opinion with biometric assumptions.

The (net) interest component is determined at the start of the period by multiplying (net) pension obligations, i.e. pension liabilities less plan assets, by the discount rate for measurement of the pension obligation. As a result, the interest expense resulting from the compounding of the obligation is netted out with the expected income from plan assets, with the result to be recognized as profit and loss. Expected income from plan assets is assumed to be in the amount of the discount rate.

Deviations between the actual return on plan assets and/or the actual discount rate as of the reporting date and the expected discount rate (= the expected return on plan assets) are recognized as other comprehensive income, like other actuarial gains and losses, as a remeasurement component.

The discount rate for (net) pension obligations is determined based on the yields of high-quality fixed-interest corporate bonds.

The service time component (service cost), which is to be recognized as profit and loss, includes both current service cost and past service costs arising from changes in the plan.

4.19 FINANCIAL LIABILITIES

Financial liabilities in terms of IFRS 9 are classified as “financial liabilities at fair value through profit and loss” or “other liabilities.”

The Group classifies its financial liabilities upon initial recognition and reviews that classification at the end of each year, to the extent reasonable and permissible.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are measured at fair value upon initial recognition. Income and losses due to changes in fair value are immediately recognized as profit and loss. This category includes derivative financial instruments with negative market values. Income and losses from financial liabilities measured at fair value are recognized as profit and loss.

Other liabilities

Loans and bonds are measured at fair value upon initial recognition less directly associated transaction costs. They are not designated as financial liabilities at fair value through profit and loss.

Following initial recognition, interest-bearing loans and bonds are measured at amortized cost using the effective interest method. Differences between the historical cost and the repayment amount are recognized as profit and loss in accordance with the effective interest method.

Financial liabilities, all of which are classified as other liabilities, are measured upon initial recognition at the fair value of the consideration received less associated transaction costs. Following initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized once they are extinguished, i.e. once the underlying obligation is satisfied, cancelled or expired.

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 REVENUES

Revenues are mainly earned from supplying customers with aluminum hydroxide- and aluminum oxide-based products. No other services are provided to customers. Contracts typically come about through individual customer orders. In other words, the contracts consist exclusively of a single performance obligation, i.e. the delivery of goods. A combination of contracts or contractual modifications would not be relevant.

With regard to determination of the transaction price, consideration for Nabaltec is comprised of fixed and variable components. The fixed consideration is the fixed amount specified in the individual order. Variable consideration includes discounts and bonuses, which are subtracted from revenues in the period in which they accrue. Because the terms of the contracts are short (individual orders), there are no significant financing components. Non-cash consideration is not paid.

Nabaltec has no contracts with multiple performance obligations. Accordingly, there is no need to allocate the transaction price based on stand-alone selling prices.

Revenue is realized at a specific point in time. In particular, no products exist which have no alternative use for the company due to practical or contractual limitations. The point in time at which control over the delivered goods is transferred typically conforms to the time of delivery and/or the contractual date for passage of risk.

For the breakdown of revenues into product segments, reference is made to the segment reporting and the associated notes in Section 7.7, “Segment reporting.”

The principal cause for the steep decline in revenues in Financial Year 2020 was the impact of the coronavirus pandemic, which was associated with a sharp drop in sales starting in the first quarter of 2020.

5.2 OWN WORK CAPITALIZED

Own work in the amount of TEUR 367 (year before: TEUR 772) was capitalized in Financial Year 2020 for various technical equipment and machinery, including capitalized interest in the amount of TEUR 103 (year before: TEUR 137).

5.3 OTHER OPERATING INCOME

Other operating income is comprised as follows:

OTHER OPERATING INCOME

in TEUR	2020	2019
Exchange rate differences from consolidation	1,085	0
Currency gains	370	614
Other	235	76
Payments in kind	210	227
Supply of industrial water	163	150
Rent and lease payments	148	157
Analysis Center services	143	183
Insurance indemnities	67	58
Siding and track work	55	3
Warehouse and scrap sales	48	49
HR services	28	26
Income from the disposal of property, plant and equipment	10	0
Allowances on accounts receivable	9	0
Total	**2,571**	**1,543**

Other operating income includes income from exchange rate differences arising from consolidation in the amount of TEUR 1,124 due to write-downs on Nashtec LLC's property, plant and equipment.

5.4 COST OF MATERIALS

Cost of materials is comprised as follows:

COST OF MATERIALS

in TEUR	2020	2019
Cost of raw materials, supplies and purchased goods	72,693	81,601
Cost of purchased services	2,294	2,832
Total	**74,987**	**84,443**

The non-recurring effects arising from write-downs of inventories are presented in the Management Report.

5.5 PERSONNEL EXPENSES

Personnel expenses are comprised as follows:

PERSONNEL EXPENSES

in TEUR	2020	2019
Wages and salaries	26,043	29,754
Social security contributions	4,853	4,934
Expenses for pension obligations	901	713
Other pension expenses	196	192
Total	**31,993**	**35,596**

Expenses for pension obligations meet the criteria for a defined benefit plan in terms of IAS 19.

Other pension expenses consist of employer subsidies to employee pension plans meeting the criteria of a defined contribution plan in terms of IAS 19.

The company's share of statutory pension insurance contributions, in the amount of TEUR 2,109 (year before: TEUR 2,109), are included in social security contributions, which are paid monthly.

5.6 EMPLOYEES

The average number of employees in the Group has changed as follows:

EMPLOYEES

	2020	2019
Industrial workers	250	258
Employees	194	197
Minimally employed workers	3	4
Total	447	**459**

In addition, an average of 51 trainees were employed during the year (year before: 51).

5.7 DEPRECIATION

Depreciation of fixed assets is evident from the above presentation of the Statement of Consolidated Fixed Assets.

If there are indications of impairment, the company performs an impairment test for intangible assets and property, plant and equipment, in which the book value of the cash-generating units is compared against the realizable value. The realizable value of each cash-generating unit was determined by calculating the value in use with the help of the discounted cash flow method. These discounted cash flows are based on three-year forecasts using management-approved projections. The cash flow forecasts take into account past experience and management's best estimate of the company's future development. Forecasted cash flows are discounted using a risk-adequate discount rate.

Impairment tests indicated a need to write down a total of TEUR 24,634 in assets in Financial Year 2020 (previous year: TEUR 0). These write-downs related to allowances in the amount of TEUR 23,712 arising from impairment of Nashtec LLC's property, plant and equipment in the "Functional Fillers" product segment due to lower capacity utilization at Nashtec LLC as a result of the coronavirus pandemic, as well as the expectation that sales in the North American market will be slow to recover in the coming years. The value in use of TEUR 14,880 was estimated using a pre-tax discount rate of 6.3% and a perpetual growth rate of 1% starting in 2024. There were also TEUR 424 in allowances at the Schwandorf site for equipment which is no longer needed following closure of the mullite production site, in the "Specialty Alumina" product segment, as well as write-downs on property, plant and equipment in the amount of TEUR 498 in the "Functional Fillers" product segment.

5.8 OTHER OPERATING EXPENSES

Other operating expenses are comprised as follows:

OTHER OPERATING EXPENSES

in TEUR	2020	2019
Freight	10,364	12,915
Outside services	7,292	7,835
Sales commissions	3,260	3,440
Other taxes	1,148	578
Insurance	1,047	951
Other administrative costs	982	785
Lease payments	933	1,018
Currency losses	911	368
Legal and consulting expenses	595	525
Other	541	842
Ancillary personnel expenses	438	617
Travel expenses	97	563
Advertising expenses	81	402
Losses from the disposal of fixed assets	10	9
Allowances on accounts receivable	0	8
Total	**27,699**	**30,856**

5.9 RESEARCH AND DEVELOPMENT

All research and development costs for the year, in the amount of TEUR 4,186 (year before: TEUR 4,106), were recognized as expenses.

