ANNUAL REPORT 2011

OUR KNOW-HOW FOR YOUR SAFETY

Nabaltec

INTERNATIONAL

SUSTAINED GROWTH

HIGH-QUALITY

ALUMINUM HYDROXIDE-BASED AND ALUMINUM OXIDE-BASED

SPECIALTY PRODUCTS

NABALTEC IS ONE OF THE LEADING INTERNATIONAL MANUFACTURERS OF FUNCTIONAL FILLERS, CERAMIC RAW MATERIALS AND CERAMIC BODIES. AS THE WORLD'S ONLY SUPPLIER OF FINE PRECIPITATED ALUMINUM HYDROXIDE, WE MAINTAIN PRODUCTION SITES IN THE TWO KEY MARKETS, EUROPE AND THE US (SCHWANDORF AND KELHEIM, GERMANY, AND CORPUS CHRISTI, USA).

NABALTEC SERVES HIGHLY SPECIALIZED MARKETS WORLDWIDE AND ITS EXPORT RATIO IS ABOUT 70%. WE WORK WITH AROUND 70 AGENCIES WORLDWIDE AND SUPPLY OUR PRODUCTS TO ABOUT 60 COUNTRIES.

NABALTEC WORLDWIDE

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

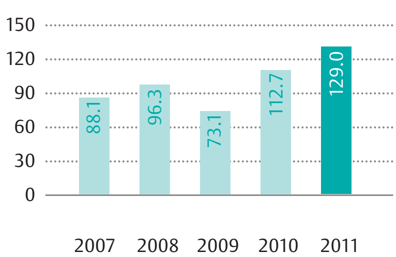
KEY FIGURES NABALTEC GROUP

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

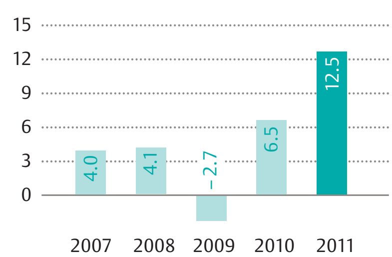
(in EUR million)	2011 (IFRS)	2010 (IFRS)	Change
Revenues			
Total revenues	129.0	112.7	14.5%
thereof			
Functional Fillers	84.8	75.9	11.7%
Technical Ceramics	44.2	36.8	20.1%
Foreign share (%)	68.4	69.9	
Earnings			
EBITDA	20.6	14.3	44.1%
EBIT	12.5	6.5	92.3%
Consolidated result after taxes*	3.6	1.8	100.0%
Earnings per share (EUR)*	0.45	0.22	104.5%
Financial position			
Cash flow from operating activities	13.6	15.4	– 11.7%
Cash flow from investing activities	– 15.5	– 7.5	106.7%
Assets, equity and liabilities			
Total assets	165.4	166.0	– 0.4%
Equity	46.9	42.1	11.4%
Non-current assets	117.5	110.6	6.2%
Current assets	47.9	55.4	– 13.5%
Employees ** (number of persons)	400	372	7.5%

* after non-controlling interests
** on the reporting date, including trainees

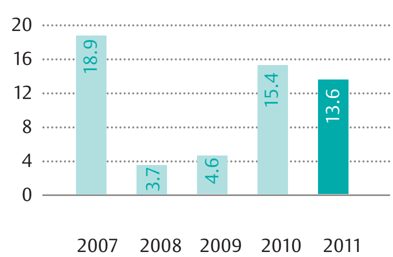
REVENUES (in EUR million)



EBIT (in EUR million)



CASH FLOW FROM OPERATING ACTIVITIES (in EUR million)



BUSINESS DIVISIONS

THE ORGANIZATION OF THE COMPANY INTO TWO INDEPENDENT BUSINESS DIVISIONS IS THE BASIS FOR MEETING THE INDIVIDUAL REQUIREMENTS OF OUR CUSTOMERS. WE ARE AMONG THE LEADING SUPPLIERS WORLDWIDE IN EACH OF OUR TWO DIVISIONS. KNOW-HOW, EXPERIENCE AND THE IMPLEMENTATION OF COMPLEX PROCESSES: THESE ARE THE FOUNDATIONS FOR OUR PRODUCTS, WHICH ARE DEVELOPED AND MANUFACTURED TO MEET HIGHLY SPECIFIC REQUIREMENTS.

FUNCTIONAL FILLERS	Nabaltec	TECHNICAL CERAMICS
Flame Retardants Additives		Ceramic Raw Materials Ceramic Bodies

APPLICATIONS

THE RANGE OF APPLICATIONS FOR NABALTEC PRODUCTS IS EXTREMELY DIVERSE. THEY ARE PREFERRED WHENEVER UTMOST QUALITY, SAFETY, ECO-FRIENDLINESS AND DURABILITY ARE REQUIRED.

