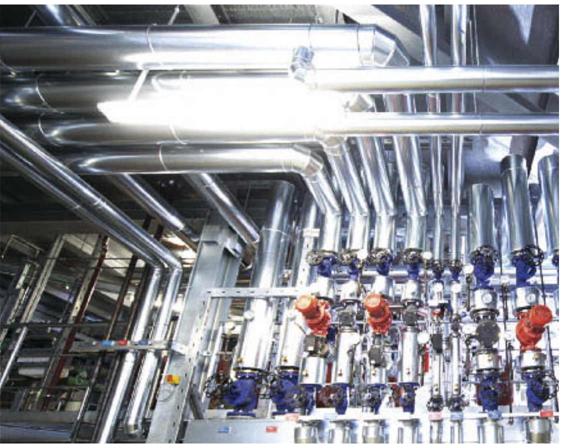



# ANNUAL REPORT





# 2012

OUR KNOW-HOW FOR YOUR SAFETY

Nabaltec

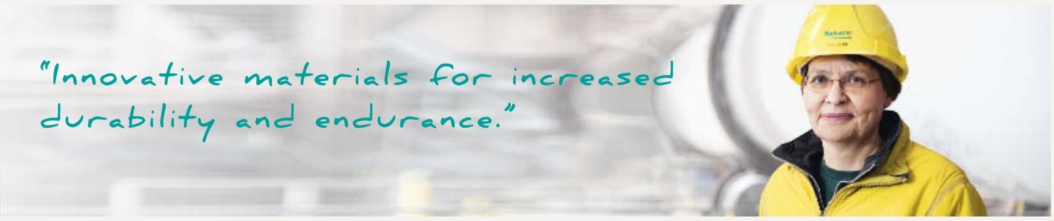
# BUSINESS DIVISIONS

## FUNCTIONAL FILLERS


Nabaltec's functional fillers are eco-friendly and safe. Depending on their field of application, they reduce the emission of hazardous fumes or increase operational stability for various applications, from profiles to state-of-the-art energy storage facilities.

In our business division "Functional Fillers", we develop highly specialized aluminum hydroxide-based products for a wide variety of applications, and we are among the leading manufacturers in the world in this area. In addition to current market trends, the development of our halogen-free eco-friendly flame retardants, additives and boehmites is driven above all by the specific requirements of our customers.

## TECHNICAL CERAMICS




Nabaltec's ceramic raw materials and ceramic bodies, in special qualities, offer fields of application in all areas of life and in all industrial sectors.

In our business division "Technical Ceramics", we develop innovative materials for a wide variety of industries based on all-natural ingredients and occupy a leading position in the global market for ceramic raw materials and bodies. We are constantly investing in optimizing our production facilities, in innovative technologies and in improving our production processes in order to enable us to consistently supply tailor-made qualities which meet our customers' needs.

# SPECIALTY CHEMICALS FOR SAFER AND MORE ECO-FRIENDLY PRODUCTS

The range of applications for Nabaltec products is extremely diverse. They are preferred whenever utmost quality, safety, eco-friendliness and durability are required.

# APPLICATIONS

## FLAME RETARDANTS/FLAME RETARDANT FILLERS

*Eco-friendly aluminum hydroxide is used e.g. for cables in tunnels, and aluminum monohydrate (boehmite) is used amongst others in heavy metal-free printed circuit boards.*

## ADDITIVES

*Nabaltec's additives are used e.g. as co-stabilizers in PVC products and as process additives.*

## ENVIRONMENTAL TECHNOLOGY

*Aluminum hydroxide serves e.g. to eliminate fumes in power plants and boehmite is used as a raw material in alternative energy storage and in catalyzers.*

## CERAMIC RAW MATERIALS

*Aluminum oxide and sintered mullite are used primarily in the refractory and polishing industries, in the automotive sector and in glass and ceramics production.*

## CERAMIC BODIES

*Highly specialized and ready-formulated mixtures are used particularly to prevent abrasion and protect people and vehicles, as well as in engineering ceramics.*

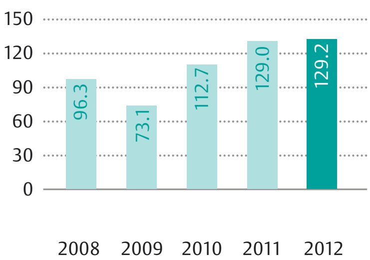
# KEY FIGURES NABALTEC GROUP

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

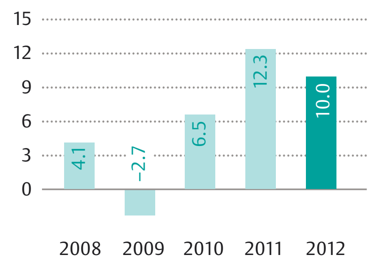
| (in EUR million) | 2012 (IFRS) | 2011 (IFRS)* | Change |
|---|---|---|---|
| **Revenues** | | | |
| Total revenues | 129.2 | 129.0 | 0.2% |
| thereof | | | |
| Functional Fillers | 89.9 | 84.8 | 6.0% |
| Technical Ceramics | 39.3 | 44.2 | –11.1% |
| Foreign share (%) | 69.0 | 68.4 | |
| **Earnings** | | | |
| EBITDA | 18.8 | 20.4 | –7.8% |
| EBIT | 10.0 | 12.3 | –18.7% |
| Consolidated result after taxes** | 2.1 | 3.5 | –40.0% |
| Earnings per share (EUR)** | 0.26 | 0.44 | –40.9% |
| **Financial position** | | | |
| Cash flow from operating activities | 21.5 | 13.6 | 58.1% |
| Cash flow from investing activities | –10.6 | –15.5 | –31.6% |
| **Assets, equity and liabilities** | | | |
| Total assets | 161.5 | 165.4 | –2.4% |
| Equity | 47.5 | 46.9 | 1.3% |
| Non-current assets | 116.8 | 117.5 | –0.6% |
| Current assets | 44.7 | 47.9 | –6.7% |
| Employees *** (number of persons) | 417 | 400 | 4.3% |

* *Adaption to IAS 19 revised*
** *after non-controlling interests*
*** *on the reporting date, including trainees*

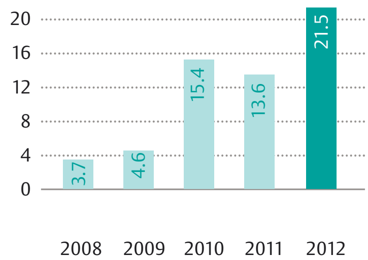
**REVENUES** (in EUR million)




**EBIT** (in EUR million)




**CASH FLOW FROM OPERATING ACTIVITIES** (in EUR million)



# WORLDWIDE INNOVATIONS


### INNOVATION IS WHAT EXCITES OUR CUSTOMERS

Innovation is an integral component of our corporate strategy and the key prerequisite for securing the future of Nabaltec AG. Innovation is what allows us to provide our customers with better products and solutions, whether this advantage comes in the form of better processing properties or through higher-quality, more long-lasting and more eco-friendly products. We prefer to develop our products in close consultation with our customers, focusing on the customers' specific needs and the relevant application. At the core of our development activities is the know-how we have acquired over decades and the resulting expertise when it comes to modifying and processing materials made from aluminum oxide and aluminum hydroxide in such a way as to optimize performance in existing applications and to develop new applications. We also have the R&D infrastructure we need, in our testing facility in Kelheim, to develop innovations internally, from the initial idea, through product testing to small-scale serial production.

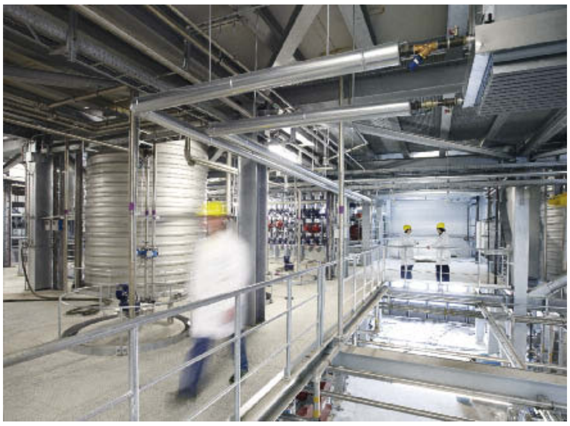
In recognition of our innovation management activities, we received the "Top 100" quality seal from the Vienna University of Economics and Business for the sixth time in 2012, recognizing us as one of the most innovative mid-size German companies.

# NABALTEC WORLDWIDE


NABALTEC MAINTAINS A GLOBAL PRESENCE,
WITH LOCATIONS IN GERMANY AND THE US
AND A NETWORK OF INTERNATIONAL AGENCIES

☐ Locations ■ Agencies







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# MANAGEMENT BOARD FOREWORD

Ladies and Gentlemen,
Dear Shareholders and Business Partners,

Nabaltec AG and its markets are in the midst of a paradigm change, as eco-friendliness and environmental protection become increasingly important.

*Protecting the environment, sustainability and ethical propriety increasingly important worldwide*

That has been the theme all over the world. At the moment, people are in the process of fundamentally rethinking their position towards industrial products, whether in private life or in the commercial sector, as their thinking and actions are moving away from the notion that higher profit margins should be the sole prevailing factor (particularly in cases where profit margins are only supposedly higher), and values such as protecting the environment, sustainability and ethical propriety are also being taken into account. This rethinking process relates both to the materials used in industrial products and production methods, as well as the entire product life cycle, all the way to reuse or disposal.

This development is steadily taking hold. But while this process is sustained and irreversible, it is progressing, in some cases, at a much slower pace than companies such as ours have expected and would like to see. While the changes which taken place over the last ten or twenty years are tremendous, especially since they have occurred on an international scale, such as in China and India, there is always a certain amount of impatience mixed in when looking back over the past one or two years.

*Nabaltec benefits of "Green electronics"*

"Green electronics" is an example of this: technology with the potential to fundamentally change entire sectors of the economy, and which will directly benefit Nabaltec. Manufacturers of cell phones, laptops and computers are increasingly phasing out materials which are bad for the environment. For example, the lead-based and brominated additives which are currently predominant in printed circuit boards are being replaced by eco-friendly products, such as Nabaltec's boehmite, and in flame retardants as well, we are replacing components of cables, insulation and plastics so as to improve the environmental impact of the overall product. It should be noted that, in our opinion, these changes benefit not just the environment but product quality as well, in the vast majority of cases.

Although these megatrends are intact, as the new way of thinking has become a tangible reliability in all segments, and is further supported by laws and regulations, the impact of the general economy's performance has not spared our markets. This is demonstrated by the 2011 and 2012 results: in each case, we posted record-high revenues when conditions were favorable, but our growth came to an abrupt halt when the economy worsened, as was the case in the second halves of 2011 and 2012. In addition, the global sense of uncertainty resulted in increasingly shorter procurement cycles, both among our customers and in downstream production levels.

*"After a period of time to 'catch our breath,' we plan to resume our course of healthy and moderate growth in a manner which is both sustainable and highly profitable."*

Gerhard Witzany, Johannes Heckmann

This trend is steadily creating mounting challenges for Nabaltec, and we are fully resolved to meet these challenges head on. The key factors for success in the market are availability and delivery capacity. In the past, we have stood out from the competition in a positive way in these areas, and we will try to continue in this path. To this end, we are making strategic adjustments to our inventories, and our strong sales in January 2013 confirmed once again that we are on the right track.

*Strong sales in January 2013*

*Top-quality customized solutions*

After all, our customers demand reliability and consistency, and we have a leg up in these areas as well, in our estimation. Although we operate worldwide, we are a mid-size company which cultivates personal contact and exchange with our customers. This circumstance is reflected, in no small part, by the large number of top-quality customized solutions which we offer our customers, and has been repeatedly confirmed by independent analysts as well. Certain segments in our industry are dominated by international conglomerates. To them, however, our areas of specialization often represent a negligible niche market which lacks the necessary relevance in terms of revenues. However, this niche is precisely where our success comes from, and we have therefore placed our focus on research and development, investments and providing customized solutions for our customers' needs.

Speed and flexibility are also key factors for success. Making use of new monitoring and controlling instruments, we are constantly working to forecast customer demand and optimize our own inventories, and our goal is, above all, to dynamize our production processes so as to be able to operate profitably even with smaller lot sizes.

*Forecast met for 2012*

Our revenues increased slightly in 2012, to EUR 129.2 million, and our EBIT margin (EBIT as a percentage of overall performance) was 7.7 %, meeting our forecast. We are cautiously optimistic for 2013, and we expect revenue growth in the mid-single digit range, assuming the economic situation does not get any worse. As for operating profit, we expect the EBIT margin in 2013 to be in line with last year's margin.

## WHY ARE WE SO OPTIMISTIC?

- Despite all of the economic crises and uncertainty of recent years, Nabaltec is in an ideal position: we have a very solid foundation and, at the same time, a bright outlook for the future. A fundamental shift is occurring in a large number of applications and target markets with respect to the materials being used. As a result, we are very well-positioned in our established segments. At the same time, our new segments offer great potential, even if their rate of growth has at times been more modest than we would have hoped. However, the factors driving long-term change remain intact, and this is a trend which is working in our favor.

- The foundation of our business, measured in terms of our financial base, the potential of our new products and our existing infrastructure, has become more solid.

- Our liquidity is strong, which is especially important right now.

*Customer base gradually broaden*

- We are on the right track strategically. Lately, we have been able to gradually broaden our customer base and further strengthen our market position.

- We have made strategic investments in high value-added products like fine precipitated hydroxides and reactive aluminum oxides, expanding the facilities which manufacture these products. Now that these projects have been completed, we are in an outstanding position to meet the needs of our customers and markets.

Based on this solidly built foundation, we are now setting our next series of goals. After a period of time to "catch our breath," we plan to resume our course of healthy and moderate growth in a manner which is both sustainable and highly profitable. We intend to increase our earning power significantly. Above all, however, we will continue to focus on our customers, working together with them to develop new products and qualities and to improve with each passing day.

This can only be done with skilled and motivated employees, and we would like to express our special thanks to our employees for their outstanding performance in 2012. We would also like to thank our customers, partners and shareholders for their trust.

Schwandorf, March 2013

Sincerely yours,

JOHANNES HECKMANN
Member of the Board

GERHARD WITZANY
Member of the Board

# REPORT OF THE SUPERVISORY BOARD

Prof. Dr.-Ing. Jürgen G. Heinrich, Dr. Leopold von Heimendahl (Chairman of the Supervisory Board), Dr. Dieter J. Braun

*"Developments in 2012 confirmed once more that Nabaltec AG is highly competitive in the global market and that the sales drivers remain intact."*

## Ladies and Gentlemen,
## Dear Shareholders,

While Nabaltec's results in the first half of 2012 were nearly as strong as the record-high results from the year before, an unsettled economic environment weighed down results in the second half of the year. On the year, however, Nabaltec AG was able to assert itself in an increasingly difficult environment. Nevertheless, the particular focus of the Supervisory and Management Boards was and continues to be on observing market trends very closely so as to be able to take rapid action at any time. At the same time, developments in 2012 confirmed once more that Nabaltec AG is highly competitive in the global market and that the sales drivers remain intact.

*Nabaltec is highly competitive*

Under these circumstances, the Supervisory Board consistently advised, monitored and supervised Management Board with utmost care, in accordance with its responsibilities as established by law, the Articles of Association and the Rules of Procedure. The Supervisory Board was informed by the Management Board directly and involved at an early stage in every decision of fundamental importance for the company.

Whenever required by law, the Articles of Association or the Rules of Procedure, the Supervisory Board voted on the Management Board's reports and draft resolutions after careful deliberation and review. All transactions requiring approval were adopted.

*All transactions requiring approval were adopted*

In the 2012 reporting year, the Supervisory Board convened for four regular sessions: on 23 April 2012, on 21 June 2012, after the Annual General Meeting, on 27 September 2012 and on 13 December 2012. No meetings were held in 2013 prior to the Supervisory Board meeting of 19 April, which votes on adoption of the financial statements. All members were present at each session in 2012: Professor Heinrich took part in the 23 April 2012 meeting by phone, voting instructions had been issued in that regard. The members of the Supervisory Board also conducted deliberations in writing and over the phone additionally. Where necessary, the Supervisory Board has adopted resolutions outside of the regular meetings. Draft resolutions were approved in writing on three occasions in 2012. The adopted resolutions included resolutions to increase the insured amount for the D&O insurance policy and to adapt the Supervisory Board's goal, as required by the German Corporate Governance Code, with respect to the number of independent members.

The incumbent members of the Supervisory Board were reelected in the elections held in the reporting year. Since the Supervisory Board of Nabaltec AG consists of just three members, the formation of committees was once again dispensed with. No conflicts of interest for individual members of the Supervisory Board arose during the 2012 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's supervisory mandate. In the estimation of the Supervisory Board, a sufficient number of members may be viewed as independent, since two members of the Supervisory Board have no personal or business relationship with the company or with the Management Board. An agreement exists between Nabaltec AG and Professor Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the past Financial Year, particularly the efficiency of its procedures and the timely supply of adequate information.

## FOCUS OF DELIBERATIONS

*Supervisory Board received full and timely reports at all times*

Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, the Supervisory Board was kept informed e.g. of market trends, the risk and competitive situation, the development of sales, revenues and earnings and the accomplishment of objectives through monthly and quarterly reports. In addition, the Chairman of the Supervisory Board kept himself constantly informed of the current course of business, major transactions and crucial Management Board decisions. To that end, the Chairman of the Supervisory Board was engaged in a close and routine exchange of information and ideas with both members of the Management Board.

The development of revenues and earnings were routinely discussed at Supervisory Board sessions, as well as suitable measures to optimize revenue and earnings growth, the assets and financial position and questions of compliance and corporate strategy. In addition, intensive consideration was given to the following issues in 2012:

- the 2011 annual financial statements and consolidated financial statements;
- corporate governance, particularly the changes to the Code on 15 May 2012 and the extension of objectives for the composition of the Supervisory Board;
- the market potential of new products;
- planning for 2013 and mid-term planning through 2015;
- investment and financing planning for 2013-2015.

Another focus of the deliberations in 2012, as well as the supervisory and monitoring activity, especially in the session 2013 slated for adoption of the 2012 financial statements, was the effectiveness of the risk management system and the entire accounting process in Nabaltec AG and Nabaltec Group, as well as monitoring the internal controlling system.

On 9 March 2012, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2012, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. Both the Management Board and the Supervisory Board dealt with the changes to the German Corporate Governance Code as of 15 May 2012, particularly at the meeting of 13 December 2012, preparing issuance of the 2013 Declaration of Compliance. The Supervisory Board also reformulated the goal for its future composition with respect to the changes to the Code. Further information about corporate governance at Nabaltec AG can be found in the Corporate Governance Report on the company's website, www.nabaltec.de, in the Investor Relations/Corporate Governance section.

## 2012 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to § 315a of the German Commercial Code, and the consolidated management report. The Supervisory Board issued the audit mandate by resolution of the Annual General Meeting of 21 June 2012. Before publishing the nomination, the Supervisory Board obtained an independence declaration from the auditor. There were no known reasons to doubt the auditor's independence. The auditor was also asked to notify the Supervisory Board immediately of any circumstances which could establish bias on its part and to keep us informed about any performances it rendered in addition to the audit. The focus of the 2012 audit was on the “sales” process.

*Auditor issued an unqualified auditor’s opinion*

The auditor issued an unqualified auditor’s opinion for Nabaltec AG’s annual financial statements and management report and for the consolidated financial statements and consolidated management report. All of the documents pertaining to the financial statements, as well as the auditor’s report, were made available to each member of the Supervisory Board in a timely manner for independent review. The documents and the auditor’s report were the subject of intense consideration at the session of 19 April 2013. The auditor was present during the session, reported on the essential conclusions of the audit and was available for further questions. One focus of the auditor’s explanations was his assessment of Nabaltec AG’s consolidated financial statements and the accounting-related controlling system for the “sales” unit. The auditor was not able to find any accounting-related weaknesses in that area. The Management Board and the auditors have answered all of the Supervisory Board's questions fully and to its satisfaction.

*Nabaltec AG’s annual financial statements have been adopted*

After conducting an independent review of the annual financial statements and consolidated financial statements, management report and consolidated management report, the Supervisory Board has made no objections, and accepts the conclusions of the audit conducted by Deloitte & Touche GmbH. The Supervisory Board accordingly approved the annual financial statements and consolidated financial statements for 31 December 2012 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration as well as the shareholders for their trust, as expressed in the reelection of the Supervisory Board in the reporting year. Special thanks go out to all of the employees of Nabaltec AG, who were 2012 successful in providing innovative ideas and products in a still highly volatile economic environment, and were therefore able to retain utmost customer satisfaction as the best assurance of its own success.

Schwandorf, 19 April 2013

**DR. LEOPOLD VON HEIMENDAHL**
Chairman of the Supervisory Board

# NABALTEC SHARE AND BOND

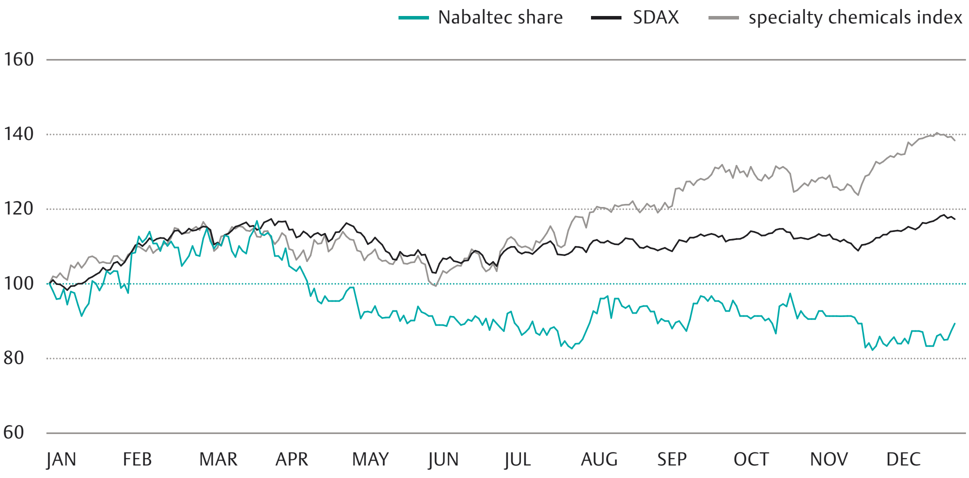
Since 2006, Nabaltec AG share has been listed in the Entry Standard segment of the Frankfurt Stock Exchange. Additionally, the company launched a corporate bond in October 2010, which is listed in the Bondm segment of the Stuttgart Stock Exchange.

## NABALTEC SHARE ON THE CAPITAL MARKET

*Uncertainty in the capital markets*

After a very strong start to the year, the general uncertainty in the capital markets because of the continuing sovereign debt and financial crisis in Europe began to affect the performance of Nabaltec share at the start of the second quarter of 2012. The price of Nabaltec share reached its high for the year at the end of the first quarter, EUR 8.70, but the performance of Nabaltec shares entered a downtrend over the course of the second quarter, even as the company itself continued to grow. The price of Nabaltec share rebounded at first in the third quarter, upon publication of the preliminary results for the first half of the year, but then fell to EUR 6.12 on 22 November 2012, its low for the year. At the end of the year, Nabaltec share was trading at EUR 6.65, down 6.3% from its 2011 closing price. The stock indices of relevance for Nabaltec, the SDAX and the specialty chemicals index, posted considerable gains over the course of the year, finishing the year up 18.7% and 41.9% respectively.

PERFORMANCE OF NABALTEC SHARE 2012 (XETRA, indexed)




Nabaltec AG's market capitalization was EUR 53.2 million at the end of 2012, compared to EUR 56.8 million as of 31 December 2011.