5.10 INTEREST AND SIMILAR INCOME

Interest and similar income is shown in the following table:

INTEREST AND SIMILAR INCOME

in TEUR	2020	2019
Income from plan assets (pension liability insurance)	50	70
Interest income from bank balances	17	62
Total	**67**	**132**

5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are shown in the following table:

INTEREST AND SIMILAR EXPENSES

in TEUR	2020	2019
Interest expenses to banks	865	1,140
Interest expenses from interest rate swaps	632	898
Interest expenses from compounding of provisions	393	733
Interest expenses from factoring	116	0
Interest expenses from other compounding	24	36
Commission on bank guarantees	9	10
Total	**2,039**	**2,817**

5.12 TAXES ON INCOME

Taxes on income break down as follows:

TAXES ON INCOME

in TEUR	2020	2019
Actual taxes:		
Tax expense for current year	2,255	6,190
Tax expense for prior years	22	45
Deferred taxes:		
Accrual and reversal of temporary differences	−1,054	−3,403
Recognized in other comprehensive income not through profit and loss	595	2,410
Total	**1,818**	**5,242**

Taxes on income for Financial Year 2020 consist of current trade and corporate income tax plus the solidarity mark-up.

Deferred taxes are calculated based on the tax rates in effect or expected at the time of realization, taking into account tax rules in effect or adopted as of the reporting date. The calculation of deferred taxes in Germany was based on a tax rate of 29.13% (year before: 29.13%). This number is comprised of the 15% corporate income tax rate, which remains unchanged, the unchanged 5.50% solidarity mark-up and the trade tax rate of 13.30% (year before: 13.30%). Taxes for the foreign companies were calculated using the applicable national tax rates.

The effects of taxes in other comprehensive income, recognized as part of consolidated shareholders' equity, break down as follows for each component:

	Before taxes		Deferred taxes		After taxes	
in TEUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Foreign currency translation	–4,617	961	1,435	–257	–3,182	704
Net income from hedge accounting	574	547	–167	–159	407	388
Actuarial gains and losses	2,311	–9,701	–673	2,826	1,638	–6,875
Total	**–1,732**	**–8,193**	**595**	**2,410**	**–1,137**	**–5,783**

The table below shows the tax reconciliation of the expected tax expense in each year with the actual tax expense recognized in the consolidated income statement:

TAX RECONCILIATION OF THE EXPECTED TAX EXPENSE

	2020	**2019**
Tax rate	**29.13%**	**29.13%**
in TEUR		
Earnings before taxes	**–17,835**	**15,943**
Expected tax expense	**–5,195**	**4,644**
Deviations		
1. Different foreign tax rate	897	445
2. Adjustments to actual taxes from prior years	15	46
3. Losses in current year for which no deferred taxes were claimed	0	39
4. Non-deductible expenses	6,072	69
5. Other	29	–1
Tax expense recognized in the consolidated income statement	**1,818**	**5,242**

Deferred tax assets and liabilities are as follows:

	Consolidated balance sheet		Consolidated income statement	
in TEUR	12/31/2020	**12/31/2019**	2020	**2019**
Deferred tax assets				
Other assets	547	536	11	10
Pension reserves	8,155	8,790	–635	2,839
Other provisions	241	221	20	50
Loss carry-forward	3,053	2,311	742	1,661
Other	983	442	541	–159
Gross total, deferred tax assets	12,979	**12,300**	679	**4,401**
Netting	–9,322	–9,612	0	0
Net total, deferred tax assets	3,657	**2,688**	679	**4,401**
Deferred tax liabilities				
Fixed assets	8,743	8,356	–302	–707
Inventories	567	485	–82	–59
Other	12	771	759	–232
Gross total, deferred tax liabilities	9,322	**9,612**	375	**–998**
Netting	–9,322	–9,612	0	0
Net total, deferred tax liabilities	0	**0**	375	**–998**

The deferred tax asset in the form of the loss carry-forward is attributable in its entirety to Nabaltec USA Corporation. In general, the tax loss carry-forwards in the US, in the amount of TEUR 14,538 (year before: TEUR 11,006), can be carried forward without limitation for purposes of federal tax due to a change in tax law.

Deferred tax claims are only recognized insofar as the company has adequate taxable temporary differences or insofar as there is convincing substantive evidence that adequate taxable income will be available in the future for which unused tax losses can be utilized. Based on management's assumptions and assessments as to future business performance, there is convincing substantive evidence for the realization of these tax claims. This assessment is based on past experiences, as well as currently available information and forecasts. Accordingly, deferred tax assets on loss carry-forwards in the amount of TEUR 3,053 (previous year: TEUR 2,311) were recognized for companies which had negative taxable income in the current or previous year and whose deferred tax assets on loss carry-forwards were not offset by deferred tax liabilities.

Such loss carry-forwards are deductible up to 80% of current taxable income.

Deferred tax assets and liabilities in the US are netted out with deferred tax assets in connection with loss carry-forwards.

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 INTANGIBLE ASSETS

With regard to the change in intangible assets, reference is made to the above presentation of the "Statement of Consolidated Fixed Assets."

Intangible assets largely consist of IT software and proprietary rights.

No intangible assets had been transferred by way of security as of 31 December 2020, as was the case in the prior year as well.

Material obligations to acquire intangible assets did not exist.

6.2 PROPERTY, PLANT AND EQUIPMENT

The change in property, plant and equipment is shown in the Statement of Consolidated Fixed Assets, which is presented above.

As in the year before, no property, plant and equipment served as collateral or land charges for debt.

A total of TEUR 103 in borrowing costs were capitalized in Financial Year 2020 (year before: TEUR 137) for the long-term manufacture of various technical equipment, buildings and operating equipment. The average capitalization rate used for the calculation of capitalizable borrowing costs was 2.10% (year before: 2.60%).

6.3 FINANCIAL ASSETS

Financial assets relate to the Group's 100% interest in Nabaltec Asia Pacific K.K. The subsidiary has not been fully consolidated for materiality reasons.

6.4 INVENTORIES

Inventories are comprised as follows:

INVENTORIES

in TEUR	12/31/2020	12/31/2019
Raw materials and supplies	20,460	23,871
Work in process	1,235	1,029
Finished goods and merchandise	11,193	15,602
Total	32,888	**40,502**

As in the previous year, no inventories serve as collateral for accounts payable to banks.

The impairment of inventories, which is recognized as an expense, amounted to TEUR 2,974 (year before: TEUR 475).

The increase in impairments is particularly attributable to non-recurring effects in the amount of TEUR 682 from the discontinuation of mullite production, as well as TEUR 1,288 in impairments on raw materials held by Nashtec LLC.

6.5 TRADE RECEIVABLES

Trade receivables are as follows:

TRADE RECEIVABLES

in TEUR	12/31/2020	12/31/2019
Gross trade receivables	5,275	5,738
Individual allowances	−147	−156
Total	**5,128**	**5,582**

All trade receivables are not interest-bearing and have a residual term of less than one year.

Trade receivables as of the reporting date were diminished by TEUR 22,568 (previous year: TEUR 22,187) through a non-recourse factoring arrangement, in which the factor assumes the default risk for the receivables. We refer to Section 7.2, "Disclosures concerning financial instruments," with regard to the development of the allowance account and the age structure of accounts receivable.