1. FLAME RETARDANTS/FLAME RETARDANT FILLERS

- eco-friendly aluminum hydroxide as a halogen-free flame retardant;
- fume-reducing, non-toxic and efficient flame retardant;
- used e.g. for cables in tunnels and airports;
- eco-friendly aluminum monohydrate (boehmite) with high thermo-stability, e.g. for flame retardant, heavy metal-free printed circuit boards;
- ACTILOX® CAHC as a synergistic flame retardant, e.g. in combination with zinc borate;

2. ADDITIVES

- materials for eco-friendly polymer stabilizers, e.g. as co-stabilizers in PVC products (especially window profiles);
- process additives for energy-efficient compounding, e.g. the extrusion of mineral-filled cable compounds;

3. ENVIRONMENTAL TECHNOLOGY

- aluminum hydroxide as a raw material for the efficient elimination of fumes in power plants;
- boehmite as a raw material in alternative energy storage, e.g. lithium ion batteries;
- boehmite as a functional raw material in catalyzers, e.g. as a selective adsorbent for heavy metals;

4. CERAMIC RAW MATERIALS

- Aluminum oxide and sintered mullite;
- high melting point, electric insulation, very high mechanical strength and resistance to changes in temperature;
- used e.g. in the refractory industry, the automotive sector, the polishing industry and in glass and ceramics production;

5. CERAMIC BODIES

- highly specialized ready-formulated mixtures for the production of technical ceramics;
- abrasion resistance, resistance to corrosion, electrical insulation properties, high surface quality;
- used e.g. to prevent abrasion and protect people and vehicles, as well as in engineering ceramics.

DEVELOPING IDEAS TO IMPROVE SAFETY AND ECO-FRIENDLINESS, CONTINUING TO DEVELOP INNOVATIVE PRODUCTS TOGETHER WITH THE USERS, OUR CUSTOMERS, AS RELIABLE LONG-TERM PARTNERS, AND CREATING COMPETITIVE ADVANTAGES: THAT IS OUR BUSINESS PHILOSOPHY.

We are the specialist in aluminum hydroxide-based functional fillers for the plastics industry and raw materials for high-quality technical ceramics for a wide variety of applications and for very specific requirements.

Aluminum hydroxide, aluminum oxide and other mineral materials are the starting point of our success. We refine these materials into functional products of consistently excellent quality and with properties which are developed to meet the specific needs of the market. Accordingly, we offer our products' users top quality: quality which is clearly measurable, although not always apparent to the naked eye. As a result, we have won the appreciation not just of our customers, but also the people whose safety and quality of life are improved by Nabaltec products.

These are the means by which we are meeting our ambition of becoming the quality market leader in our target markets. We are continually expanding this market positions by offering products which have been recognized multiple times for their innovativeness.

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MANAGEMENT BOARD FOREWORD

GERHARD WITZANY
born 1947
commercial affairs
including distribution, procurement, marketing, finances, controlling, human resources

JOHANNES HECKMANN
born 1965
technical affairs
including production, research and development

Ladies and Gentlemen,
Dear Shareholders and Business Partners,

Nabaltec AG had a record-breaking year in 2011, with revenues of EUR 129.0 million (up 14.5%), operating result (EBIT) of EUR 12.5 million (up 92.3%) and earnings per share of EUR 0.45 (up 104.5%).

These records were mainly attributable to the company's performance in the first half of the year, which exceeded our expectations. Demand growth slowed considerably in the third quarter, causing us to proceed rather cautiously at the end of the year. As a result of the uncertain economic environment, many of our customers cut their stocks and inventories at the end of the year, in some cases liquidating them entirely. However, the actual course of business in the fourth quarter demonstrated once again the fundamental growth drivers in our markets are intact. Business stabilized at a more modest level in the fourth quarter, and we are optimistic about 2012.

This cautious but highly justified optimism about 2012 is based in no small part on the operating and market milestones which were achieved in 2011. Nabaltec currently enjoys an outstanding reputation in its markets, as was reconfirmed in a recent customer survey. We have won the appreciation of our customers over the years through our reliability as a supplier, top quality and strong customer orientation, which is evident as early as the development stage. Our customers respect the fact that, in Nabaltec, they have a solid and reliable partner with clear decision-making processes and responsibilities.

We also expanded our customer base in 2011, e.g. in South Korea and Japan, markets where the entry barriers are high. Once again, we were able to successfully complete multiple approval procedures, laying the groundwork for long-term business relationships with the relevant customers. The receipt of numerous awards in 2011 confirmed once again that we are on the right track for our company and shareholders. We received the “TOP JOB” award, a quality seal for employers, for the third time, were honored as one of the “TOP 100” most innovative mid-size German companies for the fifth time, and we were a finalist in the “Entrepreneur of the Year” competition, which lays particular focus on innovativeness, for the third time.

We entered 2012 with a strong tailwind, as the reduction in inventories all along the value chain in our target markets is now generating faster growth in demand. This is evident from the fact that incoming orders are back up. This growth should continue through 2012 if conditions remain unchanged. We are expecting growth to come through an expansion in production quantities and an improved product mix, especially for high-margin products. However, the continuing sovereign debt and financial crisis in Europe and the US, as well as the diminished growth outlook for the global economy in recent months, have generated a great deal of uncertainty and volatility in the capital markets. The considerable scope of this uncertainty makes it difficult to provide a reliable forecast for Financial Year 2012 at this time. Provided economic conditions do not worsen further, we expect continued revenue growth in 2012, although the growth rate should be lower than in 2011. In a stable economic environment, revenue growth of more than 5% should be possible. As far as the operating result (EBIT) 2012 is concerned, Nabaltec expects a margin similar to that of last year.