## KEY DATA FOR NABALTEC SHARE (XETRA)

| | 2012 | 2011 |
|---|---|---|
| Number of shares | 8,000,000 | 8,000,000 |
| Market capitalization (cutoff date, in EUR million) | 53.20 | 56.80 |
| Average price (in EUR) | 7.07 | 8.58 |
| High (in EUR) | 8.70 | 13.00 |
| Low (in EUR) | 6.12 | 6.32 |
| Closing price (cutoff date, in EUR) | 6.65 | 7.10 |
| Average daily turnover (in shares) | 5,817 | 11,462 |
| Earnings per share* (in EUR) | 0.26 | 0.45 |

* after non-controlling interests

## TRADING VOLUME

*Liquidity of shares supported by the Designated Sponsor*

Nabaltec share's average XETRA daily trading volume was 5,817 shares in 2012, only about half as high as last year's daily trading volume, 11,462 shares. XETRA trading volume was about 1.5 million shares in the reporting year, or about half 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 was performed by VEM Aktienbank AG until 31 December 2012. As of 2013, the designated sponsor is Baader Bank Aktiengesellschaft.

## EARNINGS PER SHARE

*Earnings per share were EUR 0.26 in 2012*

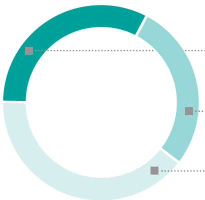
Earnings per share (EPS) were EUR 0.26 in 2012 (after non-controlling interests), compared to EUR 0.45 the year before. Nabaltec AG calculates earnings per share based on the average number of shares in circulation, in accordance with IAS 33. There was no dilution in 2012.

## SHAREHOLDER STRUCTURE

*Stable shareholder structure*

The majority of Nabaltec's 8,000,000 shares are still held by the Heckmann and Witzany families. As of the cutoff date, the Heckmann family held 31.95% of the company's capital stock and the Witzany family held 29.87%. The residual shares are in free float.

## SHAREHOLDER STRUCTURE (in %)



| | |
|---|---|
| 31.95 | Heckmann family |
| 29.87 | Witzany family |
| 38.18 | Free float |

## ANALYSTS' RECOMMENDATIONS

*Analysts issued buy recommendations*

Hauck & Aufhäuser has been following Nabaltec share with research reports consistently since 2011, and published 15 studies and updates last year. Hauck & Aufhäuser issued a buy recommendation in each of its analyses, and confirmed a price target of EUR 12.50 in its study of 27 November 2012.

VEM Aktienbank also published three studies on Nabaltec share in 2012, issuing a buy recommendation in each of its analyses. In VEM Aktienbank's study of 17 September 2012, the price target was set at EUR 12.10.

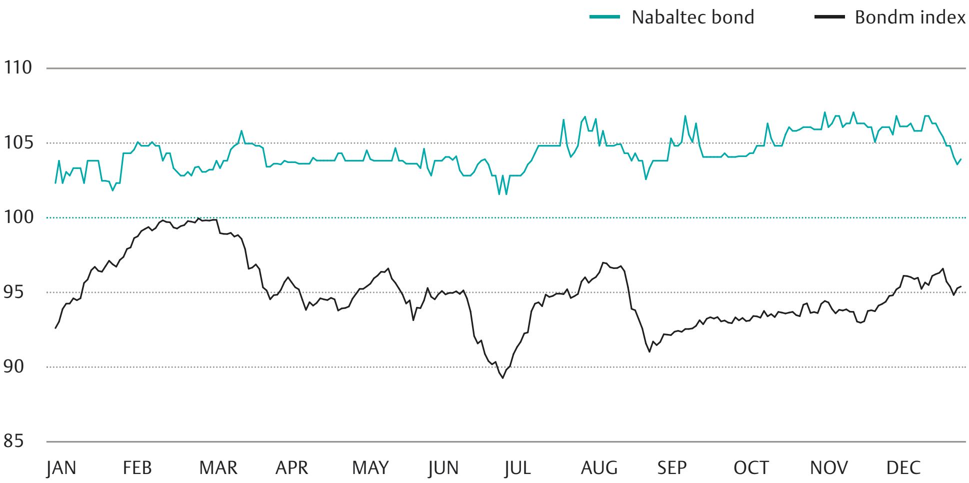
Recommendations of Nabaltec share can be found online in the Investor Relations section of www.nabaltec.de, under Analysts' Recommendations.

## BOND PERFORMANCE

*Bond performance stable over 100*

In 2010, Nabaltec became one of the first companies to launch a small-cap corporate bond. Nabaltec AG's corporate bond, which is listed in the Bondm (mid-cap) segment of Stuttgart Stock Exchange, has a volume of EUR 30.0 million and a term of five years. Price drops on the stock market, especially in the second half of the year, affected the bond market as well. The Bondm index fluctuated sharply over the course of the year and fell to a low of 89.42 in June before recovering and finishing the year at 95.56. Nabaltec bond was able to buck this trend, trading at well over 100 throughout the year, without exception. At the close of Financial Year 2012, Nabaltec bond was trading at a price of 104.10. The bond carries an interest rate of 6.50%, and the first two coupon payments were made on time in October 2011 and 2012.

PERFORMANCE OF NABALTEC BOND 2012 (Stuttgart Stock Exchange)



## CAPITAL MARKET COMMUNICATIONS

*Intensive dialogue with the capital market*

Nabaltec AG continued its intensive investor relations activities in Financial Year 2012. It took part in several investor and analyst conferences, and was represented at road shows in other European countries, at Deutsche Börse's Entry and General Standard Conference, and at the Bondm Investors Conference in Stuttgart.

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.

*2011 Annual Report honored with LACP Award*

In the international "2011 Vision Award – Annual Report Competition" held by the League of American Communications Professionals (LACP), Nabaltec AG's 2011 Annual Report received the "Silver Award" in the "Chemicals" category. This renowned award in the field of international financial reporting honors Nabaltec AG's capital market communications; there were more than 5,500 submissions worldwide from more than 20 countries.

Investors can find all the information they need about Nabaltec share (in the Investor Relations section) and Nabaltec bond (in the Bond section), on the company's website, www.nabaltec.de, as well as additional information about the company.

### BASIC DATA FOR NABALTEC SHARE

| | |
|---|---|
| ISIN (International Security Identification Number) | DE000A0KPPR7 |
| Share symbol | NTG |
| Stock exchanges | Frankfurt (Entry Standard), over the counter in Berlin, Düsseldorf, Munich, Stuttgart |
| Sector | All Industrial |
| Industry group | Products & Services |
| Index membership | Entry Standard, Entry All Share, DAXsector All Industrial, DAXsubsector All Industrial Products & Services |

### BASIC DATA FOR NABALTEC BOND

| | |
|---|---|
| ISIN (International Security Identification Number) | DE000A1EWL99 |
| Volume | EUR 30,000,000 |
| Annual yield | 6.50% |
| Coupon payments | annually, on 15 October |
| Term | five years, from 15 October 2010 through 14 October 2015 |
| Amortization rate | 100% |
| Unit | EUR 1,000 |
| Exchange listing | Bondm segment, Stuttgart Stock Exchange |

Contact Investor Relations:

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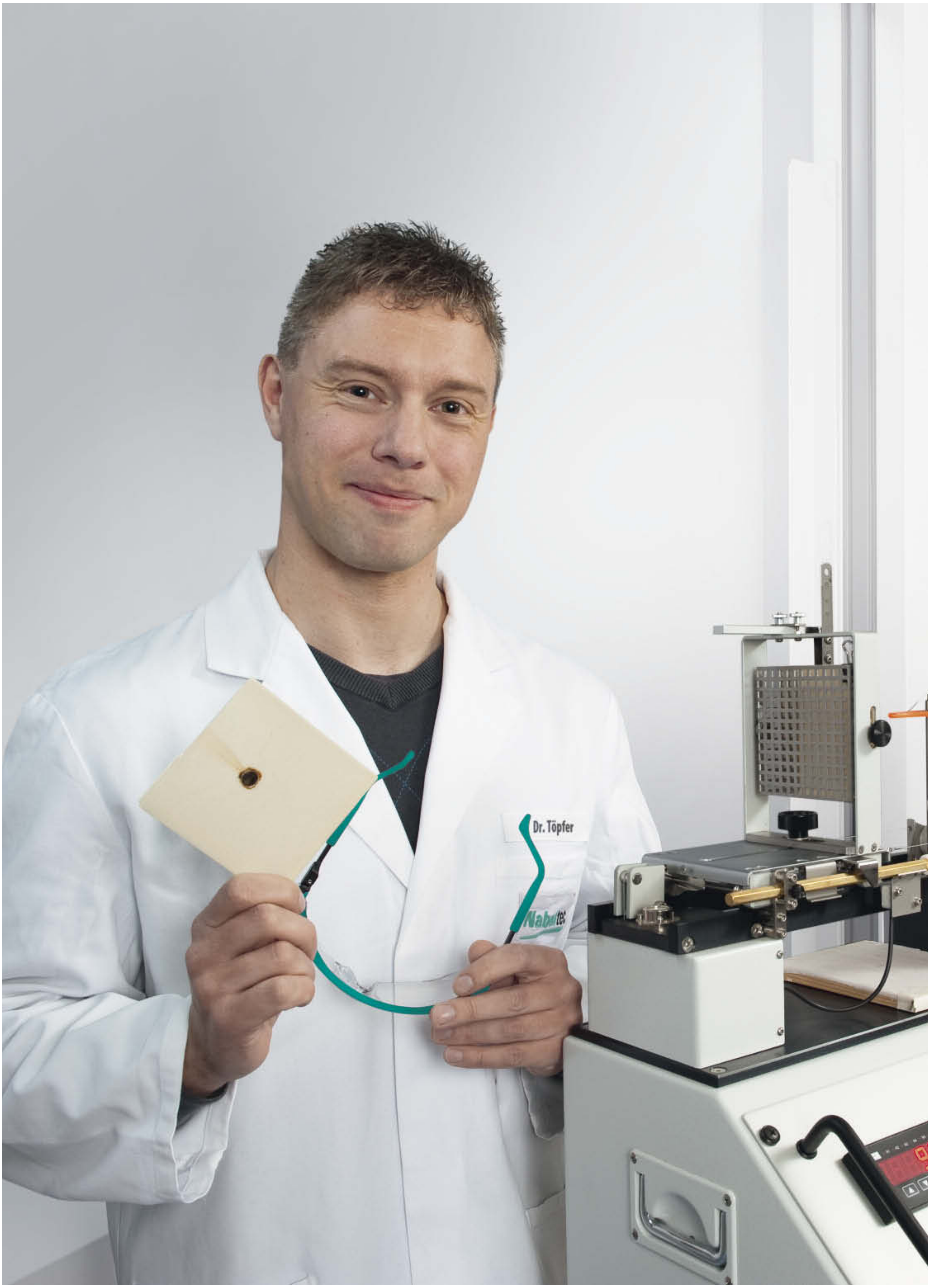
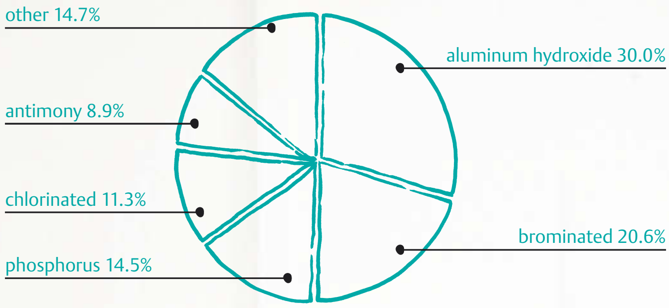
Fax: +49 9431 53-260
E-mail: InvestorRelations@nabaltec.de


Dr. Töpfer
Nabaltec

## Nabaltec’s functional fillers: we make the world safer!

### Worldwide Consumption of Flame Retardants, 2011




*(Source: The Freedonia Group, Inc. 2013)*

Worldwide consumption of flame retardants is about 2 million tons per year, of which around 30% are aluminum hydroxide-based, Nabaltec AG’s market. Global use of halogen-free flame retardant fillers is on the rise because of their eco-friendliness, and the halogenated alternatives which have been used until now are increasingly being pushed aside. Independent market forecasts project that global demand for (ATH-based) halogen-free flame retardants will grow at a rate of 6% per year through 2016 (Source: The Freedonia Group, Inc. 2013).

Dr. Oliver Töpfer, Regional Manager Sales and Technical Services:

*“The diverse challenges for fillers in the field of technical thermoplastics are met in virtually unique fashion by our boehmites.”*

## Nabaltec's ceramic raw materials and ceramic bodies: expertise for use at the limits!

### Global Crude Steel Production


*(Source: World Steel Association)*

Global steel production has been growing at a very stable pace for many years, with the only interruption coming during the global financial crisis. This is considered to be a key indicator for the development of the business division "Technical Ceramics". Experts project that the refractory and technical ceramics markets will grow at a rate of about 3% a year through 2017 (Source: Roskill, Bauxite & Alumina: Global Industry Markets and Outlook, 8th edition 2012).

Giede Paschke, Production Manager Technical Ceramics:

"Due to the large number of application possibilities and target markets, our products have strong potential for growth in technical ceramics in the coming years."


Nabaltec
PASCHKE

# OUR EMPLOYEES AND TRAINEES

... are the foundation of our success. After all, extraordinarily motivated employees are indispensable in order to secure our lasting and long-term profitable growth.


*Nabaltec was honored 2012 for the third time as a top employer*

The creativity of our employees is the key ingredient for innovation at Nabaltec AG. We foster the enthusiasm and pronounced dedication of our employees through targeted measures and by providing an optimal working environment. We win the experts of tomorrow over a high-level training program, and our trainees are routinely among the best of their class. We also use a wide variety of working hours models in order to allow parents to balance their work and family life.

Our human resources work is highly appreciated by independent bodies as well. That’s why we were recognized as one of the top mid-size employers in the nationwide “TOP JOB” comparative study after 2006, 2008 and 2012 as well.

“The focus on customers and service is maintained internally as well to maximize performance”

*Jürgen Tauscher, Metalworker for Maintenance*

"Responsibility, trust and appreciation towards both employees and customers are a way of life here."
*Paul Altmann,*
*Director Service Center Administration*

"Quality is our main promise, and that is how we are measured as a company and as employees."
*Margit Wegele,*
*Deputy Representative for Integrated Management Systems*

"Personalized working time models let me find the optimal balance between work and family."
*Claudia Bösl,*
*Controlling Employee*

"My training is exciting, multi-faceted and a great opportunity. Nabaltec's trainees are among the best of the chamber of commerce every year."
*Lisa Eichinger,*
*Trainee for Chemistry Laboratory Assistant*

Nabaltec belongs to the world's leading suppliers of functional fillers, ceramic raw materials and ceramic bodies. The production capacity entails approximately 250,000 tons per annum with an export share of nearly 70%.


# CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2012

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FOR THE FINANCIAL YEAR 2012

## 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, in particular on the basis of aluminum hydroxide (ATH) and aluminum oxide. The Company belongs to the world's leading suppliers of functional fillers, ceramic raw materials and ceramic bodies. The production capacity entails approximately 250,000 tons per annum (t.p.a.) with an export share of nearly 70%.

The range of applications of Nabaltec products is much diversified:

- flame retardants for the plastics industry used e.g. for cabling in tunnels, airports, highrises and electronic equipment
- fillers and additives that pigment and stabilize plastics and that are applied due to their catalyst features or as flame retardant in the electronics industry
- ceramic raw materials applied in the refractory industry, in technical ceramics and abrasives industry
- highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters

*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 plumbiferous, and thus environmentally hazardous, fillers. The main drivers are the globally increased environmental consciousness, comprehensive international and national regulations and the industry's self-imposed obligation. Flame protection within the plastics and cable & wire industry will continue to grow dynamically in the years to come, which is supported by recent market research results. In order to benefit from this trend disproportionately high and to gain market leadership within this segment, we have specifically expanded our production capacity for ATH-based flame retardant fillers. Today, Nabaltec is one of the world's leading suppliers in this area.

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

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

*The market for reactive alumina is developing over proportionally well*

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

## CORPORATE STRUCTURE

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

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

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

*Nabaltec organizes its operations in two business divisions*

With the new market segment "Environmental Engineering", Nabaltec concentrates on the development of new raw materials for alternative energy storage, electro mobility, catalysis and for emission control of power stations.

## BUSINESS DIVISIONS

### Functional Fillers:

- Flame Retardants
- Additives
- Environmental Engineering

### Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

## SERVICE CENTERS

- Administrative Services
- Controlling/Finance
- Technical Services
- Laboratory Services

## 1.2 OBJECTIVES AND STRATEGIES

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

### 1. QUALITY LEADERSHIP AND A MARKET SHARE AMONG THE RESPECTIVE TOP THREE SUPPLIERS IN THE TARGET MARKETS

*Nabaltec is one of the leading suppliers of flame retardant fillers*

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

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

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

### 2. STRATEGIC POSITIONING WITHIN GROWTH MARKETS

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

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

*Product and process development is constantly optimized*

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

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

### 4. SYSTEMATIC EXPANSION OF OUR PRODUCT RANGE

Nabaltec develops its own product portfolio along three dimensions:

- through the improvement of existing products, often in close collaboration with key customers. Examples are additive and boehmites, which are produced and marketed on industrial scale since 2009
- through focused quality development of existent products that meet specific customer requirements
- through the further development of existent products for the expansion of their application range.

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

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

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

*Nabaltec pursues a margin oriented capacity policy*

### 6. SECURING FUTURE INVESTMENTS THROUGH A STRONG FINANCIAL BASE

In order to take full advantage of market potential relating to both business divisions, further significant investments are necessary. This investment activity is at the same time a high market entry barrier for potential new suppliers. Such as to ensure the disposal over the required investment capital, Nabaltec focuses on a broad financing basis consisting of equity, bank loans, subsidies as well as corporate bonds emitted in 2010.

## 1.3 CONTROLLING

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

*Incentive scheme defines responsibilities*

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

## 1.4 RESEARCH & DEVELOPMENT

*R&D activities play a central role*

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

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

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

*Projects with research partners*

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

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

*R&D activities are based on customer and market requirements*

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

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

In 2012, the following developments played a central role in the "Functional Fillers" business division:

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

*The market for non-halogenated flame retardants still has considerable growth potential*

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

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

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

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

*New product approvals are being prepared, or in progress*

Nabaltec AG introduces new special fine grades of APYRAL® AOH und ACTILOX® B (boehmite) for technical thermoplastics, in which mineral flame retardants have to date not been applied.

Regarding new trends in environmental engineering, Nabaltec AG is currently in the process of developing new resources for alternative energy storage as well as electro mobility. Furthermore, special products based on aluminum hydroxide as well as boehmite are increasingly being applied for catalysis and cleaning of waste gas emitted by power stations.

In the reporting period, the following developments played a central role in the "Technical Ceramics" business division:

In the area of reactive NABALOX® calcined aluminum oxides, several new products for the application as polishing agents were launched in the market. These new qualities are supposed to enhance the focused expansion of our own portfolio in this application area.

The application of reactive aluminum oxides by Nabaltec lies mainly in the refractory industry, where the products already today significantly contribute toward the production of higher performance monolithic and formed products. A further innovative application shall be developed via a focused new development. To this end, extensive application technical research has already been performed, which have confirmed the potential of the new development.

*Reactive aluminum oxides are used mainly in the refractory industry*

*Development of a new sintering product*

Within the scope of developing a new high-quality SYMULOX® sintering product, the first large scale production for sampling was delivered to customers. In the next step, the now expected character advantages will be verified under actual application conditions. The development of this product shall in the long term support the launching of material cycles regarding refractory materials. The special SYMULOX® quality for fine ceramic applications will also be transferred to the production scale.

*Independent developments in the field of organic plasticization*

Amongst others, our own development was completed in the areas of organic plasticization and spray granulation for the fundamental enhancement in the performance of various GRANALOX® products in existing applications. Within the scope of an AiF-project, new in-depth insight shall be obtained. A new GRANLOX® quality for the production of transformed aluminum oxide ceramic could be transferred to production scale. Furthermore, various customer-specific development projects were worked on.

# 2. FINANCIAL REPORT

## 2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

### 2.1.1 MACROECONOMIC SITUATION

After only a rather moderate increase in world production of 3.8% was realized already in 2011, the upward global economic trend clearly lost momentum in the course of 2012, according to the Kiel Institute for the World Economy (IfW). On average, global production increased only by 3.2% p.a. Reasons for this were in particular the further development of the sovereign debt crisis in the euro zone, the ongoing uncertainties in the financial markets as well as the future fiscal policies in the USA. The growth of the gross domestic product (GDP) in the USA improved 1.8% to 2.2%. Economic growth in the emerging markets, in comparison to prior year, clearly weakened. China's GDP-growth decreased from 9.2% to 7.8% as well as India's from 7.9% to 3.8%.

*The euro zone slipped into recession*

The euro zone slipped into a recession with –0.5%, subsequent to economic growth of 1.4% in 2011. Pressure arose from industry investment restraints as well as a reduction in government consumption.

The German economy, on the other hand, could prove itself in a very difficult economic environment and, despite the euro zone recession, proved to be very resistant and could grow in 2012. According to the Federal Bureau of Statistics, GDP-growth after taking inflation into account was 0.7% compared to 3.0% in prior year, whereby growth notably cooled down in the second half of the year. The most significant drivers were export and domestic private and government consumption spending. For the first time since the world economic crisis 2009, investments could not contribute positively toward GDP-growth.

### 2.1.2 INDUSTRY DEVELOPMENT

In 2012, total revenue in the German chemical industry largely remained stable on prior year level with EUR 184.2 billion (source: German chemical industry association Verband der Chemischen Industrie e.V. (VCI)).

In comparison to prior year, exports grew by 2% to EUR 110.9 billion, reaching a new world record. Domestic revenue decreased by 2.5% and reached a volume of EUR 73.3 billion.

*Exports of German chemical companies grew by 2%*

Chemical and pharmaceutical prices increased in the past year on average by 2.5%. Price increases could be observed in nearly all product ranges. Given the low interest rates in 2012 and the fact that most companies based their investment budgets for fixed assets within Germany on the assumption that the economic development would improve quickly, the realization of investment intentions could be enhanced. The 2011 investment trend continued. Investments were increased by 5% to EUR 6.6 billion compared to 2011. The largest part related to replacement purchases, followed by additions to capacity.

The long term trend of increasing demand for non-halogenated, flame retardant fillers and in particular aluminum hydroxide is still intact. Newly issued fire safety regulations around the world continuously propel this development. Independent forecasts assume an annual increase in worldwide demand of 5% till 2017 (on the basis of ATH, source: Roskill). This market growth is especially stimulated by the growing public consciousness regarding fire safety as well as the ongoing replacement of potentially hazardous flame retardants with environmentally friendly, halogen-free aluminum hydroxide. This development in demand specifically affects fine precipitated aluminum hydroxide. In the first half of 2012, Nabaltec could set forth the positive development in 2011 and achieve a new record regarding the production of fine precipitated aluminum hydroxide. Also the third quarter was characterized by stable development, even though not as dynamic anymore. The fourth quarter was marked lower stocks held along the entire value chain in the respective target markets. According to Nabaltec AG, the prospects remain good regarding environmentally friendly additives in plastic production as well as regarding boehmite with its numerous applications.

*The long-term trend of increasing demand remains intact*

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand within the steel industry. The uncertainties in the European steel industry had a negative impact on demand, particularly in the third and fourth quarters. Market experts also expect an annual growth of 5% for refractory products and approximately 3% for technical ceramics.

## 2.2 COURSE OF BUSINESS

Subsequent to a very satisfying first half year 2012, in which expectations were fulfilled, Nabaltec AG's course of business lost momentum as from the third quarter onward due to the increasingly difficult economic and market environment. The third as well as the fourth quarter could exceed its prior year sales figures, however, remained behind expectations. In total, revenue 2012 increased slightly to EUR 129.2 million, earnings before interest and tax (EBIT) decreased by 18.7% from EUR 12.3 million to EUR 10.0 million, earnings per share decreased from EUR 0.44 to EUR 0.26 while equity grew by 1.3% to EUR 47.5 million (2011: EUR 46.9 million).

The most recently communicated revenue and earnings forecast for the financial year 2012 were thereby met.

*The most recent forecasts were met*

According to Management, Nabaltec AG's market position was further improved in 2012. The respective number one positions amongst the top 3 in the relevant target markets were either confirmed or improved.