6.6 TAXES RECEIVABLE

Taxes receivable, in the amount of TEUR 432 (previous year: TEUR 0), consists of tax refund claims against the German tax authorities resulting from corporate income tax, solidarity mark-up and trade tax.

6.7 OTHER ASSETS

Other assets are comprised of other financial assets and other non-financial assets as follows:

OTHER FINANCIAL ASSETS

in TEUR	12/31/2020	12/31/2019
Other assets are comprised of other financial assets and other non-financial assets as follows:	3,018	2,691
Other	941	943
Other financial assets	**3,959**	**3,634**

OTHER NON-FINANCIAL ASSETS

in TEUR	12/31/2020	12/31/2019
VAT receivable	1,514	1,906
Accrued assets	210	153
Other non-financial assets	**1,724**	**2,059**
Total	**5,683**	**5,693**

The accounts receivable from factoring recognized as of 31 December 2020, in the amount of TEUR 3,018 (year before: TEUR 2,691), consist primarily of security deposits in connection with factoring arrangements.

As in the previous year, other assets have a residual term of less than one year.

6.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised as follows as of the reporting date:

CASH AND CASH EQUIVALENTS

in TEUR	12/31/2020	12/31/2019
Bank balances	26,351	28,982
Cash on hand	3	2
Total	**26,354**	**28,984**

Bank balances earn interest at variable interest rates for sight deposits. Short-term deposits are made for a variety of terms, ranging from one day to as high as three months depending on the Group's needs. They earn interest in each case at the rates in effect for short-term deposits.

For the purposes of the funds presented in the consolidated cash flow statement, there are no differences in cash and cash equivalents as of 31 December 2020.

Cash and cash equivalents are not subject to any restrictions on disposal.

6.9 SHAREHOLDERS' EQUITY

The changes in Nabaltec AG's shareholders' equity are shown in the Statement of Consolidated Shareholders' Equity.

Subscribed capital

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

Fully paid-in capital (capital stock) therefore amounted to TEUR 8,800 on the reporting date (year before: TEUR 8,800) and consists of 8,800,000 bearer shares, with each share representing EUR 1.00 of the capital stock. Each share confers one vote.

Authorized capital

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

Following the partial use in 2017 described above, Authorized Capital 2016/I now amounts to TEUR 3,200.

Conditional capital

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

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

No such bonds have been issued to date.

Capital reserve

As of 31 December 2020, the capital reserve amounted to TEUR 47,029 (year before: TEUR 47,029). The capital reserve results in part from the capital increase executed in September 2017. With an issue price of EUR 23.00 per share, the capital increase generated a premium in the amount of TEUR 17,600. At the same time, transaction costs in the amount of TEUR 335 (after taxes) were subtracted from shareholders' equity. The capital reserve also includes a premium from the IPO, which took place in 2006. This resulted from the issuance of 2,000,000 shares at a price of EUR 15.50 per share, with each share representing EUR 1.00 of the capital stock, so that a premium of EUR 14.50 was charged per share, for a total of TEUR 29,000.

Earnings reserves

As of 31 December 2020, earnings reserves amounted to TEUR 9,699 (year before: TEUR 9,699).

We refer to the consolidated statement of changes in equity regarding changes in earnings carry-forwards.

Due to the uncertainties associated with the coronavirus pandemic and given 2020 earnings, the Management Board will not be proposing a dividend payout for Financial Year 2020.

In view of the fact that the future development of the pandemic is unforeseeable, strengthening the company's resilience has top priority.

Other changes in equity with no effect on profit and loss

Differences arising from currency translation, changes in the market value of derivative financial instruments for which hedge accounting is used, actuarial gains and losses from pension reserves and from corresponding deferred taxes are recognized separately in shareholders' equity under "other changes in equity with no effect on profit and loss." As of 31 December 2020, other changes in equity with no effect on profit and loss amounted to a cumulative total of TEUR –18,812 (year before: TEUR –17,675).

6.10 CURRENT AND NON-CURRENT PROVISIONS

The development of other provisions is shown in the tables below:

FINANCIAL YEAR 2020

in TEUR	1/1/2020	Transfer	Use	Reversal	12/31/2020
Provisions for personnel expenses	1,378	99	116	0	1,361
Provisions for environmental conservation and disposal	0	298	0	0	298
Other provisions	187	140	179	0	148
Total	**1,565**	**537**	**295**	**0**	**1,807**

FINANCIAL YEAR 2019

in TEUR	1/1/2019	Transfer	Use	Reversal	12/31/2019
Provisions for personnel expenses	1,153	258	33	0	1,378
Other provisions	185	180	178	0	187
Total	**1,338**	**438**	**211**	**0**	**1,565**

Provisions for personnel expenses, in the amount of TEUR 1,361 (year before: TEUR 1,378), consist of anniversary pay obligations. These obligations were measured using the projected unit credit method, in which anniversary pay obligations are funded by single premiums for the annual growth in vested rights, with due regard for trend assumptions. As a biometric foundation for the calculation, the 2018 G benchmark tables of Prof. Dr. Klaus Heubeck were used. The measurement was also based on the assumption of an actuarial interest rate of 0.80%, a salary trend of 2.75%, a pension trend of 2.00% and a fluctuation rate of 1.00%.

The provisions for environmental conservation and disposal include TEUR 298 in cleaning expenses relating to discontinuation of the mullite production area.

Pension reserves

The Group has launched defined benefit pension plans which provide for a portion of the Group's employees in the period after retirement. These are final salary pension plans for Management Board members and employees based on the pension rules. The pension plans are in effect for employees who joined the company prior to 1 May 1995 and who are employed for an unlimited term. As a result, there can be no additions to the group of pension beneficiaries. Pension liability insurance premiums are paid for a portion of the plans. Because of how the plans are structured, the employer is exposed to actuarial risks, of which the most significant are interest rate risk and longevity risk. The average age of the persons covered by the pension plans is in a range between 60 and 65 years. Pension obligations are calculated based on a retirement age of 63 (pension rules) and 65 (Management Board members).

The tables below show the composition of the pension expenses recognized in the consolidated statement of comprehensive income as well as amounts recognized in the consolidated balance sheet for the individual pension plans:

PENSION EXPENSES

in TEUR	2020	2019
Current service cost	901	713
Net interest expense	368	678
Pension expenses	**1,269**	**1,391**
Actual income from plan assets	65	57

The net interest expense is comprised of the interest expense, in the amount of TEUR 383 (year before: TEUR 712), less expected income from plan assets in the amount of TEUR 15 (year before: TEUR 34). The interest share of the funds transferred to pension reserves and income from plan assets is recognized in net interest income. Actuarial gains and losses are recognized in other comprehensive income and have developed as follows:

DEVELOPMENT OF ACTUARIAL GAINS AND LOSSES

in TEUR	
Actuarial losses on 1 January 2019	–15,170
Losses from changes in biometric and financial assumptions	–9,226
Experience losses	–497
Income from plan assets	22
Actuarial losses on 31 December 2019	**–24,871**
Experience gains	2,261
Income from plan assets	50
Actuarial losses on 31 December 2020	**–22,560**

Changes in the present value of defined benefit obligations are as follows:

DEFINED BENEFIT OBLIGATIONS

in TEUR	
Defined benefit obligations on 1 January 2019	37,859
Interest expense	712
Current service cost	713
Benefits paid	–795
Actuarial gains/losses	9,723
Defined benefit obligations on 31 December 2019	**48,212**
Interest expense	382
Current service cost	901
Benefits paid	–864
Actuarial gains/losses	–2,261
Defined benefit obligations on 31 December 2020	**46,370**

Of the TEUR 46,370 in defined benefit obligations as of 31 December 2020 (year before: TEUR 48,212), a sum in the amount of TEUR 15,666 (year before: TEUR 15,561) is covered by pension liability insurance with a premium reserve of TEUR 1,878 (year before: TEUR 1,839).