We would like to thank our employees, whose hard work and accomplishments contributed to our succcess this year. We would also like to thank our partners and investors for their trust in Nabaltec AG.

Schwandorf, March 2012

Sincerely yours,

JOHANNES HECKMANN
Member of the Board

GERHARD WITZANY
Member of the Board

10 QUESTIONS FOR THE MANAGEMENT BOARD

10 ANSWERS

"WE WILL PROVE THAT WE ARE A COMPANY WITH HIGH EARNING POWER, AND OUR GOAL IS TO CONSISTENTLY POST DOUBLE-DIGIT EBIT MARGINS, AS WILL BE REFLECTED IN OUR SHARE PRICE OVER THE LONG TERM."

Question 1: At the end of 2010, you raised EUR 30 million with your corporate bond issue. How have you invested these additional funds?

Gerhard Witzany: As announced, we invested in expanding our production capacity for high added-value products like fine precipitated hydroxides and reactive aluminum oxides. We will continue to do so in 2012 as well. We have consistently pursued our goal of raising added value while also reducing our bank debt.

Question 2: Compare the situation today to the situation five years ago: how have the markets changed?

Stricter statutory regulations in favor of halogen-free products

Johannes Heckmann: In a great many countries, statutory regulations for flame retardants have become stricter, which benefits halogen-free products (RoHS, REACH). In addition, there is increased awareness in the industry that successful differentiation is possible with eco-friendly products. The latter trend has aided the development of our boehmite product, which is used as a halogen-free flame retardant in printed circuit boards, and is therefore a key component in the transition towards green electronics. In the refractory industry, demand for more effective products is growing steadily, e.g. in order to raise durability in steel production. We are responding to this trend with our highly specialized reactive alumina.

Question 3: Aren't you concerned that the big corporations will take a greater interest in your market?

We serve highly demanding niche markets

Johannes Heckmann: We operate in highly demanding niche markets which are often too small for big corporations. A good reputation as a reliable high-quality partner and years of experience are indispensable prerequisites for success in this market. The highly capital-intensive production process also represents a major market entry barrier, so that the investment risk for newcomers is high.




Question 4: What are your competitive advantages?

Gerhard Witzany: By collaborating very closely with our customers, we are in a position to develop innovative products which offer customers clear practical benefits. We have consistently improved in this regard in recent years, laying the groundwork for our rapid growth. The speed with which decisions are made and implemented in our company is certainly a clear competitive advantage, and is reinforced by our financing structure.

Nabaltec products offer benefits in application

Question 5: ... and what are your disadvantages?

Gerhard Witzany: Our capitalization may represent a disadvantage relative to a big corporation. But since our IPO in 2006 and our 2010 bond issue on Bondm in Stuttgart, we have established outstanding connections with the capital market, and have therefore significantly improved our ability to obtain capital. As a result, we actually don't think that we are at a real disadvantage.

Question 6: What is your market position today, and where do you see Nabaltec in five to ten years?

Johannes Heckmann: Thanks to our clear product focus, we are now a global leader in mineral flame retardants. We are constantly trying to develop new applications, as we will demonstrate with our additives and with our boehmite. In our new target markets as well, our goal is to become a leading position with a global presence.

A global leader in mineral flame retardants

Question 7: Why is it that your share price doesn't fully reflect your success?

Gerhard Witzany: We performed very well in 2011 relative to indices like the SDAX. Small caps are often harder hit in times of crisis. However, we will prove that we are a company with high earning power, and our goal is to consistently post double-digit EBIT margins, as will be reflected in our share price over the long term.

"THE SPEED WITH WHICH DECISIONS ARE MADE AND IMPLEMENTED IN OUR COMPANY IS CERTAINLY A CLEAR COMPETITIVE ADVANTAGE, AND IS REINFORCED BY OUR FINANCING STRUCTURE."

Question 8: What can we expect from Nabaltec in 2012?

Double-digit margin already achieved during the fiscal year

Gerhard Witzany: We have already achieved the goal of a double-digit margin this year, and we are now working to make it permanent. We are in a position to do so from the cost side as well as given the earning power of our products. Assuming a healthy market environment, a strong product mix combined with higher sales due to our newly added production capacity will provide the best possible conditions for accomplishing our goal.

Question 9: What makes you so confident that you will be able to stay on track over the long term?

Gerhard Witzany: Over the past five years, we have grown at an average rate of about 10% a year, despite the considerable economic volatility over that period. Our medium- and long-term growth drivers, safety, eco-friendliness and durability, are outstanding. The conditions exist for above-average growth in our key products.

Question 10: What do you think will be the key growth markets and trends of the future?

Johannes Heckmann: The electronics market is driven by the motto "reduce use of hazardous substances for the well-being of people and the environment". We are taking advantage of this with our array of boehmite qualities. Applications in key cable markets, such as the IT and automotive industries, and renewable energy as well (wind and solar power), are also playing an increasingly significant role. Electromobility will also become more important for the cable & wire industry in the future. We will see these trends worldwide. The refractory industry is also faced with constant new challenges, and the calls for cement-free refractory bodies, i.e. filled almost entirely with aluminum oxide, are getting louder all the time. Shorter maintenance intervals and longer durability play a key role in the steel industry. The growth trends in the refractory industry will materialize above all in Asia and India, but also in Latin America, e.g. Brazil.