Particularly, in the fourth quarter, the purchase retention of many customers was still felt and the targeted stock reduction resided in January, the short term nature of order backlogs remained. Due to customers' retention in December, the finished goods stock level held by Nabaltec at the beginning of the year is well high and enables the Company an ongoing ability to supply. With its product range and long term reputation, Nabaltec is optimally equipped for a continued successful financial year 2013.

## 2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG

### 2.3.1 DEVELOPMENT OF REVENUE

Nabaltec Group realized sales revenue of EUR 129.2 million in 2012, and therefore exceeded slightly prior year's level of EUR 129.0 million. Turnover volume remained 0.9% behind prior year's levels across all business areas. Direct exchange rate effects played a subordinated role in the development of revenues in 2012. The export share increased to 69.0% from 68.4% in 2011.

*The first half-year was the driving force behind the revenue growth*

As already in prior year, particularly the first half-year 2012 was the driving force for the good development in revenue. Due to the very strong comparative figures, sales in the first two quarters in prior year could not be exceeded; however, the high level could be maintained with revenue amounting to EUR 34.1 million in the first and EUR 34.2 million in the second quarter 2012. In the second half-year, revenue amounted to EUR 32.1 million in the third and EUR 28.8 million in the fourth quarter 2012, which exceeded 2011 levels, but nevertheless especially the fourth quarter was marked by a significant downturn in demand. Both the end customers as well as the processing industry reduced their stock levels to a minimum at year end.

Throughout the year, orders amounted to EUR 121.2 million in total. Nabaltec ended the financial year 2012 with an order backlog of EUR 16.5 million.

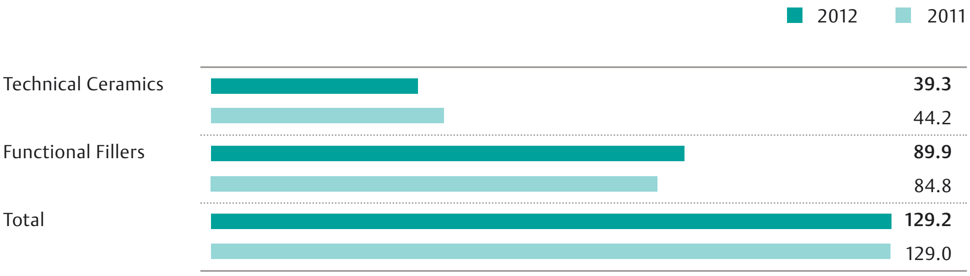
*There was a shift in revenue shares in 2012*

Overall, there was a shift in the share of turnover in 2012 from the business division "Technical Ceramics" to the division "Functional Fillers". The business division "Functional Fillers" achieved record high revenue in 2012, amounting to EUR 89.9 million, an increase of 6.0% compared to prior year (2011: EUR 84.8 million). This growth is based on an increase in sales quantity and an intensified concentration of strong value-added product areas.

The US subsidiary, Nashtec, could further brace her market position and sustainably contribute toward the Group's earnings.

The business division "Technical Ceramics" achieved revenues of EUR 39.3 million compared to revenues of EUR 44.2 million in prior year, i.e. a decrease of 11.1%.

## REVENUE BY BUSINESS DIVISION 2012 (in EUR million)




## REVENUE BY REGION 2012 (in %)


*Total performance decreased slightly, by 2.6%*

Nabaltec Group's total performance decreased in 2012 by 2.6% from EUR 132.8 million to EUR 129.4 million. This is mainly due to the reduction in stock levels of finished goods and work in progress compared to a clear build-up in prior year. Capitalized internally generated assets amounted to EUR 0.6 million.

Other operating income of EUR 1.7 million remained unchanged compared to prior year's level and primarily consists of exchange rate gains and other income from goods and services delivered to third parties. Compared to prior year, other operating income increased by EUR 0.3 million.

## OPERATIONAL EXPENSE RATIOS COMPARED TO TOTAL PERFORMANCE (in %)

| | 2012 | 2011 |
|---|---|---|
| Cost of materials | 52.0 | 52.6 |
| Personnel expenses | 16.8 | 16.0 |
| Other operating expenses | 17.9 | 17.2 |

*The cost-of-materials-ratio fell by 0.6 percentage points*

Compared to prior year, the cost-of-materials-ratio (compared to total performance) could be decreased by 0.6 percentage points to 52.0%. This improvement is attributable to the over proportionate increase in strong value-added products. Correspondingly, 2012 gross profit margin (compared to total performance) amounted to 49.3%, higher than prior year level of 48.5%. In absolute terms, gross profit was slightly lower than prior year with EUR 63.8 million in the reporting period and EUR 64.4 million in 2011.

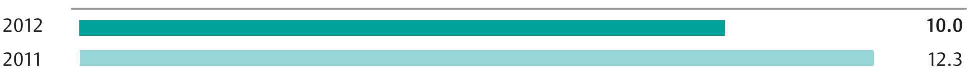
In 2012, the personnel-expenses-ratio (compared to total performance) increased from prior year level of 16.0% to 16.8%, given that the number of employees rose from 400 per December 31, 2011 to 417 per December 31, 2012. The increase in manpower needs lies mainly in the further expansion of the production capacity in Schwandorf.

Other operating expenses increased from EUR 22.9 million to EUR 23.2 million. The expense-ratio (compared to total performance) increased from 17.2% to 17.9%. While the distribution-costs-ratio increased slightly compared to 2011, cost-ratio relating to sales agent commissions and external services and repair services as well as general administration, advisory and marketing costs remained on prior year levels.

Earnings before interest, tax and depreciation and amortization (EBITDA) decreased by 7.8% from EUR 20.4 million to EUR 18.8 million. This is mainly due to the lower performance in the business division “Technical Ceramics”.

Taking into account the scheduled depreciation/amortization in the financial year 2012 in the amount of EUR 8.8 million, the operating result (EBIT) amounts to EUR 10.0 million compared to EUR 12.3 million in prior year. This was primarily due to the downward trend in the overall performance as well as higher depreciation/amortization.

EBIT (in EUR million)




*Interest expenses are down*

Earnings before tax (EBT) amounted to EUR 4.1 million (2011: EUR 6.0 million).This includes the financial result 2012 of EUR –5.9 million, consisting of EUR 6.3 million interest expenses and EUR 0.4 million interest income. Prior year, the financial result amounted to EUR –6.3 million. The decrease in interest expenses results mainly from the restructuring of bank payables in 2011 as well as scheduled redemption of bank payables in the financial year 2012.

Tax expenditure of EUR 1.1 million was incurred (2011: EUR 1.6 million), including EUR 0.6 million deferred taxes (2011: EUR 1.4 million).

Group earnings after non-controlling interests amounted to EUR 2.1 million (2011: EUR 3.5 million). Earnings per share decreased from EUR 0.44 in 2011 to EUR 0.26 in the reporting period.

## Segment report: Development within the business divisions

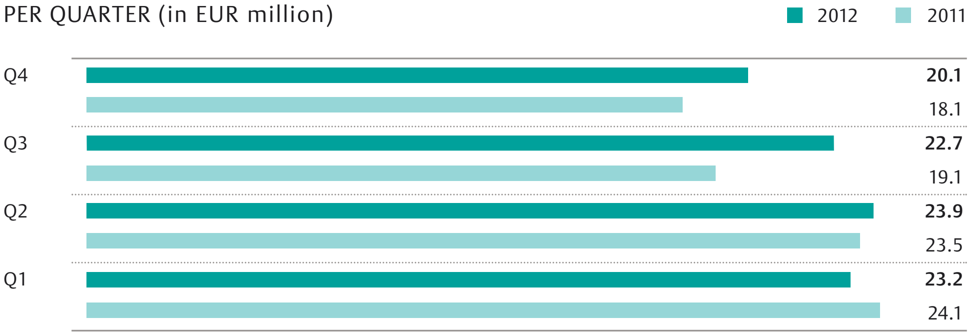
FUNCTIONAL FILLERS (in EUR million)

| | 2012 | 2011 |
|---|---|---|
| Revenue | 89.9 | 84.8 |
| EBITDA | 14.7 | 13.4 |
| EBIT | 8.3 | 7.6 |
| Investments | 5.4 | 12.1 |

In 2012, revenue increased by 6.0% in the business division “Functional Fillers”. The setting forth of the excellent development in 2011 proved that, also in 2012, the underlying market drivers for Nabaltec products are fully intact and the Company disposes of extraordinary prospects. Globally, non-halogenated, flame retardant fillers continue to be on the rise due to their environmental friendliness and are increasingly crowding out halogenated alternatives. Next to the very good development in the fine hydroxide product range, the product ranges relating to additives and boehmite continued to perform below expectation.

*The underlying market drivers for Nabaltec products are fully intact in 2012*

REVENUE BUSINESS DIVISION “FUNCTIONAL FILLERS” PER QUARTER (in EUR million)




Based on EBITDA, the business division “Functional Fillers” improved its earnings development by 9.7% from EUR 13.4 million to EUR 14.7 million in the reporting period. The success resulting primarily from Nabaltec’s intensifying its focus on strong value-added products is reflected in the increase in all key operating yield ratios.

“Functional Fillers” was again the focus of 2012 capital expenditure within the Nabaltec Group. Approximately 60% of total investments went into this division, mainly for process optimization, as well as the design of an additional fine hydroxide line, which was completed in 2012.

*The focus of capital expenditure in 2012 was on the “Functional Fillers” business division*

TECHNICAL CERAMICS (in EUR million)

| | 2012 | 2011 |
|---|---|---|
| Revenue | 39.3 | 44.2 |
| EBITDA | 4.1 | 7.0 |
| EBIT | 1.7 | 4.7 |
| Investments | 3.3 | 2.8 |

*Revenues in the "Technical Ceramics" business division fell by 11.1%*

In the reporting period, revenue decreased by 11.1% from EUR 44.2 million in 2011 to EUR 39.3 million in the business division "Technical Ceramics". Particularly in the second half of the year 2012, revenue decreased over proportionally compared to prior year due to the weakening steel industry. Irrespective of this, Nabaltec continues to see intact market drivers for this business division.

REVENUE BUSINESS DIVISION "TECHNICAL CERAMICS"
PER QUARTER (in EUR million)

2012 2011


Earnings development in the business division "Technical Ceramics", based on EBITDA, decreased compared to prior year by 41.4% from EUR 7.0 million to EUR 4.1 million.

Approximately 40% of total capital expenditure went into this segment, mainly for the optimization of production processes.

### 2.3.2 FINANCIAL POSITION

*The Management Board is responsible for financial management*

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

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

As of the balance sheet date, Nashtec was provided EUR 8.7 million (2011: EUR 9.3 million) in funds. Interest rates and contract terms correspond to those standards used for middle-sized enterprises. In the case of debt financing with variable interest, Nabaltec avails itself of various interest rate hedging instruments with a middle and longer term fixed interest period (e.g. interest swaps).

*Nabaltec has a balanced debt financing structure*

Nabaltec's growth as well as investments is primarily financed through long term bank loans, and since October 2010, also through corporate bonds in the amount of EUR 30.0 million. The bonds have a term of five years and expire in October 2015. The interest payment, with a coupon of 6.5% p.a., takes place once a year. Therefore, Nabaltec disposes of a balanced debt financing structure. Received subsidies from the government of Upper Palatinate for investment projects until December 31, 2012, were fully exploited.

### 2.3.2.1 CAPITAL STRUCTURE

Group's shareholders' equity increased from EUR 46.9 million to EUR 47.5 million as of 31 December 2012. This increase is primarily due to the net profit for 2012. The voluntary early adoption of IAS 19 revised resulted in a transfer within shareholders' equity as at December 31, 2012, of EUR 3.3 million in other result. The calculated equity ratio increased from 28.4% to 29.4%. This capital base can continue to be considered as sound compared to the industry.

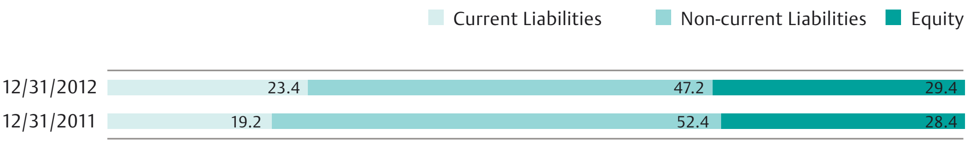
*Equity ratio up to 29.4%*

Non-current liabilities decreased in the reporting period from EUR 86.7 million to EUR 76.2 million. This includes Nabaltec AG's corporate bonds in the amount of EUR 29.2 million. Long term payables to banks decreased by EUR 9.3 million in accordance with scheduled repayments. New loans were not taken out in 2012. The retirement benefit obligation increased in 2012 by EUR 4.1 million, primarily due to actuarial effects.

*Non-current liabilities fell to EUR 76.2 million*

Current liabilities increased in 2012 from EUR 31.8 million to EUR 37.8 million. The reason for this increase was mainly the reclassification of existing profit participation rights capital of EUR 5.0 million from non-current to current liabilities.

STRUCTURE OF EQUITY & LIABILITIES (in %)




### Other off-balance sheet financing instruments

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

### 2.3.2.2 INVESTMENTS

In the reporting period, the Nabaltec Group invested a total amount of EUR 8.7 million including the portion of the investment grant (2011: EUR 14.9 million). Investments were in particular focused on the further optimization of processes in both business segments and the completion of the new production line for fine hydroxide.

### 2.3.2.3 CASH FLOW

Net cash generated by operating activities on Group level increased compared to prior year by 58.1% to EUR 21.5 million (2011: EUR 13.6 million). An increase in trade receivables partly offset targeted decreases of stock levels as well as in increase in liabilities arising from operating activities.

*Cash flow from operating activities increased by 58.1%*

Net cash used in investing activities amounted to EUR –10.6 million in the reporting period (2011: EUR –15.5 million).

*No new loans in 2012*

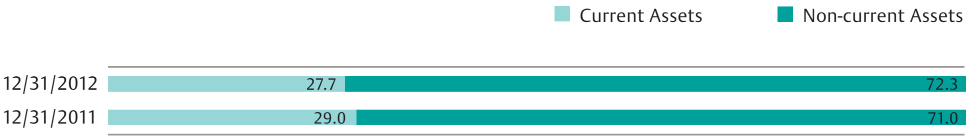
Net cash used in financing activities amounted to EUR –12.9 million in 2012 (2011: EUR –0.9 million). The redemption of finance loans in current year amounted to EUR 8.4 million. No new loans were taken out. Paid interest was reduced from EUR 5.4 million in 2011 to EUR 4.7 million in the reporting period.

Nabaltec Group's total cash and cash equivalents as at December 31, 2012 amounted to EUR 14.3 million compared to EUR 16.3 million in prior year.

#### 2.3.2.4 NET ASSETS

Nabaltec AG's total assets decreased as at December 31, 2012 from EUR 165.4 million to EUR 161.5 million.

STRUCTURE OF ASSETS (in %)




*Significant increase in technical machinery in 2012*

Property, plant and equipment decreased due to scheduled depreciation to EUR 116.0 million. Technical machinery increased markedly, since significant investments in 2011 were taken into operation in the course of 2012. The sum of the non-current assets in the amount of EUR 116.8 million encompasses a deferred tax asset arising from the joint venture, Nashtec, amounting to EUR 0.6 million. Non-current assets amounted to 72.3% of the balance sheet total as per December 31, 2012; current assets amounted to 27.7%.

## 2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

### 2.4.1 FINANCIAL PERFORMANCE INDICATORS

*Modification of Management Report to DRS 20*

Given the modification in Nabaltec AG's management report, reflecting the recommendations of the German Accounting Standard 20 (DRS 20), the Company has presented separately the financial performance indicators for the first time in 2012, in addition to the performance figures published until now and used for internal control purposes. This internal controlling system enables the Company to pursue value-based management.

Significant profitability figures at Nabaltec AG:

RETURN ON SALES AND CAPITAL (in %)

| | 2012 | 2011 |
|---|---|---|
| Return on equity | 6.3 | 9.4 |
| Return on Capital Employed (ROCE) | 7.6 | 9.3 |

Return on equity, consisting of the ratio of retained earnings to equity, amounted to 6.3% in the reporting period and was therefore below the prior year value of 9.4%. Reason for this is the decrease in annual result.

ROCE compared EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 7.6% after 9.3% in prior year.

## 2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

### Employees

End 2012, Nabaltec Group employed in total 417 employees (December 31, 2011: 400). Thereof, 416 employees (December 31, 2011: 399) were employed in Germany. This figure includes 53 apprentices (December 31, 2011: 49). Nabaltec sets a high value on sound professional training. Therefore, also in 2012, the rate of apprentices of 12.7% traditionally presents a remarkably large portion of the workforce. This rate was higher in comparison to prior year and also exceeded the industry average. Nabaltec apprentices regularly count to the best of their class. The Company currently has vacancies relating to training positions for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

*Trainee ratio increases to 12.7%*

Nabaltec AG regularly belongs to the 100 best employers in the German middle market, according to the national multi-sector company comparison, 'TOP JOB' – the Company won this prize again in 2012. Such distinctions indicate how seriously the Company takes its responsibility toward her employees. Nabaltec's central concern is to offer her employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees' corporate identity, commitment and involvement.

### Customer Relations

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

*Nabaltec was able to strengthen and clearly parlay its market standing*

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

## Management Systems

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and trade association requirements, the Company already decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001, respectively, ISO 14001, to introduce a health and safety management system in compliance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series). In 2012, an extensive monitoring audit of the existing management system based on ISO 9001 and ISO 14001 was performed in Schwandorf and Kelheim. Furthermore, audits of BS OHSAS 18001 were reperformed. On the site in Corpus Christi, the quality management system (ISO 9001) was also successfully audited.

*Energy management system in accordance with the ISO 50001 standard*

In order to effectively meet the requirements of a continuously changing energy market, Nabaltec AG already introduced a certified energy management system in the year 2010. In 2012, the certification of the energy management system was modified from the European Norm EN 16001 to the international Norm ISO 50001. In addition, a monitoring audit for the laboratory accreditation took place in accordance with DIN EN ISO/IEC 17025, which was performed by the German Accreditation Body (Deutsche Akkreditierungsstelle, DAkkS).

## Environmental protection

*Nabaltec makes a vital contribution to protecting the environment*

We require our own products to significantly contribute toward environmental protection and toward the improvement of the eco balance of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. For instance, they replace heavy metal-based additives, such as lead, and halogenated flame retardant components, such as bromine, in plastics. In this respect, it is of central importance that research and development, production as well as up and downstream logistics are conducted as environmentally friendly as possible. The conservation of natural resources is of central concern for Nabaltec and a prerequisite for the social acceptance of the Company. Nabaltec AG actively accepts responsibility for the environment; a commitment that extends well beyond her own sites. An example thereof is noise protection. The construction of a new generation cooling tower has made a major contribution toward noise reduction in Schwandorf.

*Essential part of energy needs are covered by renewable energy*

As in prior years, special emphasis was placed on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2012, this area was invested in. Through joint efforts with external partners, we have developed techniques requiring much less process energy, leading to a substantial reduction in $CO_2$ emissions. By participating in the task force energy management of “Bayern Innovativ GmbH”, this path is being systematically pursued. Here, Nabaltec participates in a network of medium-sized enterprises. The goal is to transfer and receive innovations relating to continuous improvement processes to and from other enterprises. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec’s energy needs are covered by renewable energy.

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

### Capital Market

Since the initial public offering in 2006, Nabaltec disposes of intact access to the capital market. This market access, maintained by transparent and reliable communication at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively by the sales market.

*Nabaltec has balanced and largely independent financing*

## 3. REPORT ON SUBSEQUENT EVENTS

The mezzanine capital amounting to EUR 5.0 million was fully repaid upon the expiration date on January 22, 2013. No further events occurred subsequent to the balance sheet date December 31, 2012 that have a significant impact on Nabaltec Group's net assets, financial position or earnings capacity.

## 4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

### 4.1 OUTLOOK

#### OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

For her own products, Nabaltec also foresees intact sales markets across the board in 2013, as well as stable demand, if the environment does not change fundamentally. The Company has taken a top international position within its markets. Thanks to the further expansion of her market position in 2012 and the long term reputation, Nabaltec sees good future prospects for its key products.

*Good future prospects for key products*

#### ECONOMIC AND INDUSTRY DEVELOPMENT

The Kiel Institute for the World Economy (IfW) expects the global GDP to grow by 3.4% in 2013. Growth in Asia (excluding Japan) is expected to be over proportional at 7.3%, while a plus of 1.5% is expected in the USA. A prerequisite for these forecasts is that the European sovereign debt crisis will increasingly resolve itself; the US government will find a compromise on their fiscal policy, which will slow down the economy in the coming year, but improve perspectives in the medium term.

For the euro zone, IfW anticipates a decrease in economic performance of 0.2%. Particularly Greece (–4.0%), Cyprus (–1.9%), Slovenia (–1.8%) and Portugal (–1.5%) shall be mainly responsible for this.

IfW foresees the German economy to grow slightly by 0.3%. The Deutsche Bank (DB) even anticipates a plus of 0.8%, while they assume that economic growth will primarily slowdown somewhat in the winter half year.

GDP GROWTH FORECAST (in %) COMPARED TO PRIOR YEAR

| | 2013 | 2014 |
|---|---|---|
| World | 3.4 | 3.9 |
| USA | 1.5 | 2.5 |
| Euro zone | −0.2 | 0.9 |
| Germany | 0.3 | 1.4 |
| France | 0.0 | 0.8 |
| Italy | −0.7 | 0.5 |
| Great Britain | 0.6 | 1.2 |
| Japan | 0.5 | 1.0 |
| China | 8.0 | 7.5 |
| India | 6.5 | 7.5 |

*Source: IfW, "Weltkonjunktur im Winter 2012", December 17, 2012*

*VCI expects production to increase by 1.5% in 2013*

The German chemical industry association Verband der Chemischen Industrie e.V. (VCI) expects an upward trend of 1.5% in production in 2013, after the negative impact the continued weak global economic growth had on the chemical industry in prior year. Sales prices shall increase only slightly by 0.5%. Regarding revenue, a plus of 2.0% is anticipated.

Even the German chemical industry was marked by high momentum arising from emerging markets and by a lower demand from Europe, the industry remains promising in the long term. This is reflected especially in the plus in employment of 2.0%.

*Basic drivers and growth triggers are intact*

In Nabaltec's opinion, the prospects in the most important target markets are quite positive. The German and European construction industry is rather stable. The principle drivers and triggers have remained intact. Political requirements have globally resulted in additional stimuli for environmentally friendly flame retardants. The German and European construction industry as well as automotive industry has remained stable. Consumer electronics has clearly remained behind expectation. The fundamental drivers, however, are still intact and ensure constant impulses. Particularly, this holds for so called "green electronic" of renowned manufacturers, who increasingly place value on environmentally friendly components. The cable industry benefits from temporary booms, e.g. the expansion of the electricity network, specifically through the connection of locally generated renewable energy, such as wind and solar power. The cable industry will therefore increasingly demand high-quality, halogen-free, flame retardant solutions – Nabaltec AG's domain.

## OUTLOOK ON THE COURSE OF BUSINESS

For 2013, Nabaltec sets its sight firmly on renewed growth. The start in 2013 set off positively. The increase in revenue shall primarily be achieved via growth in quantities in combination with an increase in higher value-added products. Nevertheless, the economic development in the coming year still has to be awaited. Customers' reluctance that was clearly felt in the fourth quarter and the targeted reduction in stock levels improved in January, the short term nature of the order back-logs was maintained.

Order back-log per December 31, 2012, amounted to EUR 16.5 million.

*Fine hydroxide will continue to be a substantial growth driver*

In the business division "Functional Fillers", the product range relating to fine hydroxide will continue to be a substantial growth driver in 2013. The growth drivers remain unchanged and intact, particularly in the areas in which the substitution of applied halogenated material is the focus. For 2013, Nabaltec also expects triggers from the newer product ranges relating to boehmite and CAHC. It has been shown that market penetration takes clearly longer than anticipated. Based on the opinion of the Company and on the basis of customer reaction, the prospects remain positive.

Assuming the continued recovery of the steel industry, we foresee a recovery in business division "Technical Ceramics".