Pension payments in the amount of approximately TEUR 896 are expected in Financial Year 2021 and TEUR 914 in Financial Year 2022.

Changes in the fair value of plan assets are as follows:

FAIR VALUE OF PLAN ASSETS

in TEUR	
Fair value of plan assets on 1 January 2019	1,807
Employer contributions	36
Benefits paid	–60
Expected returns	34
Actuarial gains/losses	22
Fair value of plan assets on 31 December 2019	**1,839**
Employer contributions	36
Benefits paid	–62
Expected returns	15
Actuarial gains/losses	50
Fair value of plan assets on 31 December 2020	**1,878**

Plan assets consist of the asset value of a pension liability insurance policy, which is to be treated as part of plan assets pursuant to IAS 19.7 (b). The Group expects contributions to plan assets to total TEUR 36 in Financial Year 2021.

The recognized value of pension reserves can be reconciled as follows with the present value of the defined benefit liability:

in TEUR	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Fair value of plan assets	1,878	1,839	1,807	1,776	1,746
Present value of defined benefit liability	46,370	48,212	37,859	38,580	39,822
Pension reserves	44,492	46,373	36,052	36,804	38,076

The basic assumptions for the calculation of post-employment pension obligations are shown below:

in %	2020	2019
Discount rate	0.80	0.80
Salary trend	2.75	2.75
Pension trend	2.00	2.00
Fluctuation	1.00	1.00

Post-employment mortality among 65-year-old retirees in accordance with Heubeck's 2018 G benchmark tables

The following would be the effects on the pension liability if the actuarial assumptions change:

PENSION LIABILITY

in TEUR	+25 BP	–25 BP
Discount rate	44,160	48,750
Salary trend	46,744	45,846
Pension trend	47,982	44,682

The above sensitivity analysis is based on a scenario where one assumption changes while all the others remain constant. In reality, however, it is not unlikely for changes in multiple assumptions to be correlated.

The methods and types of assumptions used for the sensitivity analysis have not changed since the previous period.

6.11 CURRENT AND NON-CURRENT ACCOUNTS PAYABLE

BOOK VALUES

in TEUR		Book value	thereof term < 1 year	thereof term: 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2020	59,482	505	58,977	–
	12/31/2019	70,884	31,924	38,960	–
Trade payables	12/31/2020	11,610	11,610	–	–
	12/31/2019	13,395	13,395	–	–
Accounts payable from income taxes	12/31/2020	0	0	–	–
	12/31/2019	3,122	3,122	–	–
Other accounts payable	12/31/2020	4,386	4,386	–	–
	12/31/2019	5,308	5,308	–	–
Total	12/31/2020	75,478	16,501	58,977	–
	12/31/2019	**92,709**	**53,749**	**38,960**	**–**

Accounts payable to banks

Accounts payable to banks consist of long-term loans against borrower's notes and long-term loans obtained at typical market interest rates.

Nabaltec AG's loans against borrower's notes are subject to covenants which are measured by leverage coverage ratios such as equity ratio. If the covenants are breached, the lender has the option of raising the interest margins or it may exercise its right of extraordinary termination. None of the covenants in effect as of 31 December 2020 were breached in the 2020 reporting year.

The first tranche of the 2015 loan against borrower's note, in the amount of TEUR 31,000, was repaid as agreed in April 2020. The Group secured the funds for this payment by obtaining a bilateral loan with a volume of TEUR 20,000 and by extending its overdraft lines by TEUR 20,000, which were not utilized as of the reporting date.

A loan against borrower's note from 2013, in the amount of TEUR 500, was also repaid on time on 23 October 2020.

Trade payables

Trade payables have a residual term of up to 90 days.

The book values of trade payables are equal to their fair value.

Accounts payable from income taxes

This includes outstanding tax payments in Germany resulting from corporate income tax, solidarity mark-up and trade tax for the prior financial year.

Other accounts payable

Other current accounts payable consist of the following financial and non-financial obligations:

OTHER ACCOUNTS PAYABLE

in TEUR	12/31/2020	12/31/2019
Negative market values from interest rate swaps	874	1,448
Financial statements and auditing	172	196
Other	150	101
Professional association	12	31
Other current financial accounts payable	**1,208**	**1,776**

in TEUR	12/31/2020	12/31/2019
Outstanding vacation claims	902	875
Bonuses and other performance-based compensation (from Financial Year 2019)	901	1,813
Other excise duties	873	404
Amounts owed to the tax office	307	346
Social expenses owed	85	44
Other	69	0
Inventor compensation	30	35
Demographic Contribution II	11	15
Other current non-financial accounts payable	**3,178**	**3,532**
Other current accounts payable (total)	**4,386**	**5,308**

Amounts owed for bonuses and performance-based compensation accrue depending on the degree to which the targets are met. Amounts owed for outstanding vacation claims depend on the individual employees.

No amounts are owed for bonuses and other performance-based compensation for Financial Year 2020. The bonuses and other performance-based compensation owed by the Group as of 31 December 2020 result from claims for Financial Year 2019, of which only 50% were paid in 2020.

Amounts owed to the tax office consist primarily of wage and church tax for the financial year just closed which has yet to be paid as of the reporting date.

Due to the short-term nature of these obligations, the book values of the other current accounts payable are approximately equal to their fair value.

7. OTHER DISCLOSURES

7.1 OTHER FINANCIAL LIABILITIES

Liabilities arising from leases with the Group as lessee

The Group has financial liabilities arising from lease agreements. As of the reporting date, 31 December 2020, no lease agreements existed for various technical equipment and machinery within the context of sale-and-leaseback transactions. The residual terms of all contracts are largely between 1 and 5 years.

A total of TEUR 933 (year before: TEUR 1,018) in expenses arising from leases (including short-term leases and leases of low-value assets) were recognized in the current year.

Total future lease payments (including short-term leases and leases of low-value assets) have the following maturities:

in TEUR	12/31/2020	12/31/2019
Lease payments within 1 year	634	785
Lease payments, 1 – 5 years	402	626
Lease payments, over 5 years	2	4
Total	**1,038**	**1,415**

Contingent liabilities and guarantees

No material contingent liabilities, guarantees or other material litigation existed as of the reporting dates for which provisions have not yet been set aside. As of 31 December 2020, there were a total of TEUR 2,314 in obligations (year before: TEUR 3,897) arising from investment orders.

Nabaltec AG has issued Nashtec LLC a payment guarantee in the amount of TUSD 1,300 to secure its supply of raw materials.