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,
Dear Shareholders,

While Nabaltec benefited from the economy's faster-than-expected recovery in the first half of 2011, the second half of the year was characterized by economic uncertainty as a result of the continuing financial and debt crisis. Nevertheless, Nabaltec AG was able to post record results: never before in its history did the company earn higher revenues in any Financial Year. A very solid financial structure and liquidity, thanks in part to the successful bond issue in October 2010, as well as the successful introduction of new product applications, laid the framework for a strong 2011, as well as the fact that the outlook for 2012 remains intact. Although the weakening of the global economy has not affected demand in our consumer industries to a significant extent yet, the Supervisory and Management Boards have been devoting and are continuing to devote special attention to observing market developments very closely in order to be able to act quickly at any time.

Nabaltec reports record-breaking revenues

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.

In the 2011 reporting year, the Supervisory Board convened for four regular sessions: on 4 April 2011, on 9 June 2011, after the Annual General Meeting, on 29 September 2011 and on 16 December 2011. No meetings were held in 2012 prior to the Supervisory Board meeting of 23 April, which votes on adoption of the financial statements. All members were present at each session in 2011. The members of the Supervisory Board also conducted deliberations in writing and over the phone. Where necessary, the Supervisory Board has adopted resolutions outside of the regular meetings. Draft resolutions were approved in writing on seven occasions in 2011. For example, the age limit in the Rules of Procedure for the Supervisory Board was modified and the goals for composition of the Supervisory Board required by the German Corporate Governance Code were adopted. In addition, Messrs. Johannes Heckmann and Gerhard Witzany were reappointed to the Nabaltec Management Board through 24 August 2016.

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 2011 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 Dr.-Ing. Jürgen G. Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the past Financial Year, particularly the efficiency of its procedures and the timely supply of adequate information.

No conflicts of interest in the Supervisory Board

FOCUS OF DELIBERATIONS

Management Board regularly reports to the Supervisory Board

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 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 and the assets and financial position. In addition, intensive consideration was given to the following issues in 2011:

- the 2010 annual financial statements and consolidated financial statements;
- corporate governance, particularly the future composition of the Management Board and Supervisory Board and the adoption of objectives for the composition of the Supervisory Board;
- the reappointment of Messrs. Johannes Heckmann and Gerhard Witzany to the Management Board;
- negotiations pertaining to raw materials for the years 2012-2014;
- examining opportunities for collaboration;
- planning for 2012 and mid-term planning through 2014;
- investment and financing planning for 2012-2014.

Another focus of the deliberations in 2011, as well as the supervisory and monitoring activity, especially in the session 2012 slated for adoption of the 2011 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.

Declaration of Compliance also available online

On 11 March 2011, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2011, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. The German Corporate Governance Code was unchanged during the reporting year, and remains in effect as amended on 26 May 2010. The main preparations for issuance of the 2012 Declaration of Compliance were made at the Supervisory Board meeting on 16 December 2011. Further information about corporate governance at Nabaltec can be found in the Corporate Governance Report in this Annual Report.

MANAGEMENT BOARD COMPENSATION

With the reappointment of Messrs. Johannes Heckmann and Gerhard Witzany to the Nabaltec Management Board, the Supervisory Board has reviewed the fairness of the compensation paid to each member of the Management Board, and it has confirmed that this compensation is fair.

2011 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte & Touche receives audit mandate

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 9 June 2011. 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 2011 audit was on the "procurement" process.

Unqualified auditor's opinion issued

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 23 April 2012. 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 "procurement" unit. The auditor was not able to find any major weaknesses in this system. The Management Board and the auditors have answered all of the Supervisory Board's questions fully and to its satisfaction.

After conducting an independent review of the annual financial statements and consolidated financial statements, management report and consolidated management report, the Supervisory Board has made no objections, and accepts the conclusions of the audit conducted by Deloitte & Touche GmbH. The Supervisory Board accordingly approved the annual financial statements and consolidated financial statements for 31 December 2011 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks go out to all of the employees of Nabaltec AG, who were also 2011 highly successful in providing innovative ideas and products in economically uncertain times, and were therefore able to retain utmost customer satisfaction.

Schwandorf, 23 April 2012

DR. LEOPOLD VON HEIMENDAHL
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

Nabaltec voluntarily complies with the Code's recommendations

Nabaltec AG made a voluntary commitment to comply with the recommendations of the German Corporate Governance Code (the "Code") in 2007. In 2012, the company will follow the recommendations of the Code as amended on 26 May 2010, with few exceptions. Those exceptions will be disclosed in a joint Declaration of Compliance of 9 March 2012 from the Supervisory and Management Boards and grounds will be provided for those exceptions.

A comparison of the prior Declaration of Compliance of 11 March 2011 with the corporate governance practices actually implemented in Financial Year 2011 revealed no deviations.

The Articles of Association of Nabaltec AG were amended by general meeting resolutions of 9 June 2011. The general meeting created new authorized capital and new conditional capital, as well as once again authorizing management to issue convertible bonds and/or warrant bonds. The Rules of Procedure for the Management Board remained unchanged in 2011. In the Rules of Procedure for the Supervisory Board, the age limit rule was amended on 12 February 2011. Under the rule change, the Supervisory Board may only nominate persons to the general meeting for election to the Supervisory Board who would be less than 70 years old upon the commencement of their term. The right of the shareholders to nominate candidates remains unaffected by this change.