### EXPECTED EARNINGS, NET ASSETS AND FINANCIAL POSITION

Considering that the economic development will not worsen even more, Nabaltec expects revenue growth in the mid-single-digit percentage range. The Company expects the result from ordinary operations (EBIT) 2013 on prior year level. To ensure the further stabilization and improvement of earning power, a stringent cost management in all areas is in place.

Capital expenditure for 2013 has been budgeted on prior year level. Investment priority lies in the development of new processes for the production of additional grades, and in process optimization.

The financial result in 2013 shall improve compared to prior year. The mezzanine capital amounting to EUR 5.0 million was fully redeemed upon expiration on January 22, 2013. Furthermore, Nabaltec will redeem payables as scheduled in the amount of approximately EUR 9 million.

### NOTE WITH RESPECT TO UNCERTAINTIES IN THE OUTLOOK

*Actual develop-ments may deviate from forecasts*

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

## 4.2 RISKS AND OPPORTUNITIES REPORT

### SALES MARKET

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

### PROCUREMENT MARKET

*Supply of key media is secured through long-term contracts*

We monitor our suppliers' economic situation very closely and deliberately build up alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of medium and long term contracts. The supply of the most important media, electricity, gas and vapor for the production process is also secured by long term agreements. The accrediting of the energy management system in accordance with ISO 150001 supports these efforts. In the case of strong growth, Nabaltec disposes of alternative scenarios and preliminary considerations to cover rising energy needs at attractive conditions. An additional risk is the more disproportional increase in logistics costs. On the one hand, Nabaltec can counter this risk by passing on logistics costs to customers, and on the other hand, by finding a balanced logistics mix. For example, we dispose of our own railway siding, which makes transport per rail very attractive.

### FINANCIAL MARKET

*Swaps are used as a hedge against interest rate changes*

If necessary, exchange rate risks are specifically restricted by hedging instruments covering risks arising from US dollar exposure. In the case of medium term financing, interest risks are hedged by swaps or credit agreements with fixed interest rates are entered into. Nabaltec AG as well as her USA subsidiary have at their disposal a detailed financial and liquidity budget. Variance analyses are performed periodically. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. Interest rate fluctuations are partially covered by hedge instruments. Credit agreements are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period, covenants valid as at December 31, 2012 were adhered to. Given the successful placement of the corporate bonds in October 2010, Nabaltec AG's financing situation has further improved, respectively; independence from lending banks has increased.

In 2012, factoring contributed towards increasing the secured portion of receivables and improving the Company's liquidity.

### PERSONNEL

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

### PRODUCTION, PROCESS AND IT

*Production-specific risks are manageable*

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

## ENVIRONMENTAL PROTECTION

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

*Nabaltec has a certified and extensive environmental management system*

## TECHNOLOGICAL DEVELOPMENT

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

## LEGAL FRAMEWORK

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

*Regulatory changes currently provide additional market opportunities*

## RISK MANAGEMENT SYSTEM

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

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

*Risk management constantly optimized*

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

Nabaltec has implemented a strategic planning system in order to take advantage of medium and long term opportunities and to identify risks. All relevant units are involved in the strategy development process. Risks arising from competition, anti-trust, tax and environmental law are

*System of strategic planning*

mitigated by Nabaltec in advance by engaging experts. Quality assurance measures limit product and environmental risks. Such measures include e.g. certification of our activities in accordance with international standards, constant improvements to facilities and processes, the development of new and the improvement of existing products as well as involvement in international professional committees.

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

### OVERALL ASSESSMENT

*No significant risks to Nabaltec's future development*

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

## 5. CORPORATE GOVERNANCE STATEMENT AND REPORT

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

Schwandorf, March 1, 2013

Nabaltec AG
The Management Board

JOHANNES HECKMANN GERHARD WITZANY

# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2012



CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

| (in EUR '000) | Notes | 01/01 - 12/31/2012 | 01/01 - 12/31/2011 * |
|---|---|---|---|
| Revenue | 5.1 | 129,213 | 129,022 |
| Change in unfinished and finished products | | –479 | 3,131 |
| Other own services capitalized | 5.2 | 622 | 609 |
| **Total performance** | | **129,356** | **132,762** |
| | | | |
| Other operating income | 5.3 | 1,700 | 1,442 |
| Cost of materials | 5.4 | –67,304 | –69,769 |
| **Gross profit** | | **63,752** | **64,435** |
| | | | |
| Personnel expenses | 5.5 | –21,770 | –21,165 |
| Depreciation and amortization | 5.7 | –8,806 | –8,049 |
| Other operating expenses | 5.8 | –23,155 | –22,895 |
| **Operating result (EBIT)** | | **10,021** | **12,326** |
| | | | |
| Interest and similar income | 5.10 | 419 | 575 |
| Interest and similar expenses | 5.11 | –6,308 | –6,909 |
| **Result from ordinary operations (EBT)** | | **4,132** | **5,992** |
| | | | |
| Income taxes | 5.12 | –1,110 | –1,596 |
| **Consolidated result after taxes** | | **3,022** | **4,396** |
| thereof attributable to | | | |
| Shareholders of the parent company | | 2,055 | 3,501 |
| Non-controlling interests | | 967 | 895 |
| **Consolidated result after taxes** | | **3,022** | **4,396** |
| | | | |
| **Earnings per share (in EUR)** ** | 7.5 | **0.26** | **0.44** |

* *adjusted*
** *see also Note 6.8 Equity*

| (in EUR '000) | Notes | 01/01 - 12/31/2012 | 01/01 - 12/31/2011 * |
|---|---|---|---|
| **Consolidated result after taxes** | | 3,022 | **4,396** |
| Actuarial gains and losses | | –2,521 | 129 |
| Foreign Currency Translation (after taxes) | | –124 | 204 |
| Net Result from Hedge Accounting (after taxes) | | 177 | 68 |
| | | | |
| **Other result** | | **–2,468** | **401** |
| thereof attributable to | | | |
| Shareholders of the parent company | | –2,607 | 411 |
| Non-controlling interests | | 139 | –10 |
| | | | |
| **Comprehensive income** | | 554 | **4,797** |
| thereof attributable to | | | |
| Shareholders of the parent company | | –552 | 3,912 |
| Non-controlling interests | | 1,106 | 885 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012

## ASSETS (in EUR '000)

| | Notes | 12/31/2012 | 12/31/2011* |
|---|---|---|---|
| **Non-current assets** | | **116,771** | **117,541** |
| Intangible assets | | | |
| Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments) | 6.1 | 232 | 232 |
| Property, plant and equipment | | 115,984 | 116,399 |
| Land, leasehold rights and buildings on non-owned land | 6.2 | 29,126 | 29,427 |
| Technical equipment, plant and machinery | 6.2 | 81,626 | 72,812 |
| Other fixtures, fittings and equipment | 6.2 | 2,656 | 2,465 |
| Advance payments and plant and machinery under construction | 6.2 | 2,576 | 11,695 |
| Deferred tax assets | 5.12 | 555 | 910 |
| **Current assets** | | **44,729** | **47,864** |
| Inventories | | 23,597 | 26,320 |
| Raw materials and supplies | 6.3 | 12,168 | 14,283 |
| Unfinished goods | 6.3 | 261 | 413 |
| Finished products and merchandise | 6.3 | 11,168 | 11,624 |
| Trade receivables and other assets | | 6,827 | 5,197 |
| Trade receivables | 6.4 | 3,411 | 2,249 |
| Income tax claims | 6.5 | 164 | 127 |
| Other assets | 6.6 | 3,252 | 2,821 |
| Cash and cash equivalents | 6.7 | 14,305 | 16,347 |
| **TOTAL ASSETS** | | **161,500** | **165,405** |

* *adjusted*

## EQUITY & LIABILITIES (in EUR '000)

| | Notes | 12/31/2012 | 12/31/2011* |
|---|---|---|---|
| **Equity** | | **47,488** | **46,934** |
| Subscribed capital | 6.8 | 8,000 | 8,000 |
| Capital reserve | 6.8 | 29,764 | 29,764 |
| Earnings reserves | 6.8 | 9,711 | 9,711 |
| Profit/loss carried forward | | 3,592 | 91 |
| Consolidated result after taxes | | 2,055 | 3,501 |
| Accumulated other comprehensive result | 6.8 | –3,656 | –1,049 |
| Non-controlling interests | 6.8 | –1,978 | –3,084 |
| **Non-current liabilities** | | **76,245** | **86,713** |
| Retirement benefit obligation | 6.9 | 17,834 | 13,688 |
| Other provisions | 6.9 | 456 | 372 |
| Financial liabilities arising from corporate bonds | 6.10 | 29,181 | 28,928 |
| Payables to banks | 6.10 | 25,699 | 34,979 |
| Profit participation capital | 6.10 | 0 | 4,976 |
| Deferred tax liabilities | 5.12 | 3,075 | 3,770 |
| **Current liabilities** | | **37,767** | **31,758** |
| Income tax payable | 6.10 | 638 | 190 |
| Other provisions | 6.9 | 206 | 349 |
| Payables to banks | 6.10 | 9,668 | 8,146 |
| Profit participation capital | 6.10 | 5,000 | 0 |
| Trade payables | 6.10 | 10,403 | 10,037 |
| Liabilities from finance lease | 6.10 | 0 | 0 |
| Other liabilities | 6.10 | 11,852 | 13,036 |
| **TOTAL EQUITY & LIABILITIES** | | **161,500** | **165,405** |

* *adjusted*

CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

| (in EUR '000) | | Notes | 01/01 - 12/31/2012 | 01/01 - 12/31/2011* |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| **Period profit before taxes** | | | **4,132** | **5,992** |
| + | Depreciation and amortization | 5.7 | 8,806 | 8,049 |
| –/+ | Gain/loss from asset disposals | | 4 | –1 |
| – | Interest income | 5.10 | –419 | –575 |
| + | Interest expenses | 5.11 | 6,308 | 6,909 |
| **Operating profit before working capital changes** | | | **18,831** | **20,374** |
| +/– | Increase/decrease in provisions | | –28 | 202 |
| –/+ | Increase/decrease in trade receivables and other assets not attributable to investing or financing activity | | –1,593 | –171 |
| +/– | Decrease/increase in inventories | | 2,722 | –4,905 |
| +/– | Increase/decrease in trade payables and other liabilities, not attributable to investment or financing activity | | 1,612 | –1,928 |
| **Cash flow from operating activities before taxes** | | | **21,544** | **13,572** |
| –/+ | Income taxes paid | | –54 | 23 |
| **Net cash generated by operating activities** | | | **21,490** | **13,595** |

* *adjusted*

(in EUR '000)

| | | Notes | 01/01 - 12/31/2012 | 01/01 - 12/31/2011 * |
|---|---|---|---|---|
| **Cash flow from investing activities** | | | | |
| + | Cash received from disposals of property, plant and equipment | | 8 | 49 |
| – | Cash paid for purchases in property, plant and equipment | 6.2 | –10,499 | –15,415 |
| – | Cash paid for investments in intangible assets | 6.1 | –86 | –88 |
| **Net cash used in investing activities** | | | **–10,577** | **–15,454** |
| **Cash flow from financing activities** | | | | |
| + | Cash received from the issuance of corporate bonds | | 0 | 0 |
| – | Cash rendered for transaction costs relating to issuance of corporate bonds | | 0 | 0 |
| – | Cash rendered for investments in fixed deposits > 3 months | | 0 | 0 |
| + | Cash received for investments in fixed deposits > 3 months | | 0 | 10,000 |
| + | Cash received from financial loans | 6.10 | 0 | 14,000 |
| – | Cash rendered for payment of financial loans | 6.10 | –8,436 | –19,586 |
| – | Cash rendered for liabilities from finance lease | 6.10 | 0 | –319 |
| – | Interest paid | | –4,727 | –5,412 |
| + | Interest received | | 277 | 431 |
| **Net cash generated by financing activities** | | | **–12,886** | **–886** |
| **Net change in cash and cash equivalents** | | | **–1,973** | **–2,745** |
| **Effects of exchange rate changes on the balance of cash held in foreign currencies** | | | **–69** | **135** |
| Cash and cash equivalents at the beginning of the year | | 6.7 | 16,347 | 18,957 |
| **Cash and cash equivalents at the end of the year** | | 6.7 | **14,305** | **16,347** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

(in EUR '000)

| | Equity attributable to shareholders of Nabaltec AG | | |
|---|---|---|---|
| | Subscribed Capital | Capital reserve | Earnings reserves |
| **Balance per 01/01/2011*** | 8,000 | 29,764 | 9,711 |
| Actuarial gains and losses | – | – | – |
| Foreign currency translation | – | – | – |
| Net gains from hedge accounting | – | – | – |
| Other gains/losses | – | – | – |
| Result for the period after tax | – | – | – |
| **Consolidated result for the period** | – | – | – |
| **Balance per 12/31/2011*** | 8,000 | 29,764 | 9,711 |
| | | | |
| **Balance per 01/01/2012** | 8,000 | 29,764 | 9,711 |
| Actuarial gains and losses | – | – | – |
| Foreign currency translation | – | – | – |
| Net gains from hedge accounting | – | – | – |
| Other gains/losses | – | – | – |
| Result for the period after tax | – | – | – |
| **Consolidated result for the period** | – | – | – |
| **Balance per 12/31/2012** | 8,000 | 29,764 | 9,711 |

* *adjusted*

| Profit carried forward | Accumulated other comprehensive result | Total | Non-controlling interests | Consolidated equity |
|---|---|---|---|---|
| 91 | –1,460 | 46,106 | –3,969 | 42,137 |
| — | 129 | 129 | — | 129 |
| — | 262 | 262 | –58 | 204 |
| — | 20 | 20 | 48 | 68 |
| — | 411 | 411 | –10 | 401 |
| 3,501 | — | 3,501 | 895 | 4,396 |
| 3,501 | 411 | 3,912 | 885 | 4,797 |
| 3,592 | –1,049 | 50,018 | –3,084 | 46,934 |
| | | | | |
| 3,592 | –1,049 | 50,018 | –3,084 | 46,934 |
| — | –2,521 | –2,521 | — | –2,521 |
| — | –158 | –158 | 34 | –124 |
| — | 72 | 72 | 105 | 177 |
| — | –2,607 | –2,607 | 139 | –2,468 |
| 2,055 | — | 2,055 | 967 | 3,022 |
| 2,055 | –2,607 | –552 | 1,106 | 554 |
| 5,647 | –3,656 | 49,466 | –1,978 | 47,488 |

# CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

## FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

(in EUR ’000)

| | Historical Cost | | | | | |
|---|---|---|---|---|---|---|
| | Balance per 01/01/2012 | Additions | Disposals | Transfers | Foreign Exchange Rate Differences | Balance per 12/31/2012 |
| **Intangible assets** | **2,169** | **86** | **–** | **–** | **–** | **2,255** |
| Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets | 2,168 | 39 | – | 1 | – | 2,208 |
| Advance payments | 1 | 47 | – | –1 | – | 47 |
| **Property, plant and equipment** | **163,176** | **8,653** | **421** | **0** | **–489** | **170,919** |
| Land, leasehold rights and buildings on non-freehold land | 34,852 | 547 | – | 402 | –140 | 35,661 |
| Technical equipment, plant and machinery | 109,909 | 5,584 | 345 | 10,529 | –332 | 125,345 |
| Other fixtures, fittings and equipment | 6,720 | 507 | 76 | 200 | –14 | 7,337 |
| Advance payments as well as plants and machinery under construction | 11,695 | 2,015 | – | –11,131 | –3 | 2,576 |
| **Total non-current assets** | **165,345** | **8,739** | **421** | **0** | **–489** | **173,174** |

## FOR THE FINANCIAL YEAR FROM JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

(in EUR ’000)

| | Historical Cost | | | | | |
|---|---|---|---|---|---|---|
| | Balance per 01/01/2011 | Additions | Disposals | Transfers | Foreign Exchange Rate Differences | Balance per 12/31/2011 |
| **Intangible assets** | **2,114** | **88** | **33** | **0** | **–** | **2,169** |
| Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets | 2,043 | 87 | 33 | 71 | – | 2,168 |
| Advance payments | 71 | 1 | – | –71 | – | 1 |
| **Property, plant and equipment** | **148,760** | **14,808** | **1,256** | **0** | **864** | **163,176** |
| Land, leasehold rights and buildings on non-freehold land | 34,375 | 228 | – | 1 | 248 | 34,852 |
| Technical equipment, plant and machinery | 104,085 | 3,088 | 368 | 2,514 | 590 | 109,909 |
| Other fixtures, fittings and equipment | 6,821 | 763 | 888 | 2 | 22 | 6,720 |
| Advance payments as well as plants and machinery under construction | 3,479 | 10,729 | – | –2,517 | 4 | 11,695 |
| **Total non-current assets** | **150,874** | **14,896** | **1,289** | **0** | **864** | **165,345** |

| Cumulative Depreciation/Amortization | | | | | Book Value | |
|---|---|---|---|---|---|---|
| Balance per 01/01/2012 | Additions | Disposals | Foreign Exchange Rate Differences | Balance per 12/31/2012 | Balance per 12/31/2012 | Balance per 12/31/2011 |
| **1,937** | **86** | **—** | **—** | **2,023** | **232** | **232** |
| 1,937 | 86 | — | — | 2,023 | 185 | 231 |
| — | — | — | — | — | 47 | 1 |
| **46,777** | **8,720** | **409** | **–153** | **54,935** | **115,984** | **116,399** |
| 5,425 | 1,144 | — | –34 | 6,535 | 29,126 | 29,427 |
| 37,097 | 7,073 | 345 | –106 | 43,719 | 81,626 | 72,812 |
| 4,255 | 503 | 64 | –13 | 4,681 | 2,656 | 2,465 |
| — | — | — | — | — | 2,576 | 11,695 |
| **48,714** | **8,806** | **409** | **–153** | **56,958** | **116,216** | **116,631** |

| Cumulative Depreciation/Amortization | | | | | Book Value | |
|---|---|---|---|---|---|---|
| Balance per 01/01/2011 | Additions | Disposals | Foreign Exchange Rate Differences | Balance per 12/31/2011 | Balance per 12/31/2011 | Balance per 12/31/2010 |
| **1,898** | **73** | **34** | **—** | **1,937** | **232** | **216** |
| 1,898 | 73 | 34 | — | 1,937 | 231 | 145 |
| — | — | — | — | — | 1 | 71 |
| **39,727** | **7,976** | **1,208** | **282** | **46,777** | **116,399** | **109,033** |
| 4,243 | 1,121 | — | 61 | 5,425 | 29,427 | 30,132 |
| 30,978 | 6,294 | 368 | 193 | 37,097 | 72,812 | 73,107 |
| 4,506 | 561 | 840 | 28 | 4,255 | 2,465 | 2,315 |
| — | — | — | — | — | 11,695 | 3,479 |
| **41,625** | **8,049** | **1,242** | **282** | **48,714** | **116,631** | **109,249** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

## 1. GENERAL INFORMATION

Nabaltec, based in Schwandorf, Germany[1], was founded under the name Nabaltec GmbH, with its registered head office in Schwandorf (registered in the Commercial Register of the Amberg Local Court under HRB 3920) by virtue of Articles of Incorporation dated December 14, 1994. It acquired the specialty alumina division of VAW aluminium AG in 1995. The Company was converted to a stock corporation in 2006.

According to Section 2 of the Articles of Association, Nabaltec AG's business activities include the development, manufacturing and distribution of highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide ('ATH') and aluminum oxide.

Since November 24, 2006, the shares of Nabaltec AG are listed on the Open Market (Entry Standard) segment of the Frankfurt Stock Exchange.

The consolidated financial statements at hand were approved for publication by the Management Board and the Supervisory Board on March 1, 2013.

## 2. BASIC PRINCIPLES, METHODS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and valuation principles described below have been applied uniformly in all the reporting periods presented herein.

### 2.1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The consolidated financial statements as at December 31, 2012 (including the prior year figures at December 31, 2011) were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the European Union (EU) as well as with the regulations under commercial law as set forth in Section 315a Paragraph 1 of the German Commercial Code (Handelsgesetzbuch – HGB). The IFRS issued by the International Accounting Standards Board comprise the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All EU-compliant standards applicable to the financial year 2012 were applied.

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

The consolidated financial statements present a true and fair view of the net asset position, financial position and earnings of Nabaltec AG.

The financial year of Nabaltec AG comprises the period from January 1 through December 31 of every year.

The consolidated financial statements are prepared in euro (EUR). Unless otherwise indicated, all figures have been rounded up or down to thousand euro (EUR thousand) in accordance with commercial rounding practices. Please note that differences can result from the use of rounded amounts and percentages.

Presentation in the balance sheet differentiates between current and non-current assets and liabilities, some of which are broken down further by their respective maturities in the notes to the financial statements.

The consolidated statement of comprehensive income has been prepared by presenting expenses by nature.

### 2.2 ADOPTED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

All accounting standards and interpretations required to be applied for financial years starting January 1, 2012 were applied in the financial year 2012. These also include the following standards and interpretations that had to be adopted for the first time, in particular:

- IFRS 1 (amendments 2010) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: The amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Amendments are effective from July 1, 2011. The amendments were endorsed by the EU in December 2012. These amendments did not have an effect on the consolidated financial statements.

- IFRS 7 (amendments 2010) Financial Instruments: Disclosures on Transfers of Financial Assets: The amendments allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments are effective from July 1, 2011. The amendments were endorsed by the EU in November 2011. These amendments did not have an effect on the consolidated financial statements.

- IAS 12 (amendments 2010) Deferred Tax: Recovery of Underlying Assets: These amendments are valid for investment properties measured at fair value and held as financial investments. In future, deferred taxes will be recognized on the basis of the tax consequences on the sale of the investment property, unless it can be unambiguously proven that the book value of the assets will be realized through the use of the asset. The amendments are effective for annual periods beginning on or after January 1, 2012. The amendments were endorsed by the EU in December 2012. These amendments did not have an effect on the consolidated financial statements.

The following new and revised IFRS and Interpretations that have been issued but are not yet effective, have already been applied by the Group:

The Group has applied early adoption of the amendments to IAS 19 (revised 2011) Employee Benefits (effective for annual periods beginning on or after January 1, 2013). The Standard was endorsed by the EU in June 2012. Based on these amendments, actuarial gains and losses are recognized directly in other comprehensive income. Furthermore, past services costs have to be recognized immediately in the period in which the plan is amended. In determining the net interest expense, respectively, gains, which consist of the interest expense and the expected gain on plan assets, the same interest rate, will be used for net assets and net liabilities. The interest rate is determined on the basis of the return on high quality corporate bonds.

Effects of applying IAS 19 (revised 2011):

The amendments to IAS 19 (revised 2011) are to be applied retrospectively according to IAS 8. Therefore, the result for the period and other comprehensive income has been affected as follows:

RESULT FOR THE PERIOD (in EUR)

| | 2012 | 2011 |
|---|---|---|
| Increase (–)/Decrease (+) personnel expense | 3,476,366.00 | –198,246.00 |
| Increase (–)/Decrease (+) interest expense | 28,465.00 | 18,609.00 |
| Increase (–)/Decrease (+) deferred tax expense | –984,156.54 | 50,442.07 |
| **Increase (+)/Decrease (–) result for the period** | **2,520,674.46** | **–129,194.93** |
| **Change in result per share** | **0.32** | **–0.01** |

OTHER COMPREHENSIVE INCOME (in EUR)

| | 2012 | 2011 |
|---|---|---|
| Actuarial gains (+) | 0.00 | 179,637.00 |
| Actuarial losses (–) | –3,504,831.00 | 0.00 |
| Deferred tax on actuarial gains and losses | 984,156.54 | –50,442.07 |
| **Increase (+)/Decrease (–) other comprehensive income** | **–2,520,674.46** | **129,194.93** |

The retrospective effects of IAS 19 on periods prior to January 1, 2011 were not significant. Consequently, and in accordance with IAS 1.40A, the presentation of a third balance sheet was waived.

The carrying amounts of the defined benefit obligations as well as of deferred taxes were not affected.

The following new and revised IFRSs and Interpretations that have been issued but are not yet effective, have not been applied by the Group:

- IAS 1 (amendments 2011) Presentation of Financial Statements: The amendments retain the “one or two statement” approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements, which may be “recycled” (e.g. cashflow hedging, foreign currency translation), and those elements that will not. The amendments are retrospectively applicable to annual periods beginning on or after July 1, 2012 and were endorsed by the EU in June 2012. The presentation of other comprehensive income will be adjusted accordingly in future reporting periods.