7.2 DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

Book value, measurement and fair value by measurement category

The table below shows the book values and fair values of all financial instruments recognized in the consolidated financial statements:

in TEUR	Measurement category pursuant to IFRS 9	Book value 2020	Book value 2019	Fair value 2020	Fair value 2019
Financial assets					
Trade receivables	AC	5,128	5,582	5,128	5,582
Other assets and accounts receivable					
Other non-derivative accounts receivable and financial assets	AC	3,959	3,634	3,959	3,634
Cash and cash equivalents	AC	26,354	28,984	26,354	28,984
Financial liabilities					
Financial liabilities at amortized cost					
Accounts payable to banks	AC	59,482	70,884	59,482	70,884
Trade payables	AC	11,610	13,395	11,610	13,395
Other financial liabilities					
Other non-derivative financial liabilities	AC	334	328	334	328
Negative market values of interest rate derivatives (designated in effective cash flow hedges)	–	874	1,448	874	1,448

The following abbreviations are used for the measurement categories pursuant to IFRS 9:

ABBREVIATIONS		
AC	Amortized cost	Financial instruments recognized at amortized cost
FVOCI (debt)	Fair Value through Other Comprehensive Income – debt instrument	Debt instruments at fair value, with no effect on profit and loss (recycling)
FVOCI (equity)	Fair Value through Other Comprehensive Income – equity instrument	Equity instruments at fair value, with no effect on profit and loss (non-recycling)
FVTPL	Fair Value through Profit and Loss	Financial instruments at fair value through profit and loss

The fair value of derivative financial instruments and loans was determined by discounting expected future cash flows using typical market interest rates. The fair value of other financial assets was calculated using typical market interest rates.

Cash and cash equivalents, trade receivables and other accounts receivable have a residual term of less than one year. As a result, their book value as of the reporting date approximates their fair value.

In accordance with IFRS 9, shares in non-consolidated affiliated companies are generally classified as FVOCI.

Net income by measurement category

Income and expenses from financial instruments are presented below using the measurement categories in IFRS 9:

MEASUREMENT CATEGORY PURSUANT TO IFRS 9

in TEUR		From interest	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment	Net income 2020
Amortized cost	AC	17	–	–652	9	–626
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Fair Value through Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–1,005	–	111	–	–894
Total 2020		**–988**	**–**	**–541**	**9**	**–1,520**

MEASUREMENT CATEGORY PURSUANT TO IFRS 9

in TEUR		From interest	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment	Net income 2019
Amortized cost	AC	62	–	274	–8	328
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Fair Value through Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–1,176	–	–24	–	–1,200
Total 2019		**–1,114**	**–**	**250**	**–8**	**–872**

In the consolidated statement of comprehensive income, interest income and expenses from financial instruments are recognized under “interest and similar income” and “interest and similar expenses.” Interest income from financial assets in the “amortized cost” measurement category largely consists of interest income from current account balances and short-term deposits. Interest expenses from financial liabilities in the “other liabilities” measurement category largely consist of interest expenses for accounts payable to banks.

The total interest expense for the loan against borrower's note, calculated using the effective interest method, was TEUR 853 (year before: TEUR 1,176).

Effects from the subsequent measurement of interest rate derivatives which are designated as effective cash flow hedges are recognized under shareholders' equity with no effect on profit and loss. The recognition of ineffective hedges with an effect on profit and loss was not necessary.

Currency translation income and expenses for financial assets in the "amortized cost" measurement category and financial liabilities in the "other liabilities" measurement category result from shares in companies which are not fully consolidated, trade payables and receivables and accounts payable to banks which are denominated in foreign currency. They are recognized under "other operating income" and "other operating expenses."

Impairments largely consist of transfers to and reversals of individual allowances on trade receivables. These amounts are recognized under "other operating income" and "other operating expenses."

Fair value hierarchy

A hierarchy of various fair values exists for financial assets and liabilities measured at fair value with effect on profit and loss specifying the significance of the input data used for measurement. This hierarchy is as follows:

Level 1: At the first level of the fair value hierarchy, fair value is determined based on publicly quoted market prices, since the best possible objective indication of the fair value of a financial asset or liability can be observed in an active market.

Level 2: If an active market does not exist for a financial instrument, companies determine fair value using valuation models. Valuation models include use of the discounted cash flow method, option price models, comparing the instrument to the present fair value of another, largely identical, financial instrument, and examining recent transactions between well-informed, independent and willing business partners. Fair value is estimated based on the results of a valuation method which uses market data to the greatest possible extent and is based as little as possible on company-specific data.

Level 3: The valuation models used on this level are, in part, not based on parameters and assumptions which are observable in the market.

The financial instruments which are measured by the Group at fair value have been assigned to the following levels of the hierarchy:

12/31/2020

in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	874	0	874
Negative market values of currency derivatives	0	0	0	0

12/31/2019

in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	1,448	0	1,448
Negative market values of currency derivatives	0	0	0	0

No assets or liabilities were reclassified between the measurement levels in Financial Year 2020.

Fair value is determined in each case based on the mark-to-market valuation of the participating banks.

Hedging transactions

Interest rate swaps are executed to hedge against fluctuations in future cash flows for loans with variable rates of interest resulting from changes in market interest rates. Designated and effective cash flow hedges are recognized in accordance with the hedge accounting rules in IFRS 9. Accordingly, risks arising from fluctuations in interest and exchange rates are deliberately managed with a view to reducing earnings volatility.

At the commencement of the hedge, both the hedging transaction and the Group's risk management goals and strategies with regard to the hedge are formally defined and documented. The documentation is to include a definition of the hedging instrument and the hedged item, as well as the type of risk and a description of how the Group will measure the effectiveness of the hedging instrument in compensating for risks arising from changes in cash flow associated with the hedged item. Hedging transactions are continually examined to ascertain whether they actually were highly effective for the entirety for the reporting period for which the hedging transaction was defined.

Among the requirements imposed by IFRS 9 within the framework of hedge accounting is the requirement that designated hedges must be effective. The effective portion of a hedge, i.e. that which falls within the above range, is recognized in shareholders' equity with no effect on profit and loss, while the ineffective portion is immediately recognized as profit and loss in the consolidated statement of comprehensive income.

As of 31 December 2020, the Group recognized interest rate derivatives with a market value of TEUR –874 (year before: TEUR –1,448), which served to hedge against interest rate risks associated with loans against borrower's notes, which are recognized under accounts payable to banks (book value: TEUR 39,000; previous year: TEUR 70,000). No currency derivatives were used in the reporting year (year before: also TEUR 0). Realization of the fair value of the interest rate and currency derivative, with no effect on profit and loss, resulted in changes in value in Financial Year 2020 of TEUR 574 (year before: TEUR 548), the full amount of which was recognized in shareholders' equity. The cash flow hedges are designed to hedge cash flows in the form of routine interest payments, in the case of the interest rate derivatives. Interest rate derivatives amount to a total of TEUR 39,000 maturing through 2022. The interest rate derivatives secure Nabaltec a fixed interest rate of between 0.94% and 0.96% depending on maturity.

There were no major changes relative to the year before to the risk positions for the risks presented below.

Default risk

Default risks arise primarily from trade receivables. Factoring transactions are used in order to minimize default risks. Under these contractual arrangements, the risk that the debtor will be unable to pay is transferred to the counterparty. As a result, the relevant amounts are derecognized in their entirety and are no longer recognized as trade receivables. The exceptions are trade receivables which are not accepted by the factor, e.g. because a credit limit has been exceeded. Trade receivables are also insured through credit default insurance.

The amounts recognized in the balance sheet have been adjusted by the allowance for unrecoverable claims, which was estimated by management using the expected loss model. Individual allowances are made whenever an indication exists that accounts receivable are uncollectible. These indications are based on intensive contacts within the framework of receivables management.

The default risk in the event of counterparty default in connection with the Group's financial assets, such as trade receivables, cash and cash equivalents and other assets, is no higher than the book value of the relevant instruments.

There is no major concentration of default risks within the Group, as these risks are spread out over a large number of counterparties and customers. As in the previous year, there were no restrictions on ownership or disposal.