SHAREHOLDERS AND THE GENERAL MEETING

Attendance at the general meeting of 9 June 2011 in Amberg was over 73%. The general meeting approved all of the agenda items which were put up for voting. The individual voting results may be viewed on the company's website www.nabaltec.de.

General Meeting voting results available online

For several years, Nabaltec AG has offered its shareholders the option of using a company-appointed proxy to exercise their voting rights on their behalf. As a result of this option, even shareholders who do not personally take part in the general meeting can cast their vote. On the other hand, the Articles of Association of Nabaltec AG do not provide for postal voting.

INTERACTION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The interaction of the Management and Supervisory Boards is described in detail in the Supervisory Board's report.

THE MANAGEMENT BOARD

No conflicts of interest arose in the past Financial Year. The members of the Management Board, Johannes Heckmann and Gerhard Witzany, do not serve on the supervisory boards of other publicly traded companies.

In making appointments to executive positions, the Management Board looks for the best possible suitability and abilities as well as diversity, and strives for adequate inclusion of women as well.

THE SUPERVISORY BOARD

The Nabaltec AG Supervisory Board consists of three members and therefore does not form committees. Detailed information about the Supervisory Board's work and consultations in Financial Year 2011 can be found in the Supervisory Board's report. In its own view, the Supervisory Board has a sufficient number of independent members. No conflicts of interest arose in the reporting year.

GOALS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The goals for the composition of the Supervisory Board were published in the 2010 Corporate Governance Report. These goals remained unchanged in 2011. There were no personnel changes in the Supervisory Board in 2011.

No personnel changes in the Supervisory Board

COMPENSATION OF CORPORATE OFFICERS

The compensation of corporate officers can be found in the consolidated notes.

ACCOUNTING AND AUDITING

The general meeting of 9 June 2011 chose Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as the auditor of the annual and consolidated financial statements for Financial Year 2011. The audit mandate was issued by the Supervisory Board. Before recommending the auditor's selection to the general meeting, the Supervisory Board obtained a declaration from the auditor with respect to the personal and commercial circumstances of the firm, and this declaration gave no cause for objections. As in prior years, the Supervisory Board agreed with the auditor that the Supervisory Board Chairman would be immediately notified if there any grounds for exclusion or prejudice are discovered during the audit or if any facts come to light which might imply the inaccuracy of the declaration issued by the Management and Supervisory Boards pursuant to § 161 of the German Stock Corporation Act.

SHARES OF THE CAPITAL STOCK HELD BY CORPORATE OFFICERS
(as of 31 December 2011)

	shares
Management Board	
Johannes Heckmann	1,295,250
Gerhard Witzany	1,254,310
Supervisory Board	
Dr. Leopold von Heimendahl	44,200
Dr. Dieter J. Braun	43,000
Prof. Dr.-Ing. Jürgen G. Heinrich	1,700

Nabaltec AG itself does not hold any of its own shares. Based on the general meeting resolution of 9 June 2011, it is authorized to buy back up to 10% of its capital stock through 8 June 2016.

Shareholders authorize Nabaltec to buy back own shares

STOCK OPTION PROGRAMS

At the moment, Nabaltec AG does not have any stock option programs or similar securities-based incentive systems.

DECLARATION OF COMPLIANCE PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT

The Management Board and Supervisory Board adopted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act on 9 March 2012. This Declaration states and cites grounds for any deviations from the recommendations of the German Corporate Governance Code, as amended on 26 May 2010. The text of the Declaration can be found below.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE FOR THE 2012 FINANCIAL YEAR

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

Nabaltec voluntarily complies with the recommendations of the German Corporate Governance Code

Since filing its first Declaration of Compliance on 26 March 2007, Nabaltec AG has complied with the recommendations of the German Corporate Governance Code ("the Code") in Financial Years 2007 to 2011, with the exceptions noted in the Declarations of Compliance for those years. In Financial Year 2012, the Company will comply with the recommendations of the Code as amended on 26 May 2010 and published in the electronic Bundesanzeiger [Federal Gazette], with the following exceptions:

- The Company will not transmit the invitation to the general meeting and the invitation documents electronically to financial services providers, shareholders and shareholder associations (2.3.2 of the Code). Nabaltec AG sends invitations to the general meetings to its shareholders via the depositaries, and the invitation is published in the electronic Bundesanzeiger [Federal Gazette]. In addition, the invitation, the Annual Report and any other general meeting documents are available for download from the Company's website. As a result, the Company believes that the shareholders have proven and secure access to information, and the Company sees no need for an additional electronic transmission.

- A directors and officers (D&O) policy is in place for members of the Supervisory Board, but no deductible has been stipulated for insured persons (3.8 of the Code). The Management and Supervisory Boards do not believe that such a deductible would have the effect of improving the motivation and sense of responsibility of the Supervisory Board members in performing their assigned functions.

- The Supervisory Board will not appoint a Management Board chairman or spokesman for the time being (4.2.1 of the Code). The two Management Board members operate on an equal footing. The Supervisory Board intends to continue this successful arrangement, and feels that there is no cause to elevate one of the two Management Board members over the other by appointing one member to the Management Board chairman or spokesman.