- IAS 27 (revised 2011) Separate Financial Statements: Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 Consolidated Financial Statements. IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The amendments are applicable to annual reporting periods beginning on or after January 1, 2014 and were endorsed by the EU in December 2012. The first-time adoption of the amendments will not have any effects on the consolidated financial statements.

- IAS 28 (revised 2011) Investments in Associates and Joint Ventures: within the scope of the publication of the new standard IFRS 11 in May 2011, IAS 28 Investments in Associates was renamed and amended. Joint ventures, which fall under the definition of "Joint Arrangements" within the new standard IFRS 11, have to be capitalized according to the equity method pursuant to the amended IAS 28. The underlying approach to determining the existence of significant influence by an entity as well as the regulations regarding the application of the equity method remains unchanged. The new standard is applicable to annual reporting periods beginning on or after January 1, 2014 and was endorsed by the EU in December 2012. The first-time adoption of the amendments will not have any effects on the consolidated financial statements.

- Amendments to IAS 32 Financial Instruments: Presentation: In December 2011, the IASB issued amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. The principles formulated in IAS 32 for the offsetting remained unchanged, but has been supplemented by substantiating application guidelines. These illustrate in detail the meaning of the current legally enforceable right to offsetting and include exemplifying criteria under which to settle on a net basis. The amendments are applicable to annual reporting periods beginning on or after January 1, 2014 and were endorsed by the EU in December 2012. The firsttime adoption of the amendments will not have any effects on the consolidated financial statements.

- IFRS 7 (amendments 2010) Financial Instruments: Disclosures: In December 2011, the IASB published amendments to IFRS 7 regarding Disclosures – Offsetting Financial Assets and Financial Liabilities. The amendments require new qualitative and quantitative disclosures in regard to certain settlement agreements. The amendments are retrospectively applicable to annual reporting periods beginning on or after January 1, 2013 and were endorsed by the EU in December 2012. Based on our current assessment, the first-time adoption of the amendments will not have any significant effects on the consolidated financial statements.

- IFRS 9 Financial Instruments: In November 2009, the IASB issued a revision of the classification and measurement of financial assets. According to IFRS 9, financial assets are to be measured either based on net book value or on fair value. Taking into account the amendments of December 2011, IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The standard has not yet been endorsed by the EU. Currently, the first-time adoption will have consequences for the consolidated financial statements.

- Additions to IFRS 9 Financial Instruments: In October 2010, the IASB issued requirements regarding the recognition of financial liabilities. The amendments supplement the revised standard Financial Instruments issued in November 2009. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the income statement, rather than within profit and loss statement. Taking the amendments of December 2011 into consideration, the additions are effective for annual periods beginning on or after January 1, 2015. The standard has not yet been endorsed by the EU. Currently, the first-time adoption will not have any significant consequences for the consolidated financial statements.

- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures: In December 2011, the IASB issued the amendments Mandatory Effective Date and Transition Disclosures. The original mandatory effective date for the amendments to IFRS 9 was for annual periods beginning on or after January 1, 2013, has been postponed to annual periods beginning on or after January 1, 2015. Furthermore, the amendments modify the relief when transitioning to IFRS 9 from restating comparative periods to rather including additional disclosures in the notes to the financial statements. The additional disclosures in the notes required by IFRS 9 were added as amendments to IFRS 7. The changes to these two standards have not yet been endorsed by the EU.

- IFRS 10 Consolidated Financial Statements: The Standard gives detailed guidance on how to apply the control principle, forming a single basis for consolidation for all entities. IFRS 10 replaces those parts of IAS 27 that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 in its entirety. The effective date of IFRS 10 is January 1, 2014 and was endorsed by the EU in December 2012. The first-time adoption will have no effect on the consolidated financial statements.

- IFRS 11 Joint Arrangements: The Standard gives guidance on how to account for interests in joint arrangements classified as either joint operations or joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities. The most significant change in IFRS 11 from IAS 31 is the elimination of the proportionate consolidation method, requiring the use of the equity method of accounting for interest in joint ventures. The effective date of IFRS 11 is January 1, 2014 and was endorsed by the EU in December 2012. The first-time adoption will not have any effect on the consolidated financial statements.

- IFRS 12 Disclosure of Interests in other Entities: This Standard establishes disclosure objectives and specifies minimum disclosure that entities applying the new standards IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. The standard is effective on or before January 1, 2014 and was endorsed by the EU in December 2012. The first-time adoption will not have any effect on the consolidated financial statements.

- IFRS 13 Fair Value Measurement: The Standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements and aims at further aligning IFRS and US GAAP. The Standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. The Standard is effective for annual periods beginning on or after January 1, 2013 and was endorsed by the EU in December 2012. The first-time adoption will prospectively not have any consequences for the consolidated financial statements.

- Various: Improvements to International Financial Reporting Standards 2011: On May 3, 2012, the IASB issued the Annual Improvements to International Financial Reporting Standards 2011. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2014. Amendments to IFRS 3 Business Combinations and the resulting amendments to IFRS 9 Financial Instruments are effective for annual periods beginning on or after 1 January 2015. The amendments have not yet been endorsed by the EU. The IASB has issued further announcements. The Company currently assumes that the first-time adoption of new or revised standards will prospectively not have any or any significant consequences for the consolidated financial statements.

The following Standards have not been applied due to lacking relevance to Nabaltec AG:

- IFRS 4 Insurance Contracts
- IFRS 6 Exploration for and Evaluation of Mineral Assets
- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 28 Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interests in Joint Ventures
- IAS 40 Investment Property
- IAS 41 Agriculture

## 2.3 SCOPE OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Nabaltec AG, as the parent company, and that of its subsidiary controlled by the Company.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; usually evidenced by holding more than 50% of the voting rights in the entity. In determining whether the Group has control, the existence and effects of voting rights that can currently be exercised or converted are also taken into consideration. Entities are included in the consolidated financial statements (full consolidation) from the date at which the Company effectively obtains control over them. They are deconsolidated from the effective date on which such control ends.

The composition of the Group is detailed in the table below:

NUMBER OF COMPANIES

| | 2012 | 2011 |
|---|---|---|
| Nabaltec AG and fully consolidated entity | | |
| Domestic | 1 | 1 |
| Foreign | 1 | 1 |

The following entity is included in the consolidated financial statements of Nabaltec AG:

ENTITY

| | | Interest held |
|---|---|---|
| | EUR '000 | % |
| Nashtec LLC, Corpus Christi (USA) (formerly Nashtec L.P., Corpus Christi (USA)) | 163 | 51.00 |

Nashtec L.P. was founded as a joint venture with Sherwin Alumina in 2005.

Up till January 1, 2010, Nabaltec AG owned a 51.00% interest in Nashtec Management Corp. and a 51.00% interest (50.49% directly and indirectly via Nashtec Management Corp., which held 1% of the shares as the general partner) in Nashtec L.P. (USA) as part of a joint venture. The Company does not have any other holdings or subsidiaries. Nashtec Management Corp. was not included in the consolidated financial statements for lack of materiality.

The group structure was changed per January 1, 2010. Nashtec Management Corp. was liquidated and Nashtec L.P. was changed into an LLC, such that Nabaltec AG owns a direct interest of 51.00% as from January 1, 2010, and Sherwin Alumina LLC owns a direct interest of 49.00% in Nashtec LLC. Within the scope of the restructuring, the shares held by Sherwin Alumina LLC were subsequently transferred to her parent company, Allied Alumina LLC.

All separate financial statements of entities included in the consolidated financial statements that were prepared under national laws and regulations were converted to IFRS and adapted to reflect accounting policies and valuation principles of the Group.

The balance sheet date of all the entities included in the consolidated financial statements is respectively December 31.

SHAREHOLDINGS ACCORDING TO SECTION 313 PARAGRAPH 2 OF THE GERMAN COMMERCIAL CODE (HGB)

| | Share of equity | | Prior year equity* | | Prior year earnings* | |
|---|---|---|---|---|---|---|
| | in % | in USD | in USD | in EUR | in USD | in EUR |
| **Direct Participation** | | | | | | |
| Nashtec LLC, Texas (USA) | 51.00 | 210,266 | –5,324,754 | –4,038,493.74 | 2,550,813 | 1,972,633.98 |

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

## 2.4 CONSOLIDATION METHODS

The capital consolidation of the entity is performed in accordance with IAS 27 Separate and Consolidated Financial Statements in conjunction with IFRS 3 R Business Combinations. For this purpose, the carrying amount of the investment is set off against the remeasured equity of the entity at the acquisition date (revaluation method). The cost of the acquisition is equal to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus the costs allocated directly to the acquisition. Upon initial consolidation, the identifiable assets, liabilities and contingent liabilities associated with a business combination are measured at their fair value at the acquisition date, regardless of the extent of non-controlling interests. The excess of the acquisition cost over the Group's share of the net assets measured at fair value is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired entity, the difference is recognized directly in the consolidated comprehensive income, after a subsequent review.

The effects of all material intragroup transactions, including expenses and income and receivables and payables between the Group entities, are eliminated. Likewise, intermediate profits from intragroup sales of assets that have not yet been resold to third parties are eliminated. Deferred taxes required by IAS 12 are recognized in respect of temporary differences arising from consolidation measures.

The profits and losses of entities acquired or sold during the course of the year are included in the consolidated comprehensive income from the date when the power to control those entities becomes effective, respectively, until the power to control ends.

Shares of consolidated equity and of consolidated profit or loss for the year attributable to non-controlling interests are presented separately from the shares attributable to the parent company. To the extent that the value of non-controlling interests is negative, they are presented as a negative position in consolidated equity and earnings for the period in accordance with IAS 27 Consolidated and Separate Financial Statements as amended in 2008. Thus, an attribution to the equity and earnings for the period of the parent company, as required by the former IAS 27 Consolidated and Separate Financial Statements is no longer presented.

## 2.5 FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are denominated in euro, as the functional and reporting currency of the Group.

In the separate financial statements of the consolidated entities denominated in local currencies, monetary items in foreign currency (cash and cash equivalents, receivables, liabilities) are translated using the exchange rate as of the balance sheet date. Currency translation differences are recognized through profit or loss. Non-monetary items in foreign currency are translated at the historical exchange rates.

The financial statements of the consolidated entity denominated in foreign currency are translated on the basis of the functional currency concept defined in IAS 21 The Effects of Changes in Foreign Exchange Rates by applying the modified closing rate method. As the entity generally conducts its business independently in all financial, economic and organizational respects, the functional currency is identical to the national currency of the respective entity.

Accordingly, assets and liabilities are translated at the closing rate, equity is translated at the historical exchange rate and expenses and income are translated at the average exchange rate for the year. The difference arising on currency translation is recognized directly in equity and presented in a separate item of equity titled ‘accumulated other comprehensive result’.

Currency differences arising in relation to the prior year currency translation of the Group are recognized directly in equity under the item of ‘accumulated other comprehensive result’.

The opening balances of historical acquisition and production costs and of cumulative depreciation and amortization charges on non-current assets are translated at the exchange rate of the prior year balance sheet date; the depreciation and amortization charges and all other movements in the financial year are translated at the average exchange rate for the reporting period. The translation of the non-current assets of the foreign subsidiary gives rise to currency translation differences, which are presented in separate columns of the consolidated statement of changes in non-current assets.

## 3. USE OF ASSUMPTIONS AND ESTIMATES

The preparation of the consolidated financial statements according to IFRS requires Management to make certain assumptions that have an impact on the stated values of the assets and liabilities and on the disclosure of contingent assets and contingent liabilities as at the balance sheet date, as well as the stated amounts of income and expenses.

The assumptions and estimates consisted mainly of the following:

- Economic useful lives of property, plant and equipment and intangible assets: The applied economic lives of non-current assets are based on Management estimates. The Group reviews the estimated economic useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period. During the current financial year, however, no changes were made to the estimates pertaining to economic useful lives.

- Land and buildings: The fair value option for measurement at the date of the IFRS opening balance sheet allowed by IFRS 1.16 in conjunction with IFRS 1.18 was exercised. Land and buildings were revalued at January 1, 2007 on the basis of independent expert appraisals.

- Retirement and other post-employment benefits: Pension plans are measured on the basis of actuarial calculations. The actuarial valuation is based on assumptions regarding discount rates, the expected return on plan assets, future wage and salary increases, mortality rates and future pension benefit increases. As a result of the long term horizon of these plans, such estimates are subject to considerable uncertainties. As at December 31, 2012, the provision for pensions and similar benefits amounts to EUR 17,834 thousand (PY: EUR 13,688 thousand). Further details are provided in Note 6.9 Current and non-current provisions.

- Provisions for ecological and decommissioning obligations: Such provisions are recognized if it is considered probable that ecological and decommissioning obligations will result in future outflows of economic benefits, if the costs can be reliably estimated and the measures in question are not expected to result in future inflows of economic benefits. The estimate of future costs is subject to many uncertainties, including legal uncertainties based on the applicable laws and regulations, and with uncertainties regarding the actual conditions in the different countries and operating locations. In particular, estimates of costs are based on earlier experiences in similar cases, the conclusions of expert opinions commissioned by the Group, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future results of the Group. As at December 31, 2012, the carrying amount of recognized provisions is EUR 0 thousand (PY: EUR 126 thousand).

- Measurement of other provisions: Other provisions are measured on the basis of the best possible Management estimate of the amount required to settle the current obligation at the balance sheet date. As at December 31, 2012, the carrying amount of the recognized other provisions was EUR 152 thousand (PY: EUR 136 thousand). Further details are provided in Note 6.9 Current and non-current provisions.

- Recognition of deferred tax assets: In determining whether deferred taxes can be realized, the Management Board examines whether it is probable that all deferred tax assets can be recovered. The final recoverability of deferred tax assets depends on whether there will be sufficient taxable income available in those periods in which the temporary differences are deductible. If this is not the case, deferred tax assets cannot be used and consequently cannot be recognized in the balance sheet. The carrying amount as of December 31, 2012 (before netting with deferred tax liabilities) is EUR 5,165 thousand (PY: EUR 4,716 thousand).

- Impairment of non-financial assets: Impairment tests of other intangible assets as well as property, plant and equipment are generally based on the estimated discounted future net cash flows expected from the continued use of an asset and from its disposal at the end of its useful life. Factors such as lower revenues and the resulting lower net cash flows and changes in the discount factors applied can lead to the recognition of an impairment loss or, to the extent permitted, also to the reversal of an earlier impairment loss.

- Investments in jointly controlled entities: The Company holds a direct investment in a joint venture with a share of 51.00% (PY: 51.00%). Taking into consideration all the legal and economic factors, Nabaltec AG has the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. The controlled entity is therefore fully consolidated as a subsidiary in the consolidated financial statements.

- Obligations arising from a sale-and-lease-back transaction: In financial year 2008, the Group sold and leased-back certain assets in connection with a sale-and-lease-back transaction. Based on an analysis of the contractual terms and conditions, it was determined that the Group is no longer the economic owner of the leased assets. Thus, the respective lease agreement is treated as an operating lease.

Actual results may differ from these estimates. Revisions to accounting estimates are recognized through the income statement in the period in which the estimate is revised.

# 4. SIGNIFICANT ACCOUNTING POLICIES

## 4.1 REVENUE RECOGNITION

In accordance with the criteria of IAS 18, revenues on the sale of goods are recognized if the significant risks and rewards of ownership have been completely transferred to the buyer, a price has been agreed on or is determinable and payment is considered probable.

Revenues are presented net of discounts and other deductions.

## 4.2 EXPENSE RECOGNITION

The expenses are allocable to income in the period to which they relate. Hence, operating expenses are recognized when they are incurred.

## 4.3 RESEARCH & DEVELOPMENT COSTS

Nabaltec AG invests a portion of its financial resources in research and development activities. In addition to internal development activities aimed at the customization of purchased software, these activities also comprise research and development activities to enhance existing products and processes and to develop new products and processes.

Research costs are recognized as expenses in the period in which they are incurred. An intangible asset created in the process of development for a single project is recognized as an asset only if the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for internal use or for sale, and the intention to complete the intangible asset and to use or sell it. Furthermore, the Group must demonstrate that the asset in question will generate future economic benefits, that resources are available to complete the asset and that the expenditures allocable to the intangible asset during the development phase can be measured reliably.

Subsequent to initial capitalization of development costs, the cost model is applied, under which the asset is carried at cost less accumulated amortization and accumulated impairments. The acquisition or production costs include the directly allocable labor costs and other direct costs as well as an appropriate share of the overhead costs. The capitalized amounts are amortized over the economic useful life of the asset, starting from the date of intended use.

The capitalized amount of development costs is subject to an annual impairment test if the asset is not yet ready for being used, or also during the year if there are indications of an impairment.

In principle, Nabaltec AG capitalizes all significant development costs incurred in connection with internally developed software in the application development phase. These costs are amortized over the expected useful life starting from the date the software is initially taken into service.

As internal development projects are often subject to governmental approval procedures and other imponderability's, the criteria for capitalizing the costs incurred prior to approval are usually not met or such costs incurred in the brief phase between research and market introduction are considered immaterial.

As at December 31, 2012 no development costs were capitalized (PY: EUR 0 thousand).

## 4.4 INTANGIBLE ASSETS

Purchased intangible assets are measured at cost less straight-line amortization. As a rule, intangible assets are amortized systematically over the economic useful life by applying the straight-line method.

The amortization periods are as follows:

- Data processing software 4 to 5 years

The residual carrying amounts, economic useful lives and amortization methods are reviewed at the end of each annual period and adjusted if necessary.

The Group does not carry any intangible assets with indefinite economic useful lives.

With regard to the capitalization of development costs of internally generated assets, please refer to Note 4.3 Research & development costs.

## 4.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at acquisition or production cost, less scheduled depreciation based on the expected economic useful life. In addition to directly allocable costs, the acquisition costs also include appropriate shares of overhead costs.

Property, plant and equipment are depreciated by applying the straight-line method.

The depreciation periods are as follows:

- Land, leasehold rights and buildings on non-freehold land 20 to 50 years
- Technical equipment, plant and machinery 5 to 22 years
- Other fixtures, fittings and equipment 3 to 20 years

The residual carrying amounts, economic useful lives and amortization methods are reviewed at the end of every financial year and adjusted if necessary.

## 4.6 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. assets that take a substantial period of time to get ready for its intended use or sale) form part of the cost of that asset and, therefore, should be capitalized. Refer to Note 6.2 Property, plant and equipment.

Where funds are borrowed specifically, costs eligible for capitalization are the actual costs incurred less any income earned on the temporary investment of such borrowings.

Other borrowing costs are recognized as an expense as incurred.

## 4.7 GOVERNMENTAL GRANTS AND OTHER SIMILAR SUBSIDIES

Government grants are accounted for as a deduction from the acquisition or production costs of the respective asset (IAS 20.24). These deductions are released over the economic useful life of the asset in the form of reduced depreciation charges. See Note 6.10 Current and non-current liabilities.

## 4.8 LEASE ARRANGEMENTS – THE GROUP AS LESSEE

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form. The assessment requires the evaluation of whether the performance of the contractual agreement depends on the use of a given asset or assets and whether the agreement conveys a right to use the asset.

Finance leases under which substantially all the risks and rewards incident to ownership of the leased asset are transferred to the Group are recognized as an asset and a liability at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized immediately as expenses in the income statement. If the transfer of ownership to the Group at the end of the lease term is not sufficiently certain, the capitalized leased assets are depreciated completely over the shorter of the lease term and the economic useful life of the asset. As at December 31, 2012 and December 31, 2011, there were no longer any liabilities relating to finance leases.

Rental and lease agreements under which the Group does not acquire economic ownership of the underlying assets are classified as operating leases. The expenses of operating leases are recognized as expenses in the consolidated statement of comprehensive income incrementally over the term of the lease on a straightline basis. The corresponding future obligation is presented in Note 7.1 Other financial obligations.

Under sale-and-lease-back transactions that constitute an operating lease, the profit to be recognized on the sale depends on the relationship of the sales price to the fair value. If the sale price is equal to the fair value, the profit is recognized immediately. Under sale-and-lease-back transactions that constitute a finance lease, the entire profit is generally recognized as deferred income and released over the term of the lease.

## 4.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The value of the capitalized carrying amount of intangible assets with finite useful lives and property, plant and equipment is reviewed with reference to the future cash flows (discounted by the current market risk-free rate of interest) expected to arise from the use of that asset and with reference to the fair value less costs to sell (impairment test) if particular events or market developments are indicative of a need to correct the estimated economic useful life or an impairment. Furthermore, an impairment test of intangible assets not yet ready for use is conducted annually. If the net carrying amount of an asset exceeds the recoverable amount (higher of the value in use and the fair value less costs to sell), an impairment loss is recognized. The factors considered in determining the expected future cash flows include the current and expected future profits and developments specific to the business segment as well as technological, economic and general developments. If the reason for an earlier impairment is no longer in effect, that impairment loss is reversed, to the extent permitted, up to the depreciated historical cost would have been if the impairment had not been recognized.

## 4.10 FINANCIAL ASSETS

According to IAS 39, financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets.

Upon initial recognition, financial assets are measured at fair value. In the case of financial assets that are not measured at fair value through profit and loss, the recognized amount also includes transaction costs that are directly attributable to the purchase of the financial asset.

The Group determines the classification of its financial assets upon initial recognition and reviews this classification at the end of each financial year, to the extent permitted and appropriate. As at the balance sheet date, the Group did not carry any financial assets classified as 'held-to-maturity investments'.

All arm's length transactions are recognized at the trade date, i.e. the date on which the sales or purchase of the asset, respectively, the liability becomes effective. An arm's length transaction is a purchase or sale of a financial asset under the delivery terms require in general by the regulation of or convention within the market concerned.

### Financial assets measured at fair value through profit or loss

The group of financial assets measured at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as being measured at fair value through profit or loss. Such designation has not been applied within the Group in the reporting period.

Financial assets are classified as held-for-trading when they were acquired for the purpose of selling them in the short term. Derivatives are also classified as held-for-trading, with the exception of those derivatives that constitute a financial guarantee or have been designated as hedging instruments and are effective as such. Gains or losses on financial assets held for trading are recognized in profit or loss.

On the date upon which the Group enters into a contract, it determines whether embedded derivatives need to be presented separately from the host contract. The initial decision is reviewed only in the event of substantial changes in the contractual terms and conditions that give rise to a significant change in the cash flows that would have otherwise resulted from the contract.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In particular, they consist of trade receivables, other assets as well as cash and cash equivalents.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains and losses are recognized in the profit or loss for the period when the loans and receivables are derecognized or impaired and in connection with installment payment plans.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as held-for-sale and not classified as belonging to another category of financial assets. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value based on their stock market or market prices, with unrealized gains or losses recognized directly in equity, less deferred taxes, as unrealized losses or gains from the fair value measurement of financial instruments. If no active market exists and the fair value cannot be determined reliably, they are recognized at amortized cost. The cumulative gain or loss recognized in equity is transferred to the consolidated statement of comprehensive income when the financial asset is derecognized.

### Derecognition of financial assets

A financial asset is derecognized when the Group loses the power of disposal over the contractual rights relating to cash flows that constitute the financial asset concerned.

If the Group transfers its contractual rights to receive cash flows from an asset and substantially all the risks and rewards incident to ownership of that asset have neither been transferred nor retained and the Group retains the power of disposal over the transferred asset, the Group continues to recognize the transferred asset to the extent to which it has a continuing involvement in the asset.

## 4.11 IMPAIRMENT OF FINANCIAL ASSETS

Financial assets and groups of financial assets are subject to an impairment test at each balance sheet date. Any impairment loss is recognized in profit or loss immediately.

Trade receivables are carried at amortized cost less appropriate valuation allowances. Valuation allowances on receivables are measured with reference to the probability of default.

Other financial assets and receivables are carried at amortized cost. In case of doubt as to the recoverability of other assets, individual valuation allowances are recognized.

## 4.12 INVENTORIES

Inventories are measured at the lower of acquisition or production cost and net realizable value.