The table below shows the change in allowances on trade receivables:

in TEUR	2020	2019
1 January	156	**148**
Transfers	0	8
Reversals	9	0
31 December	147	**156**

The age structure of trade receivables is as follows:

in TEUR	Book value	Neither overdue nor impaired	Overdue but not impaired			
			< 3 months	3 – 6 months	6 – 12 months	> 12 months
12/31/2020	5,128	5,128	0	0	0	0
12/31/2019	5,582	5,582	0	0	0	0

As far as trade receivables are concerned which are neither in default nor written down, there was no indication as of the reporting date that the debtors will be unable to meet their payment obligations.

No trade receivables were overdue or impaired due to modified conditions.

No other financial assets were impaired. No impairments were expected in that regard as of the reporting date.

Liquidity risk

The Group routinely monitors the risk of a liquidity shortage, taking into account e.g. the terms to maturity of financial assets and liabilities as well as expected cash flows from business activities. The Group's goal is to use bank overdrafts and loans to continually meet liquidity requirements while at the same time ensuring utmost flexibility. The Group has existing unutilized credit limits in the amount of TEUR 22,000 as of 31 December 2020 (year before: TEUR 2,250).

The first tranche of the 2015 loan against borrower's note, in the amount of TEUR 31,000, was repaid as agreed in April 2020. The Group secured the funds for this payment by obtaining a bilateral loan with a volume of TEUR 20,000 and by extending its overdraft lines by TEUR 20,000.

A loan against borrower's note from 2013, in the amount of TEUR 500, was also repaid on time on 23 October 2020.

The table below shows the contractually stipulated (undiscounted) cash flows in connection with financial liabilities. It includes all financial liabilities held as of the reporting date for which payments had been contractually stipulated. Estimates of future new obligations were not included. Amounts denominated in foreign currencies were translated using the exchange rate as of the reporting date. Variable interest payments on financial instruments were determined based on the fixed interest rates in effect most recently prior to the reporting date. Financial liabilities which are payable at any time are assigned to the earliest maturity category.

CASH FLOWS (undiscounted)

in TEUR		Total	thereof term < 1 year	thereof term: 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2020	61,004	1,688	59,316	–
	12/31/2019	73,692	33,319	40,373	–
Trade payables	12/31/2020	11,610	11,610	–	–
	12/31/2019	13,395	13,395	–	–
Other financial liabilities	12/31/2020	1,208	1,208	–	–
	12/31/2019	1,776	1,776	–	–
Total (financial liabilities)	12/31/2020	73,822	14,506	59,316	–
	12/31/2019	**88,863**	**48,490**	**40,373**	**–**

Foreign exchange risk

The Group’s foreign exchange risks result from its operations. While the individual Group companies operate predominantly with their respective functional currencies, they are exposed to foreign exchange risks in connection with expected payments outside of their functional currency.

In accordance with IFRS 7, foreign exchange risks are presented using sensitivity analyses, which show the effects on pre-tax earnings (due to changes in the measurement of financial assets and liabilities with effect on profit and loss) and possibly shareholders’ equity of the Euro going up or down in value relative to all other foreign currencies. These analyses focus on financial instruments which are denominated in a currency other than the local functional currency, and which are monetary in nature. Accordingly, differences arising from the translation of foreign statements into the Group currency, Euros, due to changes in exchange rates are not recognized, in accordance with the requirements of IFRS 7. In contrast to the year before, shareholders’ equity as of the reporting date was not affected by changes in the fair value of currency derivatives intended to hedge future cash flows.

	Rate change in %	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity* in TEUR
2020			
USD	+10	376	0
USD	–10	–376	0
2019			
USD	+10	539	0
USD	–10	–539	0

* *Not including the impact on pre-tax earnings*

Interest rate risk

The Group's exposure to the risk of fluctuations in market interest rates results primarily from financial accounts payable to banks carrying variable interest rates. The Group's interest expenses are managed through a combination of fixed-interest and variable-interest debt. Interest rate swaps are used to hedge against interest rate risks arising from positions carrying long-term variable interest rates, in which the difference between fixed-interest and variable-interest cash flows is exchanged with the counterparty at defined intervals based on a predefined notional amount.

Interest rate risks are modeled in accordance with the requirements of IFRS 7 using sensitivity analyses, which show the effects of hypothetical changes in market interest rates on current interest payments, income and expenses as follows in the context of pre-tax earnings and possibly shareholders' equity (from the subsequent measurement of interest rate derivatives designated as effective cash flow hedges):

	Increase/ decrease in basis points	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity* in TEUR
2020			
Europe	+10	0	40
USA	+10	0	0
Europe	–10	0	–40
USA	–10	0	0
2019			
Europe	+10	0	268
USA	+10	0	0
Europe	–10	0	–280
USA	–10	0	0

* *Not including the impact on pre-tax earnings*

7.3 ADDITIONAL DISCLOSURES CONCERNING CAPITAL MANAGEMENT

Nabaltec AG employs a solid capital management scheme in order to enable the Group to remain on track for growth and to ensure its ability to meet its payment obligations. A particular goal is to maintain an enduring balance between equity and debt.

Nabaltec AG's shareholders' equity and debt items recognized in connection with capital management as of 31 December 2020 and 2019 are shown below:

	12/31/2020 in TEUR	12/31/2019 in TEUR	Change in %
Shareholders' equity	**76,835**	**98,945**	**–22.35**
as % of total capital	56.36	58.26	–3.26
Non-current financial debt	58,977	38,960	51.38
Current financial debt	505	31,924	–
Debt*	**59,482**	**70,884**	**–16.09**
as % of total capital	43.64	41.74	4.55
Total capital for capital management purposes	**136,317**	**169,829**	**–19.73**

* *The company defines debt as accounts payable to banks.*

Equity decreased by TEUR 22,110 last year, to TEUR 76,835, largely due to negative consolidated earnings in the amount of TEUR –19,653.

Debt decreased by TEUR 11,402 last year, to TEUR 59,482, largely due to the amortization of long-term bank debt.

Together, these effects resulted in a decrease in the equity ratio (shareholders' equity as a percentage of total capital) to 56.36% in 2020, down from 58.26% in the previous year. The ratio of debt to capital for capital management purposes increased from 41.74% on 31 December 2019 to 43.64% on 31 December 2020.

The first tranche of the 2015 loan against borrower's note, in the amount of TEUR 31,000, was repaid as agreed in April 2020. The Group secured the funds for this payment by obtaining a bilateral loan with a volume of TEUR 20,000 and by extending its overdraft lines by TEUR 20,000.

A loan against borrower's note from 2013, in the amount of TEUR 500, was also repaid on time on 23 October 2020.

In the future, the Group will endeavor to steadily optimize its financial management, together with continuous monitoring and management of its equity ratio.

The object of this financial management is to improve the solvency of Nabaltec AG relative to its business partners and optimize capital costs.

Nabaltec AG is not subject to any capital adequacy requirements in accordance with its Articles of Association. For covenants arising from loan contracts, reference is made to Section 6.11, "Current and non-current accounts payable."

7.4 TRANSACTIONS WITH RELATED PARTIES

Persons and companies are considered to be related parties in terms of IAS 24, "Related party disclosures," if one of the parties has the ability, directly or indirectly, to control or exercise a significant influence over the other party, or if one of the parties is engaged in joint management of the company.

The following persons and companies have been identified as related parties:

- members of the Management Board (see Section 7.8, "Corporate officers") and their family members;
- members of the Supervisory Board (see Section 7.8, "Corporate officers") and their family members;
- companies which are directly or indirectly controlled by members of the Management Board or Supervisory Board.