- Management Board remuneration will not be itemized and disclosed by name, and the Corporate Governance Report will not include a compensation report (4.2.4 and 4.2.5 of the Code). Nabaltec AG complies with all duties for the disclosure of management board compensation pursuant to IFRS and the German Commercial Code, and deems those disclosures to be sufficient.

The company is to have access to experienced Management Board members

- There is no defined age limit for Management Board members (5.1.2 of the Code), in order to give the Company access to the expertise of older and more experienced management board members and in order to avoid precluding the optimal composition of the Management Board based on nothing more than formal considerations.

- The Supervisory Board does not form any committees, and in particular, does not have a committee on auditing or nomination (5.3.1, 5.3.2 and 5.3.3 of the Code). The Supervisory Board numbers three persons, which is adequate for the size of the Company. Since any Supervisory Board committee would also require at least three members, the Supervisory Board currently deems the formation of committees to be neither necessary nor expedient, and since it works effectively in the general committee.

- The Supervisory Board has not set any specific targets with respect to the adequate representation of women in the Supervisory Board and will therefore not include any such specific targets in the nominations it makes to the General Meeting. The Corporate Governance Report will not contain any statements with respect to any such specific targets, or to the status of their implementation (5.4.1 (2) and (3) of the Code). The Supervisory Board does not consider the definition of specific targets, i.e. absolute numbers, quotas and deadlines for implementation, to be appropriate in connection with the inclusion of women in the Supervisory Board. It is of the opinion that the Supervisory Board can only be formed in the best interest of the company and its shareholders if candidates to the Board are selected based not on their gender, but on their expertise and abilities.

The Supervisory Board relies on the expertise and abilities of its members

- Supervisory Board members receive fixed compensation and a meeting allowance, but no performance-based compensation. The position of deputy chairman of the Supervisory Board does not affect compensation. Supervisory Board compensation is not itemized and disclosed by name (5.4.6 of the Code). The Management and Supervisory Boards deem the current level of compensation for members of the Supervisory Board, which is defined by the general meeting, to be reasonable, and disclosure of total Supervisory Board compensation in the Consolidated Notes to be sufficient.

No performance-based compensation for the Supervisory Board

- The Company will not publish its consolidated financial statements within 90 days of the close of each financial year and interim reports within 45 days of the close of each reporting period (7.1.2 of the Code). The Company's consolidated financial statements will to be published within four months of the close of each financial year and interim reports within two months of the close of each reporting period. In other words, the Company will voluntarily comply with the statutory deadlines for the regulated market and the stock exchange rules for the Prime Standard segment which are deemed reasonable by the Management Board and Supervisory Board.

Schwandorf, 9 March 2012

The Management Board:

JOHANNES HECKMANN

GERHARD WITZANY

The Supervisory Board:

DR. LEOPOLD VON HEIMENDAHL

DR. DIETER J. BRAUN

PROF. DR. JÜRGEN G. HEINRICH

NABALTEC SHARE AND BOND

NABALTEC SHARE ON THE CAPITAL MARKET

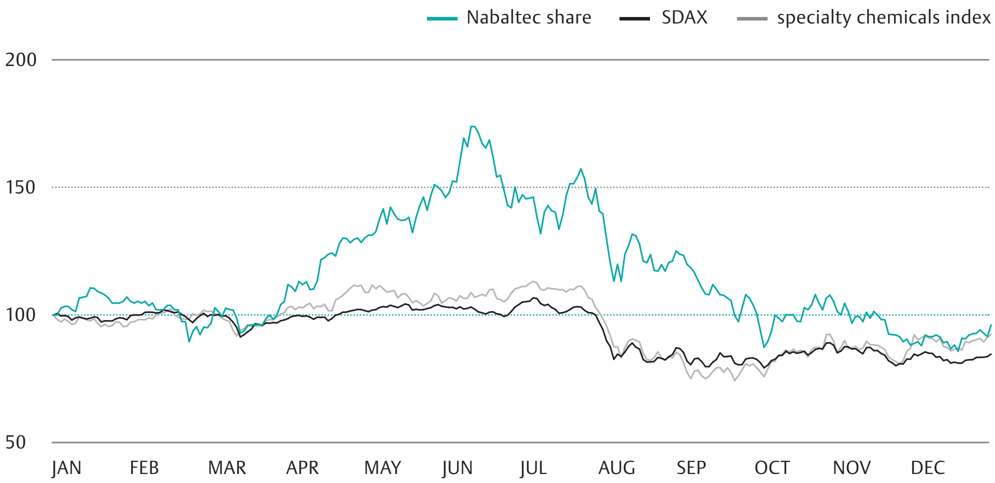
Nabaltec has outperformed SDAX and specialty chemicals index

The performance of Nabaltec share fluctuated heavily in Financial Year 2011, and can be divided into two clear segments. However, Nabaltec was able to clearly outperform the stock indices of relevance, the SDAX and the specialty chemicals index, both sub-annually and over a 12-month period. Nabaltec's strong performance in 2010 carried over into the first half of 2011, as the share reached a high of EUR 13.00 in June and finished the first half up 57.7%. In the remainder of the year, however, the continuing sovereign debt and financial crisis in Europe and the US, as well as diminished growth expectations for the global economy, generated considerable uncertainty and a high volatility in the capital markets, especially among small caps.