Upon initial recognition, raw materials and supplies are measured at acquisition cost plus costs of conversion and incurred in bringing the inventories to their present location and condition, net of trade discounts received. For determining the cost of inventories the weighted average method is applied.

Finished and unfinished goods are measured at production cost. Production costs include the directly allocable production costs and an appropriate share of allocable fixed and variable production overheads. The overhead cost shares are determined on the basis of normal capacity utilization. Selling expenses, general administrative expenses and borrowing costs are not capitalized.

Finished goods are aggregated into measurement units for valuation purposes.

Any write-downs for inventory risks arising from increased storage lives or reduced salability are recognized as an expense when they occur, reducing the inventory value to the net realizable value at the balance sheet date.

## 4.13 CASH AND CASH EQUIVALENTS

The cash and cash equivalents presented in the balance sheet comprise petty cash, cash in banks and short term deposits with original maturities of less than three months. The same definition is applied for purposes of the consolidated statement of cash flows. Subsequent measurement is at amortized cost.

## 4.14 TAXES

### Current income taxes

Tax refund claims and tax liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. These amounts are calculated on the basis of the tax rates and tax laws applicable at the balance sheet date.

### Deferred taxes

Deferred tax assets and liabilities are recognized in accordance with IAS 12 Income Taxes in respect of all temporary differences between the tax bases and the IFRS carrying amounts and in respect of consolidation measures recognized in profit or loss by applying the balance sheet-oriented liability method. IAS 12.34 prescribes that deferred tax assets in respect of tax loss carry forwards can be recognized only to the extent that it is considered probable that sufficient taxable profits will be available in the future against which these tax loss carry forwards can be off set.

Deferred taxes are at tax rates expected to apply to the period in which the asset is realized or the liability settled, according to the current status of the law. Tax rate changes are applied only such changes are considered as being sufficiently probable.

Deferred tax assets and deferred tax liabilities are offset on the balance sheet to the extent allowed.

## 4.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group employs derivative financial instruments to hedge against interest rate and currency risks arising from operations. Financial instruments are measured at fair value at the balance sheet date. Measurement gains and losses are recognized through the income statement unless the conditions for hedge accounting are met. Changes in the market value of derivative financial instruments that meet the conditions of hedge accounting are recognized either through the income statement (fair value hedge) or directly in equity (cash flow hedge). In the reporting periods, hedge accounting has been applied for cash flow hedges against interest rate risk only.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading financial assets, if their fair value is positive, or as held-for-trading liabilities, if their fair value is negative. Derivative financial instruments are measured at fair value; changes in their fair value are recognized through the income statement for the period.

## 4.16 EQUITY

The capital contributions and other payments made by shareholders to the capital reserve are presented after deducting transaction costs directly related to the acquisition of equity and in consideration of any resulting tax effects.

## 4.17 OTHER PROVISIONS

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Company recognizes provisions if, and only if a present obligation (legal or constructive) has arisen toward a third party as a result of a past event (the obligating event), the payment is probable (‘more likely than not’) and will lead to an outflow of economic resources in the future, and the amount can be estimated reliably. This implies that ‘probable’ means a probability of more than 50%. Estimated provisions take into account discernible risks and uncertain obligations in the amount that will probably be required to settle those obligations without deduction of any reimbursement claims. Non-current other provisions are discounted to present value. The settlement amount also includes the rate of inflation valid at the balance sheet date.

## 4.18 RETIREMENT BENEFIT OBLIGATION

Retirement benefit obligation is measured based on the projected unit credit method according to IAS 19. Calculations performed under this method take into account the pension benefits and vested rights known at the balance sheet date as well as future expected increases of pension benefits and salaries based on conservative estimates of the relevant parameters. Calculations are performed on the basis of an expert actuarial opinion, which includes biometric data.

The (net) interest portion is to be determined at the beginning of the period by multiplication of the (net) retirement benefit obligation – that is the total obligation less plan assets – with the discount rate on which the valuation of the retirement benefit obligation is based. Sodoing, the interest expense arising from the compounding of the obligation and the expected return on plan assets are offset and must be recorded through the profit and loss statement in the annual result. Simultaneously, the expected return on plan assets is therefore assumed in the amount of the discount rate.

Deviations of the actual return on plan assets, respectively, the discount rate on the balance sheet date, from the assumed discount rate (=assumed return on plan assets) are also directly recognized in other comprehensive income as are other actuarial valuation adjustments in terms of a new valuation component.

The discount rate used for discounting the (net) retirement obligation is determined based on first-class, fixed-interest dealt industry corporate bonds.

Service costs, recognized through the profit and loss statement, consist of, amongst others, the current as well as the total past service costs arising as a result of changes in the plan arrangements.

## 4.19 FINANCIAL LIABILITIES

According to IAS 39, financial liabilities are designated either as ‘financial liabilities at fair value through profit or loss’ or as ‘other financial liabilities’.

The Group classifies the financial liabilities upon initial recognition and reviews the classification at the end of each annual period, to the extent permissible and appropriate.

### Financial liabilities measured at fair value through profit or loss

Upon initial recognition, financial liabilities measured at fair value through profit or loss are measured at fair value. The gains or losses resulting from fair value changes are recognized immediately in income. This category includes derivative financial instruments with negative market values (Hft). Gains or losses resulting from the subsequent measurement of financial liabilities are recognized through profit or loss.

### Profit participation capital

Profit participation rights represent a financial liability according to IAS 32, which is not measured at fair value through profit and loss. Initial recognition is measured at fair value less transaction costs. The fair value is equal to the cash consideration received (face value) less transaction costs paid. In subsequent periods, the difference between the initially measured value and the redemption amount (face value) is distributed over the term of these instruments using the effective interest method through the income statement.

### Interest-bearing loans and bonds

Upon initial recognition, loans and bonds are measured at fair value less the transaction costs directly related to the taking up of borrowings. They are not designated as being measured at fair value through profit or loss.

In subsequent periods, the interest-bearing loans and bonds are measured at amortized cost using the effective interest method. Differences between amortized cost and the repayments amount are recognized through profit or loss according to the effective interest method.

Financial liabilities, all of which are classified as other liabilities, are measured at the fair value of the consideration received less the transaction costs related to the taking up of borrowings upon initial recognition. In subsequent periods, financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying obligation has been settled, cancelled or has expired.

# 5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## 5.1 REVENUE

Refer to segment information and the respective notes in Note 7.7 Segment information for reporting on the distribution of revenues among the product segments.

## 5.2 OTHER OWN SERVICES CAPITALIZED

In 2012, EUR 622 thousand (PY: EUR 609 thousand) were capitalized as other own services for various technical equipment and machinery, thereof EUR 266 thousand (PY: EUR 302 thousand) for construction period interest.

## 5.3 OTHER OPERATING INCOME

The following is a specification of other operating income:

| (in EUR '000) | 2012 | 2011 |
|---|---|---|
| Foreign currency translation gains | 528 | 504 |
| Reimbursements from insurances | 229 | 121 |
| Payments in kind | 140 | 140 |
| Delivery of process water | 136 | 129 |
| Government grants and similar grants | 133 | 109 |
| Income from reversal of provisions | 118 | 26 |
| Personnel services | 110 | 98 |
| Other | 105 | 121 |
| Laboratory services | 99 | 92 |
| Scrap sales | 90 | 56 |
| Routing and tracking services | 7 | 5 |
| Gains on disposal of property, plant and equipment | 5 | 41 |
| **Total** | **1,700** | **1,442** |

Government grants relate to subsidies for expenses. The conditions attached to these grants were fully met; no uncertainties remain.

## 5.4 COST OF MATERIALS

Cost of materials is specified as follows:

| (in EUR '000) | 2012 | 2011 |
|---|---|---|
| Raw materials, supplies and merchandise | 66,206 | 69,006 |
| Cost of purchased services | 1,098 | 763 |
| **Total** | **67,304** | **69,769** |

## 5.5 PERSONNEL EXPENSES

Personnel expenses are specified in the table below:

| (in EUR '000) | 2012 | 2011* |
|---|---|---|
| Wages and salaries | 18,125 | 17,607 |
| Social security | 3,183 | 2,933 |
| Expenses for retirement benefit obligation | 315 | 513 |
| Other pension expenses | 147 | 112 |
| **Total** | **21,770** | **21,165** |

* *adjusted*

Expenses for retirement benefit obligation fulfill the criteria of the so-called 'Defined Benefit Plans' as specified by IAS 19.

As a result of the early adoption of IAS 19 (revised 2011), personnel expenses increased compare to prior year by EUR 198,246.

Other pension expenses relate to contributions made by the employer for pension plans of the employees that fulfill the criteria of the so-called 'Defined Contribution Plans' as described by IAS 19.

In addition, the Company's contributions toward the social pension fund in the amount of EUR 1,485 thousand (PY: EUR 1,459 thousand) are included in the balance sheet item 'Social Securities', which are withheld once a month.

## 5.6 EMPLOYEES

The average number of employees in the Group developed as follows:

| | 2012 | 2011 |
|---|---|---|
| Blue-collar employees | 203 | 195 |
| White-collar employees | 141 | 138 |
| Part-time employees | 13 | 13 |
| **Total** | **357** | **346** |

In additional, an average of 50 apprentices (PY: 47) were employed in the course of the financial year.

## 5.7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

The depreciation, amortization and impairment charged against non-current assets are presented in the statement of changes in non-current assets.

Intangible as well as tangible assets are assessed for impairment if such indicators arise. Impairment tests were performed. The impairment amount is determined as the difference between the carrying amount and the recoverable amount for the asset's cash-generating unit (CGU). The recoverable amount of the CGUs was determined on the basis of the recoverable amount and the value in use, using the discounted cash flow method. The discounted cash flows are based on three-year forecasts, which in turn are based on financial budgets approved by Management. The cash flow forecasts, which take past experience into account, are based on Management's best estimate of the Company's future development.

As a result of the asset impairment tests conducted, Management concluded that there was no need to recognize impairment losses in the financial year 2012.

## 5.8 OTHER OPERATING EXPENSES

The following is a specification of other operating expenses:

(in EUR '000)

| | 2012 | 2011 |
|---|---|---|
| Transportation charges | 8,775 | 8,422 |
| Services from third parties not attributable to the process of production | 4,960 | 5,321 |
| Sales commission | 2,672 | 2,662 |
| Minimum lease payments (rent and lease) | 2,392 | 2,403 |
| Other administration expenses | 866 | 780 |
| Insurances | 853 | 795 |
| Legal and advisory fees | 600 | 514 |
| Travel expenses | 514 | 514 |
| Employee benefit costs | 456 | 418 |
| Other | 421 | 340 |
| Foreign currency translation losses | 405 | 355 |
| Advertising expenses | 182 | 220 |
| Other taxes | 50 | 81 |
| Losses from sale of fixed assets | 9 | 40 |
| Bad debt allowance | 0 | 30 |
| **Total** | **23,155** | **22,895** |

## 5.9 RESEARCH & DEVELOPMENT COSTS

In 2012, various research and development costs of EUR 2,331 thousand (PY: EUR 2,194 thousand) were recognized as expenses.

## 5.10 INTEREST AND SIMILAR INCOME

Interest and similar income are presented in the table below:

| (in EUR '000) | 2012 | 2011* |
|---|---|---|
| Interest income from bank balances | 177 | 392 |
| Return on plan assets (liability insurance) | 142 | 146 |
| Interest income from interest rate swaps | 100 | 37 |
| **Total** | **419** | **575** |

* *adjusted*

## 5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are presented in the table below:

| (in EUR '000) | 2012 | 2011 |
|---|---|---|
| Interest expenses paid to banks | 1,955 | 2,456 |
| Interest expenses arising from corporate bonds | 1,950 | 1,950 |
| Interest expenses arising from provisions | 752 | 698 |
| Interest expenses arising from profit participation right | 405 | 405 |
| Interest expenses arising from factoring | 383 | 582 |
| Interest expenses arising from compound interest | 277 | 504 |
| Losses from interest rate swaps | 211 | 49 |
| Other | 196 | 170 |
| Interest expenses arising from interest rate swaps | 143 | 23 |
| Commission on bank guaranty | 36 | 66 |
| Expenses arising from finance lease | 0 | 6 |
| **Total** | **6,308** | **6,909** |

## 5.12 INCOME TAXES

Income taxes are specified as follows:

| (in EUR ’000) | 2012 | 2011 * |
|---|---|---|
| **Current income taxes:** | | |
| Current tax expenses in respect of the current year | 445 | 192 |
| Adjustments recognized in current year in relation to the current tax of prior years | 21 | 0 |
| **Deferred taxes:** | | |
| Origination and reversal of temporary differences | –340 | 1,454 |
| Of which directly through equity | 984 | –50 |
| **Total** | **1,110** | **1,596** |

* *adjusted*

The current tax expenses for the financial year 2012 consist of current trade tax and corporate tax as well as US withholding tax for 2012.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. For the calculation of deferred taxes in Germany, a tax rate of 28.08% (PY: 28.08%) is applied. It comprises the unchanged currently valid corporate income tax rate of 15%, the unchanged solidarity surcharge of 5.5% and the Group’s average trade tax rate of 12.25% (PY: 12.25%). The respective domestic tax rates are applied for foreign entities (34%, no change compared to prior year).

The table below presents the reconciliation between the expected income tax expense in each annual period and the income tax expense actually presented in the consolidated statement of comprehensive income:

| (in EUR ’000) | 2012 | 2011 * |
|---|---|---|
| **Tax rate** | **28.08%** | **28.08%** |
| **Earnings before tax (EBT)** | **4,132** | **5,992** |
| **Expected tax expense** | | |
| **Deviations** | **1,160** | **1,683** |
| 1. First-time recognition of deferred taxes related to interest carry forwards | 0 | –158 |
| 2. Adjustment of deferred tax assets related to interest carry forwards USA | 84 | 148 |
| 3. Deviating foreign tax rates | 60 | 55 |
| 4. Adjustment actual tax prior years | 21 | 0 |
| 5. Non-deductible expenses | 128 | 88 |
| 6. Tax effects from consolidation measures | –315 | –218 |
| 7. Other | –28 | –2 |
| **Tax expenses presented in the consolidated statement of comprehensive income** | **1,110** | **1,596** |

* *adjusted*

Deferred tax assets and liabilities are specified as follows:

| (in EUR '000) | Consolidated Balance Sheet | | Consolidated Statement of Comprehensive Income | |
|---|---|---|---|---|
| | 12/31/2012 | 12/31/2011 | 2012 | 2011 |
| **Deferred tax assets** | | | | |
| Financial assets | 0 | 0 | 0 | –20 |
| Prepaid expenses | 0 | 0 | 0 | –81 |
| Other assets | 342 | 310 | 32 | 35 |
| Retirement benefit obligation | 2,215 | 1,248 | 967 | 135 |
| Other provisions | 232 | 402 | –170 | –93 |
| Liabilities from financial leasing | 0 | 0 | 0 | –89 |
| Liabilities from profit participation | 0 | 101 | –101 | –948 |
| Loss carry forward | 2,283 | 2,632 | –349 | –147 |
| Other | 93 | 23 | 70 | 23 |
| Total deferred tax assets – gross | 5,165 | 4,716 | 449 | –1,185 |
| Deferred tax assets not recognized | 0 | 0 | 0 | 0 |
| **Total deferred tax assets – net** | **5,165** | **4,716** | **449** | **–1,185** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Non-current assets | 7,169 | 6,871 | –298 | –317 |
| Inventories | 267 | 275 | 8 | 31 |
| Other | 249 | 430 | 181 | 17 |
| **Total deferred tax liabilities** | **7,685** | **7,576** | **–109** | **–269** |
| | **–2,520** | **–2,860** | **340** | **–1,454** |

The deferred tax asset arising from the loss carry forward relates to Nashtec LLC in the amount of EUR 1,940 thousand. Nashtec LLC is not regarded as a taxable entity according to US tax law for federal tax and state tax. The proportion of the US tax loss carry forward allocable to Nabaltec AG as shareholder amounts to EUR 5,659 thousand (PY: EUR 5,940 thousand) and, generally, tax losses can be applied retroactively for two years and carried forward for no more than 20 years on the federal level in the United States:

| (in EUR '000) | 2012 | 2011 |
|---|---|---|
| Expiration within | | |
| 1 year | 0 | 0 |
| 2 – 5 years | 0 | 0 |
| 6 – 10 years | 0 | 0 |
| 11 – 20 years | 5,659 | 5,940 |

Deferred tax assets and liabilities in the USA are set off against deferred tax assets from tax loss carry forwards. The tax loss carry forwards in the USA are higher than the actual realized losses due to favorable tax depreciation rules. As at December 31, 2012 German tax loss carry forwards as well as interest carry forwards in the amount of EUR 343 thousand (PY: EUR 612 thousand) were capitalized.

# 6. NOTES TO THE CONSOLIDATED BALANCE SHEET

## 6.1 INTANGIBLE ASSETS

Please refer to the statement of changes in non-current assets for more information on the changes in intangible assets.

Intangible assets consist mainly of data processing software and industrial property rights.

As in prior year, intangible assets were not assigned by way of collateral as of December 31, 2012.

There were no significant obligations for the acquisition of intangible assets.

## 6.2 PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment are presented in the statement of changes in non-current assets.

The Company had entered into lease and hire-purchase agreements relating to various technical equipment and part of other fixtures, fittings and equipment. These agreements were classified as finance leases in accordance with IAS 17. Contract terms complied with those commonly applied in the industry. The lease agreements originally had a contract term of 3 – 6 years and did not include price adjustment clauses. As of December 31, 2012, the carrying amounts of technical equipment and of other fixtures, fittings and equipment held in connection with finance lease agreements amounted to EUR 0 thousand (PY: EUR 0 thousand). Likewise with prior year, no additions were made in the course of the financial year.

Assets amounting to EUR 57,321 thousand (PY: EUR 57,209 thousand) are pledged as securities for bank loans.

Land charges in favor of the owner amounting to EUR 9,690 thousand as of December 31, 2012 (PY: EUR 9,690 thousand) were assigned by way of collateral for bank loans.

Borrowing costs in the amount of EUR 266 thousand (PY: EUR 302 thousand) were capitalized in the annual period 2012 in connection with the long term construction of various technical equipment, buildings and fixtures. The average interest rate that was used to determine the borrowing costs eligible for recognition in the balance sheet was 6.25%.

## 6.3 INVENTORIES

Inventories are specified as follows:

| (in EUR ’000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Raw materials and supplies | 12,168 | 14,283 |
| Unfinished goods | 261 | 413 |
| Finished products and merchandise | 11,168 | 11,624 |
| **Total** | **23,597** | **26,320** |

All inventory items were assigned by way of collateral for liabilities to banks.

Inventory write-downs in the amount of EUR 299 thousand (PY: EUR 338 thousand) were recognized as expenses.

## 6.4 TRADE RECEIVABLES

Trade receivables are specified in the table below:

| (in EUR ’000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Trade receivables – gross | 3,901 | 2,739 |
| Bad debt allowance | –490 | –490 |
| **Total** | **3,411** | **2,249** |

At the balance sheet date, all trade receivables are non-interest-bearing and are receivable in less than one year.

Please refer to Note 7.2 Disclosures on financial instruments for more information on the development of the bad debt allowance account and the age structure of receivables.

## 6.5 INCOME TAX CLAIMS

Income tax claims with a carrying amount of EUR 164 thousand (PY: EUR 127 thousand) consist of tax refund claims receivable from German tax authorities, resulting from corporate income tax and the solidarity surcharge.

## 6.6 OTHER ASSETS

Other assets consist of the following financial and non-financial assets:

| (in EUR '000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Receivables from factoring | 1,105 | 1,177 |
| Other | 665 | 682 |
| **Other financial assets** | **1,770** | **1,859** |

| (in EUR '000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| VAT (value added tax) receivables | 1,364 | 841 |
| Prepaid expenses | 118 | 121 |
| **Other non-financial assets** | **1,482** | **962** |
| **Total** | **3,252** | **2,821** |

The receivables from factoring in the amount of EUR 1,105 thousand (PY: EUR 1,177 thousand) presented at December 31, 2012, consist of the purchase price retention related to factoring arrangements.

Other assets are receivable in less than one year.

## 6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the balance sheet date are presented in the table below:

| (in EUR '000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Cash in banks | 14,304 | 16,345 |
| Petty cash | 1 | 2 |
| **Total** | **14,305** | **16,347** |

Bank balances bear interest at variable interest rates for overnight call money. The short term deposits range from one day to three months, depending on the Group's cash requirements. These deposits bear interest at the respective interest rates for short term deposits.

For purposes of the consolidated cash flow statement, there were no differences in the holdings of cash and cash equivalents as of December 31.

The cash and cash equivalents are not subject to restrictions.

## 6.8 EQUITY

Changes in equity of Nabaltec AG are presented in the consolidated statement of changes in equity.

### Subscribed capital

At the balance sheet date, the fully paid-in capital (capital stock) amounted to EUR 8,000 thousand (PY: EUR 8,000 thousand). It consisted of 8,000,000 non-par bearer shares, each representing an imputed proportion of capital stock in the amount of EUR 1.00. Each share bears a voting right.

### Authorized capital

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

### Conditional capital

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

### Capital reserve

At December 31, 2012, the capital reserve amounted to EUR 29,764 thousand (PY: EUR 29,764 thousand). The capital reserve basically resulted from the issuance of 2,000,000 non-par bearer shares at a price of EUR 15.50 per non-par share holding an interest of EUR 1.00 per non-par share in subscribed capital causing a premium of EUR 14.50 per non-par share or rather EUR 29,000 thousand in total.

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

### Earnings reserves

At December 31, 2012, earnings reserves amounted to EUR 9,711 thousand (PY: EUR 9,711 thousand). The earnings reserves result from the first time adoption of IFRS. No dividend distributions were authorized nor are any distributions anticipated for the annual periods 2012 and 2011.

Regarding the changes in profit/loss carried forward, please refer to the consolidated statement of changes in equity.

### Accumulated other comprehensive expenses

Any differences arising on currency translation and any changes in the market value of derivative financial instruments for which hedge accounting is applied as well as arising tax effects in this context are recognized directly in equity and presented separately in equity within the item of accumulated other comprehensive income/expenses. In addition, for the first time this year, actuarial gains and losses as well as corresponding deferred taxes have been presented in this line item. As of December 31, 2012, accumulated other comprehensive expenses amounted to EUR −3,656 thousand (PY: EUR −1,049 thousand).

### Non-controlling interests

As at December 31, 2012, non-controlling interests amount to EUR −1,978 thousand (PY: EUR −3,084 thousand) in the equity of Nashtec LLC.

## 6.9 CURRENT AND NON-CURRENT PROVISIONS

Changes in provisions are presented in the tables below:

| FINANCIAL YEAR 2012 (in EUR '000) | Opening Balance 01/01/2012 | Additions | Write-downs | Reversal | Closing Balance 12/31/2012 |
|---|---|---|---|---|---|
| Provisions for personnel | 459 | 108 | 56 | 1 | 510 |
| Provisions related to ecological/decommissioning obligations | 126 | 0 | 9 | 117 | 0 |
| Other provisions | 136 | 151 | 135 | 0 | 152 |
| **Total** | **721** | **259** | **200** | **118** | **662** |

| FINANCIAL YEAR 2011 (in EUR '000) | Opening Balance 01/01/2011 | Additions | Write-downs | Reversal | Closing Balance 12/31/2011 |
|---|---|---|---|---|---|
| Provisions for personnel | 515 | 91 | 121 | 26 | 459 |
| Provisions related to ecological/decommissioning obligations | 120 | 6 | 0 | 0 | 126 |
| Other provisions | 143 | 135 | 142 | 0 | 136 |
| **Total** | **778** | **232** | **263** | **26** | **721** |

### Retirement benefit obligation

The Group has set up defined benefit pension plans. Based on these plans, pension benefits are promised to a major part of the employees for the time after retirement. These are final pay plans granted to Management and employees based on the pension scheme. The pension scheme is valid for employees, who were permanently employed by the Company prior to May 1, 1995. As a consequence, there have been no further additions to this group of beneficiaries. Part of the contributions to the pension plans are paid to liability insurances. Given the scheme arrangements, the employer carries actuarial risks. The most important risks regard interest rate risk and longevity risk.