The members of the Management Board received short-term remuneration in the total amount of TEUR 1,181 in Financial Year 2020 (year before: TEUR 2,170). An additional TEUR 1 was transferred to provisions for service anniversaries (year before: TEUR 4). In addition, a total of TEUR 609 was spent on post-employment benefits (year before: TEUR 564).

The members of the Supervisory Board received a total of TEUR 56 in remuneration in Financial Year 2020 (year before: TEUR 56).

The following accounts receivable and payable existed on 31 December 2020 and 2019 vis-à-vis related parties:

	Accounts receivable		Accounts payable	
in TEUR	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Companies controlled by Supervisory Board members	0	0	0	0
Companies controlled by Management Board members	3	3	0	4

In addition to Management and Supervisory Board compensation, the following transactions with related parties were recognized in Financial Years 2020 and 2019:

	Deliveries and services performed and other income		Deliveries and services received and other expenses	
in TEUR	2020	2019	2020	2019
Companies controlled by Supervisory Board members	0	0	5	5
Companies controlled by Management Board members	28	26	1	3

Transactions with companies controlled by Management Board members include human resources services and other services (income in the amount of TEUR 28, year before: TEUR 26) and investment planning (expenses in the amount of TEUR 1, year before: TEUR 3). Transactions with companies controlled by Supervisory Board members and related persons also resulted from the payment of a royalty (fees of TEUR 5, year before: TEUR 5) and other services (expenses in the amount of TEUR 0, year before: TEUR 0).

7.5 EARNINGS PER SHARE

The number of outstanding shares changed as follows over the Financial Year:

NUMBER OF SHARES

	2020	2019
Outstanding common shares as of 1 January	8,800,000	8,800,000
No transactions took place in these years	0	0
Outstanding common shares as of 31 December	8,800,000	8,800,000
Average undiluted number of outstanding common shares	**8,800,000**	**8,800,000**

To calculate undiluted earnings per share, the earnings attributable to holders of common shares in the company are divided by the weighted average number of common shares in circulation during the year.

In accordance with IAS 33, “Earnings per share,” the calculation of diluted earnings per share must also take into account the effects of potential common shares. Dilutive effects on the earnings of Nabaltec AG do not exist. Accordingly, the undiluted earnings per share is equal to the diluted earnings per share for Financial Years 2020 and 2019.

Earnings per share are therefore as follows:

EARNINGS PER SHARE

	2020	2019
Consolidated after-tax earnings – shareholders in the parent company (in TEUR)	–19,653	10,701
Average undiluted number of outstanding common shares	8,800,000	8,800,000
Earnings per share (in EUR)	**–2.23**	**1.22**

We also refer to the statements in Section 6.9, “Shareholders’ equity.”

7.6 DISCLOSURES CONCERNING THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement shows the origin and use of cash flows. A distinction is made between cash flow from operating activity and cash flow from investment and financing activity in accordance with IAS 7, "Statement of Cash Flows."

The item presented in Section 6.8, "Cash and cash equivalents," is included in the funds presented in the consolidated cash flow statement.

Interest paid and received and taxes on income are directly evident from the consolidated cash flow statement.

The changes in accounts payable to banks, which are attributable to financing activity, result from payments made for the amortization of loans in the amount of TEUR 31,500, TEUR 20,000 in loans received and changes in overdrafts in the amount of TEUR 74, as well as from the compounding of original transaction costs in the amount of TEUR 24.

7.7 SEGMENT REPORTING

The operating segments conform to the Group's business segments. The Group's risks and internal organizational and reporting structures are largely determined by the products which are manufactured in the various segments.

Business segments

Nabaltec is divided into two product segments, "Functional Fillers" and "Specialty Alumina." Each segment represents a strategic business unit with distinct products and markets.

The "Functional Fillers" division primarily manufactures and distributes non-halogenated flame-retardant fillers for the plastics and cable industry, as well as additives.

In the "Specialty Alumina" division, ceramic materials and ceramic bodies are manufactured and distributed for a wide range of applications in technical ceramics and in the refractory industry.

The "Others" column consists of assets and liabilities which are not attributable to any individual segment. It is comprised primarily of liquid funds (segment assets), accounts payable to banks and pension reserves (segment liabilities).

Transfer prices between the business segments are generally determined based on typical market conditions in accordance with the arm's length principle. Segment revenues, expenses and earnings include transfers between business units which are eliminated over the course of consolidation. No transactions between the business segments took place in the 2020 and 2019 Financial Years.

FINANCIAL YEAR ENDING ON 12/31/2020

in TEUR	Functional Fillers	Specialty Alumina	Other	Nabaltec Group
Revenues				
Revenues from non-Group customers	114,200	45,376	–	159,576
Segment earnings				
EBITDA	18,295	5,257	–	23,552
EBIT	−17,318	1,455	–	−15,863
Assets and liabilities				
Segment assets	122,639	46,937	29,036	198,612
Segment liabilities	12,625	5,178	103,974	121,777
Other segment data				
Investments				
– Property, plant and equipment	6,919	3,289	–	10,208
– Intangible assets	74	50	–	124
Depreciation				
– Property, plant and equipment	35,499	3,742	–	39,241
– Intangible assets	114	60	–	174

FINANCIAL YEAR ENDING ON 12/31/2019

in TEUR	Functional Fillers	Specialty Alumina	Other	Nabaltec Group
Revenues				
Revenues from non-Group customers	122,187	56,847	–	179,034
Segment earnings				
EBITDA	22,076	10,265	–	32,341
EBIT	11,902	6,726	–	18,628
Assets and liabilities				
Segment assets	156,336	51,584	31,672	239,592
Segment liabilities	13,998	6,269	120,380	140,647
Other segment data				
Investments				
– Property, plant and equipment	15,214	4,640	–	19,854
– Intangible assets	102	66	–	168
Depreciation				
– Property, plant and equipment	10,077	3,461	–	13,538
– Intangible assets	97	78	–	175

Regional data

Regions are broken down into Germany, rest of Europe, USA and rest of world.

FINANCIAL YEAR ENDING ON 12/31/2020

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	39,791	79,565	15,694	24,526	159,576
Other segment data					
Segment assets	165,294	–	31,973	1,345	198,612
Investments					
– Property, plant and equipment	7,176	–	3,032	–	10,208
– Intangible assets	124	–	–	–	124

FINANCIAL YEAR ENDING ON 12/31/2019

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	42,221	92,990	20,809	23,014	179,034
Other segment data					
Segment assets	181,100	–	57,588	904	239,592
Investments					
– Property, plant and equipment	11,852	–	8,002	–	19,854
– Intangible assets	168	–	–	–	168

More than 10% of total revenues in Financial Year 2020 were earned from a single customer. The revenues from this customer amounted to TEUR 18,450 and are included in the results for the “Functional Fillers” division. In Financial Year 2019 as well, more than 10% of revenues were earned from a single customer (TEUR 21,083).

The Group’s non-current assets are located in Germany and the US. Non-current assets are defined as assets which are used in business operations and which are intended to remain in the company for more than 12 months. The allocation to the various regions is determined by the location of the respective assets.