Nabaltec share also underwent a correction, but was able to rebound slightly in the fourth quarter before falling to EUR 6.32 on 16 December 2011, its low for the year. At the end of the year, Nabaltec share was trading at EUR 7.10, precisely the same as its closing price for 2010.

The stock indices of relevance for Nabaltec, the SDAX and the specialty chemicals index, were down 14.5% and 7.5% respectively on the year. In other words, Nabaltec share once again clearly outperformed the relevant indices in the year 2011.

PERFORMANCE OF NABALTEC SHARE 2011 (XETRA, indexed)



At the end of 2011, Nabaltec AG's market capitalization was EUR 56.8 million, the same as on 31 December 2010.

KEY DATA FOR NABALTEC SHARE (XETRA)

	2011	2010
Number of shares	8,000,000	8,000,000
Market capitalization (cutoff date, in EUR million)	56.80	56.80
Average price (in EUR)	8.58	5.15
High (in EUR)	13.00	7.78
Low (in EUR)	6.32	3.70
Closing price (cutoff date, in EUR)	7.10	7.10
Average daily turnover (in shares)	11,462	8,648
Earnings per share* (in EUR)	0.45	0.22

* after non-controlling interests

TRADING VOLUME

Trading volume clearly increased

Nabaltec share's average XETRA daily trading volume was 11,462 in 2011, well above last year's value of 8,648 shares. Trading volume was subject to sharp fluctuations in 2011. A total of more than 2.9 million Nabaltec shares were traded in XETRA during the reporting year, or about 93.5% 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 has been performed by VEM Aktienbank AG since 2009.

EARNINGS PER SHARE

Earnings per share doubled

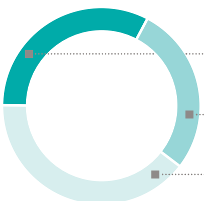
Earnings per share (EPS) were EUR 0.45 in 2011 (after non-controlling interests), compared to EUR 0.22 the year before. Nabaltec AG calculates earnings per share based on the average number of shares in circulation, in accordance with IAS 33. There was no dilution in 2011.

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 32.0% of the company's capital stock and the Witzany family held 29.8%. The residual shares are in free float.

SHAREHOLDER STRUCTURE (in %)



32.0	Heckmann family
29.8	Witzany family
38.2	Free float

ANALYSTS' RECOMMENDATIONS

Analysts issued buy recommendations

Hauck & Aufhäuser has been following Nabaltec share consistently since 2011, and published 18 studies and updates last year. Hauck & Aufhäuser issued a buy recommendation in each of its analyses, and confirmed a price target of EUR 15.00 in its study of 14 December 2011.

VEM Aktienbank also published four studies on Nabaltec share in 2011, issuing a buy recommendation in each of its analyses. In VEM Aktienbank's study of 29 November 2011, a price target of EUR 13.00 was set.

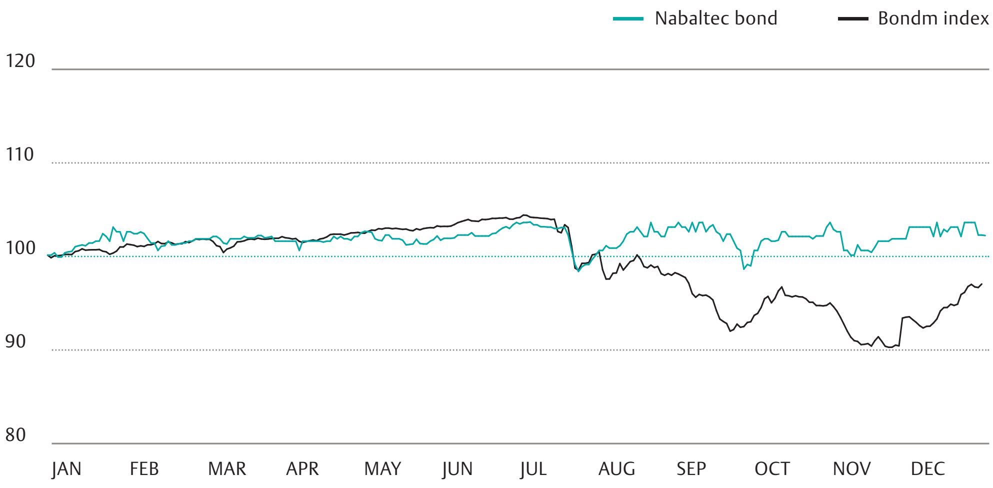
Recommendations of Nabaltec share can be found online in the Investor Relations section of www.nabaltec.de, under Analysts' Recommendations.

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 the Stuttgart Stock Exchange, has a volume of EUR 30.0 million and a term of five years. Price drops on the stock market, particularly starting in August 2011, weighed heavily upon the bond market as well. As a result, the Bondm index fell sharply, dropping to a low of 90.18 in December and finishing the year at 92.43. Bucking this downtrend, the price of Nabaltec bond remained stable at over 100 throughout 2011, with two brief exceptions in August and October, and Nabaltec bond was trading at 103.50 at the end of Financial Year 2011. The bond carries an interest rate of 6.50%, and the first coupon payment was made in October 2011.