The average age of those included in the pension scheme lies in the range of 50 to 55 years. The pension obligation is calculated based on an assumed retirement age of 63 years.

The specification of pension benefit expenses recognized in the consolidated statement of comprehensive income and the amounts recognized for the respective pension plans in the consolidated balance sheet are presented in the tables below:

EXPENSES FOR PENSION BENEFITS (in EUR '000)

| | 2012 | 2011* |
|---|---|---|
| Current service cost | 315 | 513 |
| Net interest expense | 676 | 632 |
| **Expenses for pension benefits** | **991** | **1,145** |
| Actual return on plan assets | 29 | 32 |

* *adjusted*

Net interest expense comprises interest expense amounting to EUR 734 thousand (PY: EUR 682 thousand) less expected returns on plan assets amounting to EUR 58 thousand (PY: EUR 50 thousand). The interest portion of the additions to the retirement benefit obligation as well as the return on plan assets is presented under interest and similar expenses. Actuarial gains and losses are immediately fully recognized in other comprehensive in-come and evolved as follows:

DEVELOPMENT OF ACTUARIAL GAINS/LOSSES (in EUR '000)

| | |
|---|---|
| Actuarial gains/losses as at January 1, 2011 | –1,230 |
| Actuarial gains arising from changes in actuarial assumptions | 254 |
| Experience losses | –56 |
| Losses on plan assets | –18 |
| **Actuarial losses as at December 31, 2011** | **–1,050** |
| Actuarial losses arising from changes in actuarial assumptions | –3,296 |
| Experience losses | –181 |
| Losses on plan assets | –28 |
| **Actuarial gains/losses as at December 31, 2012** | **–4,555** |

Changes in the present value of the defined benefit obligations are presented in the table below:

| (in EUR '000) | |
|---|---|
| Defined benefit obligations at January 1, 2011 | 14,033 |
| Interest expenses | 682 |
| Current service cost | 513 |
| Benefits paid | –236 |
| Actuarial gains/losses | –198 |
| **Defined benefit obligations at December 31, 2011** | **14,794** |
| Interest expenses | 734 |
| Current service cost | 315 |
| Benefits paid | –266 |
| Actuarial gains/losses | 3,476 |
| **Defined benefit obligations at December 31, 2012** | **19,053** |

Of the total defined benefit obligation amounting to EUR 19,053 thousand as per December 31, 2012 (PY: EUR 14,794 thousand), an amount of EUR 5,999 thousand (PY: EUR 4,614 thousand) is covered by liability insurances.

For 2013, benefit payments are expected to amount to approximately EUR 273 thousand.

Changes in the fair value of plan assets are presented in the table below:

| (in EUR '000) | |
|---|---|
| Fair value of plan assets at January 1, 2011 | 980 |
| Employer contributions | 94 |
| Expected return | 50 |
| Actuarial gains/losses | –18 |
| **Fair value of plan assets at December 31, 2011** | **1,106** |
| Employer contributions | 84 |
| Expected return | 57 |
| Actuarial gains/losses | –28 |
| **Fair value of plan assets at December 31, 2012** | **1,219** |

Plan assets recognized in the balance sheet comprise the positive value of a liability insurance, which falls under the scope of IAS 19.7 (b) and thus has to be accounted for as a plan asset. The Group anticipates contributions to plan assets in the amount of EUR 80 thousand for the financial year 2013.

The reconciliation of the recognized retirement benefit obligation provision with the present value of the defined benefit obligation is presented below:

| (in EUR '000) | 12/31/2012 | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008 |
|---|---|---|---|---|---|
| Fair value of plan assets | 1,219 | 1,106 | 980 | 864 | 752 |
| Present value of the defined benefit obligation | 19,053 | 14,794 | 14,033 | 11,942 | 10,395 |
| Retirement benefit obligation provision | 17,834 | 13,688 | 13,053 | 11,078 | 9,643 |

In the following table, the underlying assumptions used for determining retirement benefit obligation are summarized:

| (in %) | 2012 | 2011 |
|---|---|---|
| Discount rate | 3.90 | 5.00 |
| Salary trend | 2.75 | 2.75 |
| Pension trend | 2.00 | 2.00 |
| Fluctuation rate | 1.00 | 1.00 |

*Mortality rates after retirement of pensioners aged 65 according to Heubeck-Richttafeln 2005G*

Changes to the underlying assumptions affect the retirement benefit obligation provision as follows:

RETIREMENT BENEFIT OBLIGATION (in EUR '000)

| | +25 BP | –25 BP |
|---|---|---|
| Discount rate | 18.221 | 19.940 |
| Salary trend | 19.264 | 18.848 |
| Pension trend | 19.642 | 18.490 |

## 6.10 CURRENT AND NON-CURRENT LIABILITIES

CARRYING AMOUNTS (in EUR '000)

| | | Carrying amount | thereof due within < 1 year | thereof due within 1–5 years | thereof due within > 5 years |
|---|---|---|---|---|---|
| Financial liabilities arising | 12/31/2012 | 29,181 | – | 29,181 | – |
| from corporate bonds | 12/31/2011 | 28,928 | – | 28,928 | – |
| Payable to banks | 12/31/2012 | 35,367 | 9,668 | 25,699 | 0 |
| | 12/31/2011 | 43,125 | 8,146 | 34,979 | 0 |
| Profit participation | 12/31/2012 | 5,000 | 5,000 | – | – |
| capital | 12/31/2011 | 4,976 | – | 4,976 | – |
| Trade payables | 12/31/2012 | 10,403 | 10,403 | – | – |
| | 12/31/2011 | 10,037 | 10,037 | – | – |
| Liabilities from | 12/31/2012 | 0 | 0 | – | – |
| finance lease | 12/31/2011 | 0 | 0 | – | – |
| Income taxes payable | 12/31/2012 | 638 | 638 | – | – |
| | 12/31/2011 | 190 | 190 | – | – |
| Other liabilities | 12/31/2012 | 11,852 | 11,852 | – | – |
| | 12/31/2011 | 13,036 | 13,036 | – | – |
| **Total** | **12/31/2012** | **92,441** | **37,561** | **54,880** | **0** |
| | **12/31/2011** | **100,292** | **31,409** | **68,883** | **0** |

### Financial liabilities arising from corporate bonds

On October 15, 2010, corporate bonds with a nominal volume of EUR 30.000 thousand were issued. These bonds have a term of five years and a nominal interest rate of 6.50% p.a. Directly attributable transaction costs amounted to EUR 1,341 thousand. Subsequent to the pro rata amortization of these transaction costs, this amount decreased to EUR 819 thousand as at December 31, 2012 (PY: EUR 1,072 thousand); therefore, the corporate bonds amounted EUR 29,181 thousand (PY: EUR 28,928 thousand).

### Payables to banks

Payables to banks mainly comprise long term loans borrowed under prevailing market interest rates. Their fair value equals the sum of the inherent carrying amounts.

Loan agreements of Nabaltec AG are partly subject to covenants, which are partially based on leverage coverage ratios as well as on the equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period 2012, covenants valid as at December 31, 2012, were adhered to.

### Profit participation capital

As per December 31, 2012, the Company has a liability pertaining to profit participation capital in the amount of EUR 5,000 thousand (PY: EUR 4,976 thousand). The scheduled term of the profit participation capital with an amount of EUR 5,000 thousand ended in January 2013. Prior to this time, there is no ordinary call right. The profit participation right grants only creditor claims against the Company and no shareholder rights are constituted. The Company is obliged to pay interest of 8.10% p.a. on the nominal amount by the end of the term; quarterly advance payments are made on the interest obligation. Under certain conditions, due advance payments can be deferred; in such cases, the interest rate would increase. At the end of the term, the profit participation right must be repaid at the nominal amount, less any participation in the Company’s losses.

The difference arising from changes in the carrying value of the profit participation capital (compounding due to applying the effective interest method) in comparison to prior year was recognized as an interest expense through the income statement in the financial year 2012.

According to the contract governing profit participation capital, the redemption amount shall be reduced by the audited net annual loss to the extent that this loss is covered by committed equity. On January 22, 2013, the amount of profit participation capital was repaid in full.

### Trade payables

Trade payables are due within 90 days.

The carrying amounts of trade payables are equal to their fair values.

### Liabilities from finance lease

As at December 31, 2012 and December 31, 2011 there were no liabilities from finance leases.

With regards to rental and lease expenses in financial years 2012 and 2011, please refer to the specification of other operating expenses in Note 5.8 Other operating expenses.

### Income tax payables

Those comprise outstanding tax liabilities in Germany, consisting of corporate tax, solidarity surcharge and trade tax for the current and prior financial years.

### Other liabilities

Current other liabilities consist of the following financial and non-financial liabilities:

| (in EUR '000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Loan due to non-controlling shareholder | 8,586 | 9,236 |
| Negative fair value of interest rate swap | 740 | 707 |
| Interest expenses arising from corporate bonds | 411 | 411 |
| Other | 288 | 232 |
| Employer's Liability Insurance Association | 187 | 253 |
| Preparation and audit of the annual financial statements | 185 | 185 |
| Investment grants | 0 | 523 |
| **Other current financial liabilities** | **10,397** | **11,547** |

| (in EUR '000) | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Outstanding vacation claims | 637 | 636 |
| Bonuses and performance-based pay | 318 | 564 |
| Payables to tax authorities | 237 | 203 |
| Other consumption tax | 141 | 7 |
| Invention remuneration | 100 | 57 |
| Social securities payable | 22 | 22 |
| **Other current non-financial liabilities** | **1,455** | **1,489** |
| **Total other current liabilities** | **11,852** | **13,036** |

Liabilities arising from bonuses and performance-based pay depend on the fulfillment of the underlying objectives. Liabilities for outstanding vacation claims were recognized on the basis of individual employees.

Payables to tax authorities result primarily from payroll and church taxes for the past financial year outstanding as at the balance sheet date.

Other current financial liabilities relating to investment grants amounting to EUR 0 thousand (PY: EUR 523 thousand) comprised a fixed assets investment grant already received from the government of Upper Palatinate (Oberpfalz) for planned investments carried out as at the balance sheet date. These items consisted exclusively of other financial liabilities. The carrying amount was approximately equal to its fair value. As at December 31, 2012 EUR 6,000 thousand (PY: EUR 5,477 thousand) of the received grants were deducted in arriving at the carrying amount of the respective non-current assets. Due to their short term maturity, the carrying amounts of current other liabilities were approximately equal to their fair values.

# 7. OTHER DISCLOSURES

## 7.1 OTHER FINANCIAL OBLIGATIONS

### Obligations under operating leases – the Group as lessee

The Group is subject to financial obligations under rental and lease agreements. In particular, Nabaltec AG sold several technical equipment and machinery under the terms of a sale-and-lease-back transaction. The remaining terms of all the contracts are mainly between 1 – 5 years. The contracts' original terms were from 3 – 6 years and do not contain any price adjustment clauses or call options.

In the current financial year, an amount of EUR 2,392 thousand (PY: EUR 2,403 thousand) was recognized as expenses under rental and operating lease agreements.

The total amount of future minimum payments under operating leases and rental agreements by maturities is specified as follows:

(in EUR '000)

| | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Minimum lease payments due in < 1 year | 2,482 | 2,497 |
| Minimum lease payments due 1 – 5 years | 843 | 2,729 |
| Minimum lease payments due > 5 years | 412 | 186 |
| **Total** | 3,737 | **5,412** |

### Contingent liabilities and other commitments

At the balance sheet date, there were no significant contingent liabilities or pending litigation for which provisions had to be recognized. At December 31, 2012, the Company was subject to open purchase orders for capital expenditure projects in the amount of EUR 2,092 thousand (PY: EUR 5,655 thousand).

## 7.2 DISCLOSURES ON FINANCIAL INSTRUMENTS

### Carrying amounts, valuation, fair values by measurement categories

The carrying amounts and fair values of all financial instruments recognized in the consolidated financial statements are presented in the table below:

| (in EUR '000) | Category in accordance with IAS 39 | Carrying amount 2012 | Carrying amount 2011 | Fair value 2012 | Fair value 2011 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Trade receivables | LaR | 3,411 | 2,249 | 3,411 | 2,249 |
| Other receivables | | | | | |
| Other non-derivative and financial assets | LaR | 1,770 | 1,859 | 1,770 | 1,859 |
| Positive fair value interest rate derivatives (without a hedging relationship) | HfT/FVtPL | 0 | 0 | 0 | 0 |
| Positive fair value interest rate derivatives (designated in an effective cash flow hedging relationship) | – | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | LaR | 14,305 | 16,347 | 14,305 | 16,347 |
| **Financial liabilities** | | | | | |
| Financial liabilities at amortized cost | | | | | |
| Financial liabilities arising from corporate bonds | FLaC | 29,181 | 28,928 | 29,181 | 28,928 |
| Payables to banks | FLaC | 35,367 | 43,125 | 35,367 | 43,125 |
| Profit participation capital | FLaC | 5,000 | 4,976 | 5,000 | 4,976 |
| Trade payables | FLaC | 10,403 | 10,037 | 10,403 | 10,037 |
| Other financial liabilities | | | | | |
| Other non-derivative financial liabilities | FLaC | 9,657 | 10,840 | 9,657 | 10,840 |
| Negative fair value interest rate derivatives (without a hedging relationship) | HfT/FVtPL | 260 | 49 | 260 | 49 |
| Negative fair value interest rate derivatives (designated in an effective cash flow hedging relationship) | – | 480 | 658 | 480 | 658 |
| Negative fair value forward foreign exchange derivatives (without a hedging relationship) | HfT/FVtPL | 0 | 0 | 0 | 0 |

The following abbreviations were used for the valuation categories according to IAS 39:

| | |
|---|---|
| LaR | Loans and Receivables |
| HfT | Held for Trading |
| FVtPL | Fair Value through Profit and Loss |
| FLaC | Financial Liabilities Measured at amortized Cost |

The fair values of derivative financial instruments and loans were determined by discounting the expected future cash flows to their present values using prevailing market interest rates. The fair values of other financial assets were determined using prevailing market interest rates.

The cash and cash equivalents, trade receivables and other receivables are receivable in less than one year. Therefore, their carrying amounts are approximately equal to their fair values.

### Net result by measurement categories

The following table presents income and expenses from financial instruments according to measurement categories as defined by IAS 39:

MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39

| | | | From subsequent measurement | | | |
|---|---|---|---|---|---|---|
| | | From interest | At Fair Value | Currency translation | Impairment/ allowance | Net result 2012 |
| Loans and Receivables | LaR | 177 | – | −99 | – | 78 |
| Held for Trading | HfT | −20 | −211 | – | – | −231 |
| Other Liabilities | FLaC | −5,166 | – | 222 | – | −4,944 |
| **Total 2012** | | **−5,009** | **−211** | **123** | **–** | **−5,097** |

MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39

| | | | From subsequent measurement | | | |
|---|---|---|---|---|---|---|
| | | From interest | At Fair Value | Currency translation | Impairment/ allowance | Net result 2011 |
| Loans and Receivables | LaR | 392 | – | 110 | −30 | 472 |
| Held for Trading | HfT | 14 | −49 | – | – | −35 |
| Other Liabilities | FLaC | −6,067 | – | 39 | – | −6,028 |
| **Total 2011** | | **−5,661** | **−49** | **149** | **−30** | **−5,591** |

Interest income and expenses from financial instruments are presented in the consolidated statement of comprehensive income within the positions interest and similar income and, respectively, expenses. Interest income from financial assets classified as loans and receivables mainly comprise interest income from current accounts and short term deposits. Interest expenses from financial liabilities in the category other liabilities primarily comprise interest expenses due to banks, corporate bonds and, respectively, profit participation capital.

Total interest expense relating to corporate bonds, applying the effective interest method, amounts to EUR 2,203 thousand for 2012 (PY: EUR 2,184 thousand) and relating to profit participation capital amount to EUR 429 thousand (PY: EUR 429 thousand).

Net result arising from the subsequent measurement of derivative financial instruments classified as held for trading includes interest effects. The related amounts are presented within the positions interest and similar income, respectively, expenses. Effects, however, arising from subsequent measurements of interest rate derivatives in an effective cash flow hedging relationship are recorded directly in equity. Recognition through profit or loss of an ineffective portion was not required.

Net result arising from foreign currency translation of financial assets classified as loans and receivables as well as liabilities classified as other liabilities mainly comprise trade receivables and payables nominated in foreign currency and is presented within the positions other operating income and expenses.

Net result from impairment mainly includes additions and reversals of individual bad debt allowances relating to trade receivables. The respective amounts are recorded within the positions other operating income and expenses.

### Fair Value Hierarchy

Effective January 1, 2009, a hierarchy for the measurement of fair value was introduced for financial assets and liabilities valued at fair value through profit or loss. The valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value based on their observable or unobservable nature.

The three-level hierarchy is summarized as follows:

Level 1: On the first level of the ‘Fair Value Hierarchy’, quoted market prices in an active market are the best evidence of fair value and should be used, where they exist, to measure the financial instrument.

Level 2: If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm’s length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Level 3: Valuation methods applied on this level are based on parameters and assumptions not readily available from an active market.

Group financial instruments measured at fair value were assigned to the following hierarchy levels:

| 12/31/2012 (in EUR '000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Positive fair value interest rate swap | 0 | 0 | 0 | 0 |
| **Liabilities** | | | | |
| Negative fair value interest rate swap | 0 | 740 | 0 | 740 |

| 12/31/2011 (in EUR '000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Positive fair value interest rate swap | 0 | 0 | 0 | 0 |
| **Liabilities** | | | | |
| Negative fair value interest rate swap | 0 | 707 | 0 | 707 |

In 2012, there were no reclassifications between the different levels.

### Hedging relationships

Interest rate swaps are used to limit currency and interest rate risk exposures resulting from changes in market interest level and changes of future cash outflows due to variable interest loans. The designated effective hedging relationships are accounted for in compliance with the regulations set out by IAS 39 for hedge accounting. As a result interest rate risk can be controlled and volatilities of results reduced.

At the inception of the hedge, the hedging relationship is formally designated and documented, including the Group's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the Group will assess the hedging instrument's effectiveness. The hedging relationship is assessed on an ongoing basis (i.e. over the entire hedge term) and it is determined whether the hedging relationship was highly effective.

For hedging relationships accounted for under the regulations as set out in hedge accounting, IAS 39 requires, among others, that the designated hedging relationship is effective. The changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%. The effective portion of a hedge within the above presented range is recorded directly in equity whereas the ineffective portion is immediately recognized the consolidated statement of comprehensive income.

As summarized in the table on the fair values of financial liabilities, the Company recognized interest rate swaps as per December 31, 2012, in the amount of EUR –480 thousand (PY: EUR –658 thousand) as hedge instrument as part of a cash flow hedge. Changes in the fair value of the interest swaps resulted in a gain in 2012 of EUR 178 thousand (PY: EUR 68 thousand) that was fully and directly recognized in equity. The loan underlying the interest swaps will be redeemed in equal amounts in the years until 2016. The payment flows arising from the interest swaps are expected over the same period.

The existing profit-and-loss effective interest rate swap with a negative fair value of EUR 260 thousand (PY: loss of EUR 49 thousand) as per December 31, 2012 resulted in a loss of EUR 211 thousand (PY: loss of EUR 49 thousand), recognized in the line item interest and similar expenses.

In principle, there have been no changes to the risk positions compared to prior year in the risks described below.

### Default risk

The Group is exposed to default risks primarily through its trade receivables. In order to reduce these risks, receivables are factored. Debtors' default risks are transferred by way of contractual agreements to the factor, except for a security deposit. The respective carrying amounts are therefore completely derecognized and are no longer carried as trade receivables. This does not include trade receivables which are not accepted by the factor e.g. because of exceeding a credit limit. Additionally, trade receivables are insured against default.

The amounts presented in the balance sheet are net of bad debt allowances for prospectively uncollectible receivables, which are estimated by Management on the basis of past experience and the current economic environment. Individual bad debt allowances are charged as soon as there is an indication that those receivables may be uncollectible. Such indications are based on intensive contacts maintained through the Company's credit management.

In case of counterparty default, the maximum default risk of the Group's financial assets, which comprise trade receivables, cash and cash equivalents and other assets, is equal to the carrying amounts of the corresponding instruments.

The Group is not subject to any significant concentration of default risks because they are well spread over a large number of counterparties and customers. As in prior year, the Group's assets are not subject to any restrictions on title or disposal.

The following table summarizes the changes in bad debt allowances on trade receivables:

| (in EUR '000) | 2012 | 2011 |
|---|---|---|
| **Balance per 01/01/** | 490 | 460 |
| Additions recognized as expenses in the income statement | 0 | 30 |
| Reversal | 0 | 0 |
| **Balance per 12/31/** | 490 | 490 |

The age structure of trade receivables is presented in the table below:

| (in EUR '000) | Carrying amount | neither past due nor value-adjusted | past due, but not value-adjusted | | | |
|---|---|---|---|---|---|---|
| | | | < 3 months | 3 - 6 months | 6 - 12 months | > 12 months |
| **12/31/2012** | 3,411 | 3,411 | 0 | 0 | 0 | 0 |
| 12/31/2011 | 2,249 | 2,249 | 0 | 0 | 0 | 0 |

With regard to the trade receivables which are neither value-adjusted nor past due, there were no indications at the balance sheet date that would suggest that debtors will not fulfill their payment obligations.

The amount of trade receivables neither past due nor impaired does not include any amounts of trade receivables, whose terms have been renegotiated.

No value adjustments were charged against the remaining other financial assets. At the balance sheet date, there were no past-due claims in this category.

### Liquidity risk

The Group continually monitors the risk of liquidity shortfalls. For this purpose, the Group takes into account the maturities of financial assets and liabilities and the expected cash flows from operating activities, among others. The objective of the Group is to ensure the supply of sufficient financial resources as well as to maintain a maximum flexibility by disposing of current accounts, loans and financial leases.

The following table presents the contractually agreed (not discounted) cash outflows of financial liabilities. All financial liabilities for which payments have been already contractually agreed on were included. Budget data for prospective, new liabilities are not included. Amounts denominated in foreign currencies have been translated using the spot rate as of the balance sheet date. The variable interest payments arising from financial instruments were calculated using the last interest rates fixed before the balance sheet date. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

CASH OUTFLOWS not discounted (in EUR '000)

| | | Total | thereof < 1 year | thereof 1–5 years | thereof > 5 years |
|---|---|---|---|---|---|
| Financial liabilities arising from corporate bonds | 12/31/2012 | 35,845 | 1,950 | 33,895 | – |
| | 12/31/2011 | 37,800 | 1,955 | 35,845 | – |
| Payable to banks | 12/31/2012 | 38,052 | 10,872 | 27,180 | – |
| | 12/31/2011 | 47,419 | 9,693 | 37,726 | – |
| Profit participation capital | 12/31/2012 | 5,110 | 5,110 | 0 | – |
| | 12/31/2011 | 5,515 | 405 | 5,110 | – |
| Trade payables | 12/31/2012 | 10,403 | 10,403 | – | – |
| | 12/31/2011 | 10,037 | 10,037 | – | – |
| Other financial liabilities | 12/31/2012 | 10,397 | 10,397 | – | – |
| | 12/31/2011 | 11,547 | 11,547 | – | – |
| **Total (financial liabilities)** | **12/31/2012** | **99,807** | **38,732** | **61,075** | **–** |
| | **12/31/2011** | **112,318** | **33,637** | **78,681** | **–** |

## Foreign currency risk

Foreign currency risk that the Group is exposed to result from its operating activities. Although Group companies mainly operate in their individual functional currency, Group companies are exposed to foreign currency risks based on planned payments in a currency other than their functional currency.