7.8 CORPORATE OFFICERS

Management Board

- Mr. Johannes Heckmann (Chief Executive Officer)
- Mr. Günther Spitzer (Chief Financial Officer)
- Dr. Michael Klimes (Chief Operating Officer)

Supervisory Board

- Mr. Gerhard Witzany (Chairman)
- Dr. Dieter J. Braun (Vice Chairman)
- Prof. Dr.-Ing. Jürgen G. Heinrich

7.9 VOLUNTARY DECLARATION PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT ON THE GERMAN CORPORATE GOVERNANCE CODE

Nabaltec AG has discontinued its former practice of voluntarily issuing a declaration of conformity in accordance with § 161 of the German Stock Corporation Act and a corporate governance report and no longer issues a declaration of conformity and corporate governance report on a voluntary basis starting in Financial Year 2020.

7.10 MAJOR EVENTS OCCURRING AFTER THE REPORTING DATE

As a result of the devastating winter storm which hit Texas in mid-February 2021, energy prices for gas and electricity have increased by an exorbitant amount in this period. Nabaltec was directly affected by this unique event, and we therefore expect to incur additional energy costs in the US running into the low single-digit millions.

7.11 AUDITOR'S FEES

The auditor's fee for auditing services (including the 2020 consolidated financial statements) amounts to TEUR 104. The auditor received a fee in the amount of TEUR 11 for other assurance services, a fee of TEUR 73 for tax advisory services and a fee of TEUR 0 for other services.

Schwandorf, 22 March 2021

Nabaltec AG
The Management Board

JOHANNES HECKMANN GÜNTHER SPITZER DR. MICHAEL KLIMES

This is a convenience translation of the German original. Solely the original text in German language is authoritative.

INDEPENDENT AUDITOR'S REPORT

To Nabaltec AG, Schwandorf

AUDIT OPINIONS

We have audited the consolidated financial statements of Nabaltec AG, Schwandorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2020 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of Nabaltec AG for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020.
- the accompanying management report as a whole provides an appropriate view of the Group's position. In all material respects, this management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the management report in accordance with Section 317 German Commercial Code (HGB) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the management report.

OTHER INFORMATION

The legal representatives or the supervisory board are responsible for the other information. The other information comprises:

- the report of the supervisory board
- all other parts of the Annual Report,
- with the exception of the audited consolidated financial statements and management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

The supervisory board is responsible for the report of the supervisory board. Furthermore, the legal representatives are responsible for the other information.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and whether the management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the management report – whether due to fraud or error – design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial

statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Nuremberg, 26 March 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Christian Fischer)	(Johannes Gräbner)
German Public Auditor	German Public Auditor

ANNUAL FINANCIAL STATEMENTS NABALTEC AG (GERMAN COMMERCIAL CODE, SHORT VERSION) 2020

BALANCE SHEET

FOR 31 DECEMBER 2020

ASSETS

in TEUR	12/31/2020	12/31/2019
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	288	318
2. Advance payments	89	97
	377	**415**
II. Property, plant and equipments		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	25,731	26,682
2. Technical equipment and machinery	41,943	46,500
3. Other fixtures, fittings and equipment	3,468	3,526
4. Advance payments as well as plant and machinery under construction	6,624	5,386
	77,766	**82,094**
III. Financial assets		
1. Shares in affiliated companies	3,684	10,367
2. Loans to affiliated companies	28,730	55,061
	32,414	**65,428**
	110,557	**147,937**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	16,138	18,459
2. Finished goods and products	10,037	14,325
	26,175	**32,784**
II. Accounts receivable and other assets		
1. Trade receivables	4,852	5,519
2. Receivables from affiliated companies	1,138	749
3. Other assets	5,624	5,177
	11,614	**11,445**
III. Cash and cash equivalents	22,729	**27,429**
	60,518	**71,658**
C. Prepaid expenses	189	**129**
TOTAL ASSETS	171,264	**219,724**

EQUITY & LIABILITIES

in TEUR	12/31/2020	12/31/2019
A. Shareholders' equity		
I. Subscribed capital (conditional capital: TEUR 4,000; previous year: TEUR 4,000)	8,800	8,800
II. Capital reserve	48,424	48,424
III. Accumulated profits	6,527	40,445
	63,751	**97,669**
B. Special item for investment grants	1	**2**
C. Provisions		
1. Retirement benefit obligation and similar provisions	32,486	30,564
2. Accrued taxes	0	3,122
3. Other provisions and accrued liabilities	5,823	6,445
	38,309	**40,131**
D. Accounts payable		
1. Payables to banks	59,273	70,931
2. Trade payables	8,804	9,575
3. Payables to affiliated companies	628	929
4. Other payables – thereof relating to taxes: TEUR 306 (previous year: TEUR 345) – thereof relating to social security: TEUR 42 (previous year: TEUR 40)	498	487
	69,203	**81,922**
TOTAL ASSETS	171,264	**219,724**

INCOME STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2020

in TEUR	1/1/ – 12/31/2020		1/1/ – 12/31/2019	
1. Revenues		159,583		179,996
2. Change in finished goods		–4,555		623
3. Own work capitalized		367		741
Total performance		155,395		**181,360**
4. Other operating income – thereof from currency translation: TEUR 350 (previous year: TEUR 601)		851		1,066
		156,246		**182,426**
5. Cost of materials:				
a) Cost of raw materials, supplies and purchased goods	80,324		85,473	
b) Cost of purchased services	704	81,028	1,183	86,656
Gross profit		75,218		**95,770**
6. Personnel expenses:				
a) Wages and salaries	24,391		27,982	
b) Social security contributions and cost of pensions and support – thereof for pensions: TEUR 1,911 (previous year: TEUR 3,720)	6,516		8,419	
7. Amortization/depreciation of intangible assets and property, plant and equipment	11,658		11,250	
8. Other operating expenses – thereof from currency translation: TEUR 896 (previous year: TEUR 351)	48,204	90,769	28,058	75,709
		–15,551		**20,061**
9. Income from other securities and loans (financial assets) – thereof from affiliated companies: TEUR 514 (previous year: TEUR 654)	514		654	
10. Other interest and similar income	15		62	
11. Depreciation of financial assets and securities held as current assets – thereof from affiliated companies: TEUR 12,776 (previous year: TEUR 77)	12,776		77	
12. Interest and similar expenses – thereof for compounding interest: TEUR 822 (previous year: TEUR 881)	2,444	–14,691	2,928	–2,289
Net before-tax result		–30,242[1]		**17,772**
13. Income taxes		2,276		6,236
14. Net after-tax result		–32,518		11,536
15. Other taxes		80		85
16. Net result for the year		–32,598		**11,451**
17. Profit carried forward		39,125		28,994
18. Accumulated profit		6,527		**40,445**

[1] *thereof non-recurring effects in the amount of EUR –35.3 million*

APPROPRIATION OF DISTRIBUTABLE PROFIT

The Management Board proposes that the distributable profit of the Financial Year 2020, amounting to EUR 6,527,160.03 will be used as follows:

The distributable profit in the amount of EUR 6,527,160.03 will be carried forward.

Schwandorf, April 2021

The Management Board

JOHANNES HECKMANN **GÜNTHER SPITZER** **DR. MICHAEL KLIMES**

FINANCIAL CALENDAR 2021

Interim Report 1/2021	27 May
Annual General Meeting	16 June
Interim Report 2/2021	26 August
Interim Report 3/2021	25 November

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Statements relating to the future
This annual report contains statements relating to the future which are based on the Management Board's current estimations and prognosis as well as on information currently available. These statements relating to the future are not to be understood as guarantees of the predicted future developments and results.

The future developments and results are rather dependent on a number of risks and uncertainties and are based on assumptions which possibly may prove to be false. We do not accept any obligation to update these statements relating to the future.

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

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