Foreign currency risks are presented by means of sensitivity analyses as required by IFRS 7. These show the effects of hypothetical changes of relevant risk parameters on profit before taxes and shareholders' equity as a consequence of upward revaluation and devaluation of the euro against all other foreign currencies. Financial instruments denominated in a currency that is not the functional currency and of monetary nature are included within the scope of these analyses. According to the requirements of IFRS 7, differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. No effects resulted on shareholders' equity.

| | Rate change in % | Effect on profit before taxes in EUR '000 |
|---|---|---|
| **2012** | | |
| USD | +5 | 167 |
| USD | –5 | –167 |
| **2011** | | |
| USD | +5 | 159 |
| USD | –5 | –159 |

### Interest rate risk

Interest rate risk that the Group is exposed to results mainly from interest rate fluctuations and the related financial variable interest-bearing liabilities due to banks. The Group's interest expenses are managed through a combination of fixed interest-bearing liabilities and variable interest-bearing liabilities. For hedging purposes of the interest rate risk inherent from non-current variable interest-bearing positions, interest rate swaps are applied that switch the differences between payments subject to variable interest and payments subject to fixed interest regarding a nominal amount within agreed time intervals to the contracting party.

Interest rate risks are risks are presented by means of sensitivity analyses as required by IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity (from subsequent measurement of designated interest rate derivatives in an effective cash flow hedging relationship) as follows:

| | Increase/ decrease in basis points | Effect on profit before taxes in EUR '000 | Effect on shareholders' equity* in EUR '000 |
|---|---|---|---|
| **2012** | | | |
| Europe | +10 | –47 | 5 |
| USA | +10 | –17 | 9 |
| | | | |
| Europe | –10 | 49 | –5 |
| USA | –10 | 17 | –9 |
| | | | |
| **2011** | | | |
| Europe | +10 | –32 | 7 |
| USA | +10 | –18 | 16 |
| | | | |
| Europe | –10 | 33 | –7 |
| USA | –10 | 18 | –2 |

* *disregarding the effects on profit before taxes*

## 7.3 ADDITIONAL DISCLOSURES ON CAPITAL MANAGEMENT

Nabaltec AG conducts sound capital management enabling the Group to continue on a growth path as well as ensuring solvency. In this regard, particular emphasis is given to preserving a balanced ratio of equity to debt over the long term.

The equity and debt positions of Nabaltec AG at December 31, 2012 and 2011, monitored for purposes of the Group's capital management, are presented in the table below:

| | 12/31/2012 in EUR '000 | 12/31/2011 in EUR '000 | Change in % |
|---|---|---|---|
| **Equity** | **47,488** | **46,934** | **1.18** |
| in % of total capital | 37,80 | 35,24 | 7.26 |
| Non-current financial liabilities | 54,880 | 68,883 | –20.33 |
| Current financial liabilities | 23,254 | 17,382 | 33.78 |
| **Debt*** | **78,134** | **86,265** | **–9.43** |
| as % of total capital | 62.20 | 64.76 | –3.95 |
| **Total capital for capital management purposes** | **125,622** | **133,199** | **–5.69** |

* *The Group defines debt as financial liabilities arising from corporate bonds, payables to banks, liabilities from profit participation capital and liabilities due to non-controlling shareholders.*

In the financial year, equity increased by EUR 554 thousand to EUR 47,488 thousand in principle due to the profit incurred by the Group.

Borrowed capital decreased by EUR 8,131 thousand to EUR 78,134 thousand in the financial year due primarily to the redemption of long term payables to bank.

In total, the capital measures conducted in 2012 increased the equity ratio (as a percentage of total capital) to 37.80% compared to prior year 35.24%. The ratio of debt to total capital, according to the definition applied for capital management purposes, sunk from 64.76% as of December 31, 2011 to 62.20% as of December 31, 2012.

Within the Company's continued development, the Group optimizes its financial management, accompanied by continuous monitoring and management of its equity ratio.

The objective of this financial management is to improve the Company's solvency in regards to Nabaltec AG's business partners and optimize its capital costs.

Nabaltec AG is not subject to any capital requirements imposed by its Articles of Association. Regarding covenants from loan agreements please refer to Note 6.10 Current and non-current liabilities.

## 7.4 RELATED PARTY TRANSACTIONS

According to IAS 24 Related Party Disclosures, related parties are composed of those companies and persons that possess the ability directly or indirectly to control the other party or to exercise significant influence or joint control over the other party.

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

- Members of the Management Board (see Note 7.8 Governing bodies of the Company) and their family members;
- Members of the Supervisory Board (see Note 7.8 Governing bodies of the Company) and their family members;
- Companies that are controlled directly or indirectly by members of the Management Board or Supervisory Board.

Members of the Management Board received short term compensation of EUR 1,086 thousand (PY: EUR 1,065 thousand) in the financial year 2012. In addition, post-employment expenditures of EUR 297 thousand (PY: EUR 219 thousand) were incurred.

Members of the Management Board hold the following interest in the Company as at December 31, 2012:

| | |
|---|---|
| Johannes Heckmann | 1,295,250 no-par value shares |
| Gerhard Witzany | 1,260,310 no-par value shares |

Members of the Supervisory Board received short term compensation of EUR 42 thousand (PY: EUR 42 thousand) in the financial year 2012.

Members of the Supervisory Board hold the following interest in the Company as at December 31, 2012:

| | |
|---|---|
| Dr. Leopold von Heimendahl | 55,400 no-par value shares |
| Dr. Dieter J. Braun | 48,000 no-par value shares |
| Prof.-Ing. Dr. Jürgen G. Heinrich | 1,700 no-par value shares |

At December 31, 2012 and 2011, there were receivables due from and payables due to related parties as follows:

| (in EUR '000) | Receivables | | Payables | |
|---|---|---|---|---|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Entities controlled by members of the Supervisory Board | 0 | 0 | 0 | 0 |
| Entities controlled by members of the Management Board | 19 | 10 | 0 | 0 |

At December 31, 2012 or in the course of 2012 as well as at December 31, 2011 or in the course of 2011, there were neither allowances for bad debt nor expenses for uncollectible receivables or bad debt due from related parties.

In 2012 and 2011, the following expenses and income with related parties were recognized in addition to compensation granted to the members of the Management Board:

| (in EUR '000) | Income | | Expenses | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Entities controlled by members of the Supervisory Board | 0 | 0 | 5 | 5 |
| Entities controlled by members of the Management Board | 111 | 102 | 18 | 50 |

Transactions with entities controlled by members of the Management Board comprise services related to human resources management as well as other services (income amounting to EUR 111 thousand; PY: EUR 102 thousand), plant design (expenses amounting to EUR 12 thousand; PY: EUR 47 thousand) and other services (expenses amounting to EUR 6 thousand; PY: EUR 3 thousand). Expenses incurred for members of the Supervisory Board resulted from the research and development activities regarding ceramic process engineering performed by one member.

In connection with the corporate bonds issued in the financial year 2010 with a nominal value of EUR 30,000 thousand, the Company has payables due to the Management Board of nominally EUR 904 thousand (PY: EUR 1,023 thousand) as at the balance sheet date December 31, 2012. With regard to the members of the Supervisory Board, the payable amounts to a nominal value of EUR 405 thousand (PY: EUR 385 thousand).

## 7.5 EARNINGS PER SHARE

The number of shares outstanding showed the following changes during the financial year:

| | 2012 | 2011 |
|---|---|---|
| Common shares outstanding at 01/01/ | 8,000,000 | 8,000,000 |
| There were no transactions in the financial year. | | |
| Common shares outstanding at 12/31/ | 8,000,000 | 8,000,000 |
| **Undiluted weighted average number of common shares outstanding** | **8,000,000** | **8,000,000** |

For calculating the undiluted earnings per share, the profit or loss attributable to the holders of the Company's common shares are divided by the weighted average number of common shares in circulation during the financial year.

In accordance with IAS 33 Earnings per Share, the effects of potential common shares are also taken into account for determining the diluted earnings per share. No dilutive effects apply for Nabaltec AG. Thereby, the undiluted earnings per share are equal to the diluted earnings per share for 2012 and 2011.

Earnings per share, so calculated, are presented in the table below:

| | 2012 | 2011 * |
|---|---|---|
| Consolidated earnings after tax – Shareholders of Nabaltec AG (in EUR '000) | 2,055 | 3,501 |
| Undiluted weighted average number of common shares outstanding | 8,000,000 | 8,000,000 |
| Earnings per share (in EUR) | 0.26 | 0.44 |

* *adjusted*

For additional information, we refer to Note 6.8 Equity.

## 7.6 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows indicates the sources and uses of funds. In accordance with IAS 7 Statement of Cash Flows, the cash flows from operating activities, investing and financing activities are presented separately.

The net funds presented in the consolidated statement of cash flows comprise the item of cash and cash equivalents presented in Note 6.7 Cash and cash equivalents.

Deviations between additions shown in the consolidated statement of changes in non-current assets and cash expenditures for investments in technical equipment, plant and machinery result from unsettled invoices due to related purchases and the offsetting of received investment grants with the additions shown in the consolidated statement of changes in non-current assets.

The paid, respectively, received interest and income tax are directly evident from the consolidated statement of cash flows.

## 7.7 SEGMENT INFORMATION

Business segments represent the primary format for the Group's segment reporting. Risks and the internal organizational and reporting structure of the Group are determined mainly by the distinctions between the products produced.

### Business segments

Nabaltec is divided into two business segments; "Functional Fillers" and "Technical Ceramics". Each segment represents a strategic business division, the products and markets of which differ from those of the other.

The "Functional Fillers" segment produces and distributes non-halogenated flame retardant fillers for the plastics- and the cable & wire industry as well as additives.

The "Technical Ceramics" segment produces and distributes ceramic raw material and ceramic bodies for numerous applications in technical ceramics as well as the refractory industry.

The column "other" includes assets and liabilities that cannot be matched to the individual segments.

Transfer prices applied between business segments are fundamentally determined on the basis of the prevailing market terms that would be charged in an arm's-length transaction. The segment income, expenses and result include transfers between the business divisions, which are eliminated as part of the consolidation process. In the financial years 2012 and 2011, no inter-segment transactions between the business divisions were incurred.

FINANCIAL YEAR ENDED DECEMBER 31, 2012 (in EUR '000)

| | Functional Fillers | Technical Ceramics | Other | Nabaltec Group |
|---|---|---|---|---|
| **Revenues** | | | | |
| Third party revenue | 89,932 | 39,281 | – | 129,213 |
| **Segment result** | | | | |
| EBITDA | 14,758 | 4,069 | – | 18,827 |
| EBIT | 8,320 | 1,701 | – | 10,021 |
| **Assets and liabilities** | | | | |
| Segment assets | 105,072 | 41,405 | 15,023 | 161,500 |
| Segment liabilities | 10,070 | 4,261 | 99,681 | 114,012 |
| **Other segment information** | | | | |
| Capital expenditures | | | | |
| – Property, plant and equipment | 5,331 | 3,322 | – | 8,653 |
| – Intangible assets | 52 | 34 | – | 86 |
| Depreciation and amortization | | | | |
| – Property, plant and equipment | 6,393 | 2,327 | – | 8,720 |
| – Intangible assets | 45 | 41 | – | 86 |

FINANCIAL YEAR ENDED DECEMBER 31, 2011 (in EUR '000)*

| | Functional Fillers | Technical Ceramics | Other | Nabaltec Group |
|---|---|---|---|---|
| **Revenues** | | | | |
| Third party revenue | 84,822 | 44,200 | – | 129,022 |
| **Segment result** | | | | |
| EBITDA | 13,403 | 6,972 | – | 20,375 |
| EBIT | 7,585 | 4,741 | – | 12,326 |
| **Assets and liabilities** | | | | |
| Segment assets | 107,987 | 40,034 | 17,384 | 165,405 |
| Segment liabilities | 9,854 | 4,704 | 103,913 | 118,471 |
| **Other segment information** | | | | |
| Capital expenditures | | | | |
| – Property, plant and equipment | 12,074 | 2.734 | – | 14,808 |
| – Intangible assets | 54 | 34 | – | 88 |
| Depreciation and amortization | | | | |
| – Property, plant and equipment | 5,783 | 2.193 | – | 7,976 |
| – Intangible assets | 35 | 38 | – | 73 |

* *adjusted*

## Information by region

The geographical regions are defined as Germany, Rest of Europe, USA and Rest of World (RoW).

FINANCIAL YEAR ENDED DECEMBER 31, 2012 (in EUR '000)

| | Germany | Rest of Europe | USA | RoW | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Third party revenue | 40,023 | 59,988 | 14,774 | 14,428 | 129,213 |
| **Other segment information** | | | | | |
| Segment assets | 141,199 | – | 20,301 | – | 161,500 |
| Capital expenditures | | | | | |
| – Property, plant and equipment | 8,553 | – | 100 | – | 8,653 |
| – Intangible assets | 86 | – | – | – | 86 |

FINANCIAL YEAR ENDED DECEMBER 31,2011 (in EUR '000)

| | Germany | Rest of Europe | USA | RoW | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Third party revenue | 40,722 | 58,283 | 16,764 | 13,253 | 129,022 |
| **Other segment information** | | | | | |
| Segment assets | 144,038 | – | 21,367 | – | 165,405 |
| Capital expenditures | | | | | |
| – Property, plant and equipment | 14,554 | – | 254 | – | 14,808 |
| – Intangible assets | 88 | – | – | – | 88 |

In 2012, one customer accounted for more than 10% of total revenues. Revenue from this customer amounts to EUR 14,361 thousand and is included in the "Functional Fillers" segment. Similarly, in 2011, one customer accounted for more than 10% of total revenues (EUR 13,449 thousand).

The non-current assets of the Group are located in Germany and the United States. Non-current assets are defined as assets that are used for operating activities and are expected to remain within the Company for longer than 12 months. The location of the respective assets determined the allocation.

## 7.8 GOVERNING BODIES OF THE COMPANY

### Management Board

- Mr. Johannes Heckmann (Engineering)
- Mr. Gerhard Witzany (Business Administration)

### Supervisory Board

- Mr. Dr. Leopold von Heimendahl (Chairman)
- Mr. Dr. Dieter J. Braun (Vice Chairman)
- Mr. Prof.-Ing. Dr. Jürgen G. Heinrich

## 7.9 VOLUNTARY DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT REGARDING THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and the Supervisory Board of Nabaltec AG have voluntarily issued and made available to shareholders the Declaration on the German Corporate Governance Code in compliance with Section 161 of the German Stock Corporation Act required from listed entities. The declaration is published on the Company's website www.nabaltec.de under "Investor Relations/Corporate Governance".

## 7.10 SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The amount of profit participation capital (EUR 5.0 million) was fully repaid on the scheduled date, i.e. on January 22, 2013. No significant events took place subsequent to the balance sheet date.

## 7.11 AUDITOR'S FEES AND SERVICES PURSUANT TO SECTION 314 OF THE GERMAN COMMERCIAL CODE

The fee for the audit of the 2012 financial statements amounts to EUR 87 thousand (including the fee for the audit of the Company's consolidated financial statements 2012). For other assurance services, the auditor received a fee of EUR 5 thousand. The fee for tax advisory services amounts to EUR 21 thousand and for other services to EUR 5 thousand.

Schwandorf, March 1, 2013

Nabaltec AG
The Management Board

JOHANNES HECKMANN    GERHARD WITZANY

# INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, statement of changes in non-current assets, and notes, as well as the group management report prepared by Nabaltec AG, Schwandorf, for the financial year from January 1 to December 31, 2012. Preparation of the consolidated financial statements and group management report in accordance with the IFRS, as endorsed by the EU, and the supplementary provisions of German commercial law pursuant to Section 315a Paragraph 1 HGB ("German Commercial Code") are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on our audit findings, the consolidated financial statements of Nabaltec AG comply with the IFRS as adopted by the EU, the supplementary provisions of German commercial law pursuant to Section 315a Paragraph 1 HGB and give a true and fair view of the Group's net assets, results of operations and financial position in accordance with these requirements. The group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position, as well as the risks and opportunities of future development.

Nuremberg, March 8, 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann) Auditor

(Sauer) Auditor

# ANNUAL FINANCIAL STATEMENTS NABALTEC AG

(GERMAN COMMERCIAL CODE, SHORT VERSION)

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

# BALANCE SHEET

## AS OF DECEMBER 31, 2012

**ASSETS** (in EUR ’000)

| | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **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 | 156 | 188 |
| 2. Advance payments | 47 | 1 |
| | **203** | **189** |
| **II. Property, Plant and Equipment** | | |
| 1. Land, leasehold rights and buildings, including buildings on non-freehold land | 14,887 | 14,646 |
| 2. Technical equipment and machinery | 58,510 | 49,682 |
| 3. Other fixtures, fittings and equipment | 2,333 | 2,131 |
| 4. Advance payments as well as plant and machinery under construction | 2,572 | 11,527 |
| | **78,302** | **77,986** |
| **III. Financial Assets** | | |
| 1. Shares in affiliated companies | 163 | 163 |
| 2. Loans to affiliated companies | 8,702 | 9,271 |
| | **8,865** | **9,434** |
| | **87,370** | **87,609** |
| **B. Current Assets** | | |
| **I. Inventories** | | |
| 1. Raw materials and supplies | 10,672 | 12,891 |
| 2. Finished goods and purchased products | 10,645 | 11,263 |
| | **21,317** | **24,154** |
| **II. Accounts Receivable and other Assets** | | |
| 1. Trade receivables | 3,411 | 2,237 |
| 2. Other assets | 3,299 | 2,827 |
| | **6,710** | **5,064** |
| **III. Cash and cash equivalents** | **13,053** | **15,356** |
| | **41,080** | **44,574** |
| **C. Prepaid Expenses** | **65** | **68** |
| **TOTAL ASSETS** | **128,515** | **132,251** |

## EQUITY & LIABILITIES (in EUR '000)

| | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **A. Shareholders' Equity** | | |
| I. Subscribed capital | 8,000 | 8,000 |
| II. Capital reserve | 30,824 | 30,824 |
| III. Profit participation capital | 5,000 | 4,588 |
| IV. Accumulated profits | 197 | 0 |
| | **44,021** | **43,412** |
| **B. Non-current Assets Investments Grants** | **28** | **35** |
| **C. Provisions** | | |
| 1. Retirement benefit obligation and similar provisions | 11,177 | 9,892 |
| 2. Accrued taxes | 638 | 190 |
| 3. Other provisions and accrued liabilities | 2,580 | 3,253 |
| | **14,395** | **13,335** |
| **D. Accounts Payable** | | |
| 1. Liabilities arising from corporate bonds | 30,000 | 30,000 |
| 2. Payables to banks | 29,220 | 35,026 |
| 3. Trade payables | 9,369 | 8,592 |
| 4. Payables to affiliated companies | 524 | 459 |
| 5. Other payables<br>– thereof relating to taxes EUR 237 thousand (PY: EUR 203 thousand)<br>– thereof relating to social securities: EUR 22 thousand (PY: EUR 22 thousand) | 958 | 1,392 |
| | **70,071** | **75,469** |
| **TOTAL EQUITY & LIABILITIES** | **128,515** | **132,251** |

# INCOME STATEMENT

## FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

| (in EUR ’000) | 01/01 - 12/31/2012 | | 01/01 - 12/31/2011 | |
|---|---|---|---|---|
| 1. Revenue | | 129,213 | | 129,022 |
| 2. Change in finished goods | | –504 | | 3,133 |
| 3. Other capitalized own services | | 622 | | 609 |
| **Total performance** | | **129,331** | | **132,764** |
| 4. Other operating income<br>– thereof exchange rate differences: EUR 528 thousand (PY: EUR 681 thousand) | | 1,707 | | 1,699 |
| | | **131,038** | | **134,463** |
| 5. Cost of materials: | | | | |
| a) Cost of raw materials and supplies and purchased goods | 71,762 | | 74,223 | |
| b) Cost of purchased services | 1,098 | 72,860 | 763 | 74,986 |
| **Gross profit** | | **58,178** | | **59,477** |
| 6. Personnel expenses: | | | | |
| a) Wages and salaries | 17,928 | | 17,449 | |
| b) Social security and other pension costs<br>– thereof for pension costs: EUR 808 thousand (PY: EUR 673 thousand) | 3,992 | | 3,606 | |
| 7. Amortization/Depreciation of intangible assets and property, plant and equipment | 8,306 | | 7,313 | |
| 8. Other operating expenses<br>– thereof exchange rate differences: EUR 405 thousand (PY: EUR 355 thousand) | 21,658 | 51,884 | 21,894 | 50,262 |
| | | **6,294** | | **9,215** |
| 9. Income from securities and loans (financial assets)<br>– thereof from affiliated companies: EUR 204 thousand (PY: EUR 176 thousand) | 204 | | 176 | |
| 10. Interest and similar income | 277 | | 431 | |
| 11. Amortization of financial assets and securities in current assets<br>– thereof from affiliated companies: EUR 85 thousand (PY: EUR 0 thousand) | 85 | | 0 | |
| 12. Interest and similar expenses<br>– thereof for compounding interest: EUR 642 thousand (PY: EUR 580 thousand)<br>– thereof for profit participation rights capital: EUR 405 thousand (PY: EUR 405 thousand) | 5,299 | | 5,905 | |
| **Financial result** | | **–4,903** | | **–5,298** |
| **13. Result from ordinary operating activities** | | **1,391** | | **3,917** |
| 14. Exceptional expenditures | 267 | | 267 | |
| 15. Exceptional result | | 267 | | 267 |
| | | **1,124** | | **3,650** |
| 16. Income taxes | 466 | | 192 | |
| 17. Other taxes | 49 | 515 | 81 | 273 |
| **18. Net result for the year** | | **609** | | **3,377** |
| 19. Addition/Withdrawal profit participation capital | | –412 | | –3,377 |
| **20. Accumulated profit** | | **197** | | **0** |

# APPROPRIATION OF DISTRIBUTABLE PROFIT

The management board proposes that the distributable profit of the 2012 financial year, amounting to EUR 196,853.84 will be carried forward.

Schwandorf, April 2013

The Management Board

JOHANNES HECKMANN GERHARD WITZANY

# FURTHER INFORMATION

## FURTHER INFORMATION

## FINANCIAL CALENDAR 2013

| | |
|---|---|
| Interim Report 1/2013 | 28 May 2013 |
| Annual General Meeting | 20 June 2013 |
| Interim Report 2/2013 | 27 August 2013 |
| Corporate Bond: Annual Interest Payment | 15 October 2013 |
| Interim Report 3/2013 | 26 November 2013 |

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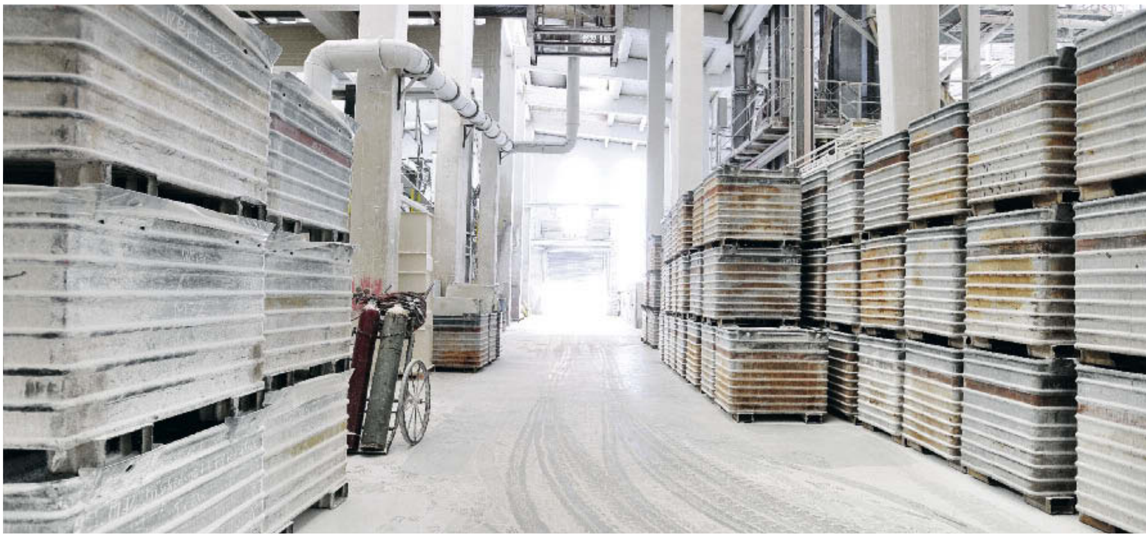
**Statements relating to the future**
This annual report contains statements relating to the future which are based on the Management Board's current estimations and prognosis as well as on information currently available. These statements relating to the future are not to be understood as guarantees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

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