PERFORMANCE OF NABALTEC BOND 2011 (Stuttgart Stock Exchange)



CAPITAL MARKET COMMUNICATIONS

Nabaltec AG continued its investor relations activities in Financial Year 2011. It took part in several investor and analyst conferences, and was represented at road shows in other European countries and at Deutsche Börse's Entry and General Standard Conference, held in Frankfurt in May 2011.

Intensive dialogue with the capital market

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.

Corporate news on www.nabaltec.de

Investors can find all the information they need about Nabaltec share and Nabaltec bond in the Investor Relations section of the company's website, www.nabaltec.de, as well as other 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%
Units	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


WE MAKE THE WORLD
SAFER

Nabaltec flame retardants in public transportation, e.g. in cable coatings or the interior

INNOVATIONS IN FLAME RETARDATION

We encounter Nabaltec AG's innovations every day, and almost everywhere, even when we don't see them. They improve our safety and help the environment at the same time.

For example, Nabaltec's flame retardants are used in Deutsche Bahn's ICE train, in cable coatings and in certain plastics which are used in interiors. They serve one goal: delaying the outbreak of fire in order to give people more time to take countermeasure or to flee. If a fire does break out, they minimize the development of toxic smoke and actively help to save lives. After all, toxic smoke is the most hazardous aspect of a fire, much more than the flames themselves. Nabaltec's products are also used in the printed circuit boards of laptops and cell phones to improve safety and help to protect the environment.

MARKET DRIVER: ENVIRONMENTAL PROTECTION

The environmental aspect is one of the key market drivers for functional fillers. Safety regulations in means of transportation, the trend towards eco-friendly electronic products and the numerous safety considerations in the construction sector are boosting demand for flame retardant fillers. Independent market forecasts expect global demand to grow at a rate of 6.5% a year through 2014. Moreover, the move away from stabilizers containing heavy metals, which is voluntary for now but which will be required by law starting in 2015, will result in growing demand for eco-friendly mineral additives.

DEVELOPING SOLUTIONS TOGETHER FOR
A SAFER WORLD

COOPERATION WITH CUSTOMERS REPRESENTS A KEY ASPECT OF NABALTEC'S APPROACH: ANTICIPATION, INNOVATION AND MUTUAL SUCCESS. INDIVIDUAL SOLUTIONS AND QUALITIES ARE DEVELOPED IN CLOSE COOPERATION WITH CUSTOMERS.

THE BUSINESS DIVISION "FUNCTIONAL FILLERS"

In our business division "Functional Fillers", we develop, manufacture and market highly specialized products based on mineral raw materials for a wide variety of applications, above all in the plastics industry. We have been successfully serving this market for many years with our two market segments, "Flame Retardants" and "Additives".

We work very closely with our customers through our technologically integrated sales team. In this way, current market trends can flow directly into our new or optimized products, and qualities and properties can be adapted and/or improved accordingly.

Nabaltec AG is among the leading manufacturers of aluminum hydroxide-based functional fillers today. In addition to its goal of becoming one of the Top 3 suppliers in our markets, Nabaltec also strives to be the quality leader.

A WIDE VARIETY OF INDUSTRIES AND APPLICATIONS

Key customer industries include cable manufacturers and compounders, i.e. manufacturers of specific plastic mixtures which are then processed in the industrial sector. Our products are able to meet ever-stricter standards with respect to safety, eco-friendliness and processing, and are used e.g. for cables in tunnels and airports, in high-rise buildings, in data processing and in the insulation industry. In addition, we are always prepared to develop individual products to meet the specific needs of our customers. Our fillers also offer a much better price performance ratio than conventional alternatives due to their lower price.

Rising standards with respect to product properties

FLAME RETARDANT FILLERS: ECO-FRIENDLY AND WITH HIGH QUALITY

Halogen-free flame retardant fillers are on the rise all over the world due to their environmental friendliness, and are increasingly replacing halogenated alternatives. Our innovative products and patented CD technology already provide us with clear competitive advantages. By expanding our capacity and focusing on high-quality, innovative and high added-value products, we believe that we will be optimally positioned to benefit from the expected market growth in the "Flame Retardants" market segment.

Flame retardant fillers on the rise worldwide

Our boehmite-based products currently occupy a special place in our product portfolio. Developed for use in catalysis and for high-temperature batteries, a very important and dynamic growing application was added not two years ago: use as flame retardants in printed circuit board production. The potential for growth is outstanding and other possible applications have not even been developed yet.

ADDITIVES: HIGHLY EFFECTIVE MINERAL ADDITIVES

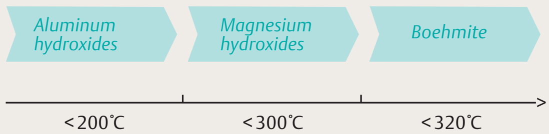
Our "Additives" market segment develops mineral eco-friendly additives for plastics and the PVC industry to be used as co-stabilizers to improve the processing of plastics and to improve its ability to withstand external factors (e.g. heat and light). Our additives are used in window profiles and as processing aids for energy-efficient compounding methods, e.g. the extrusion of cable compounds with mineral fillings.

Since PVC is a hard and relatively brittle thermoplastic, softening agents and stabilizers are frequently used when processing it. These additives improve the plastic's ability to withstand environmental and chemical conditions and allow processing under special thermal conditions.

Additives improve the endurance of plastics

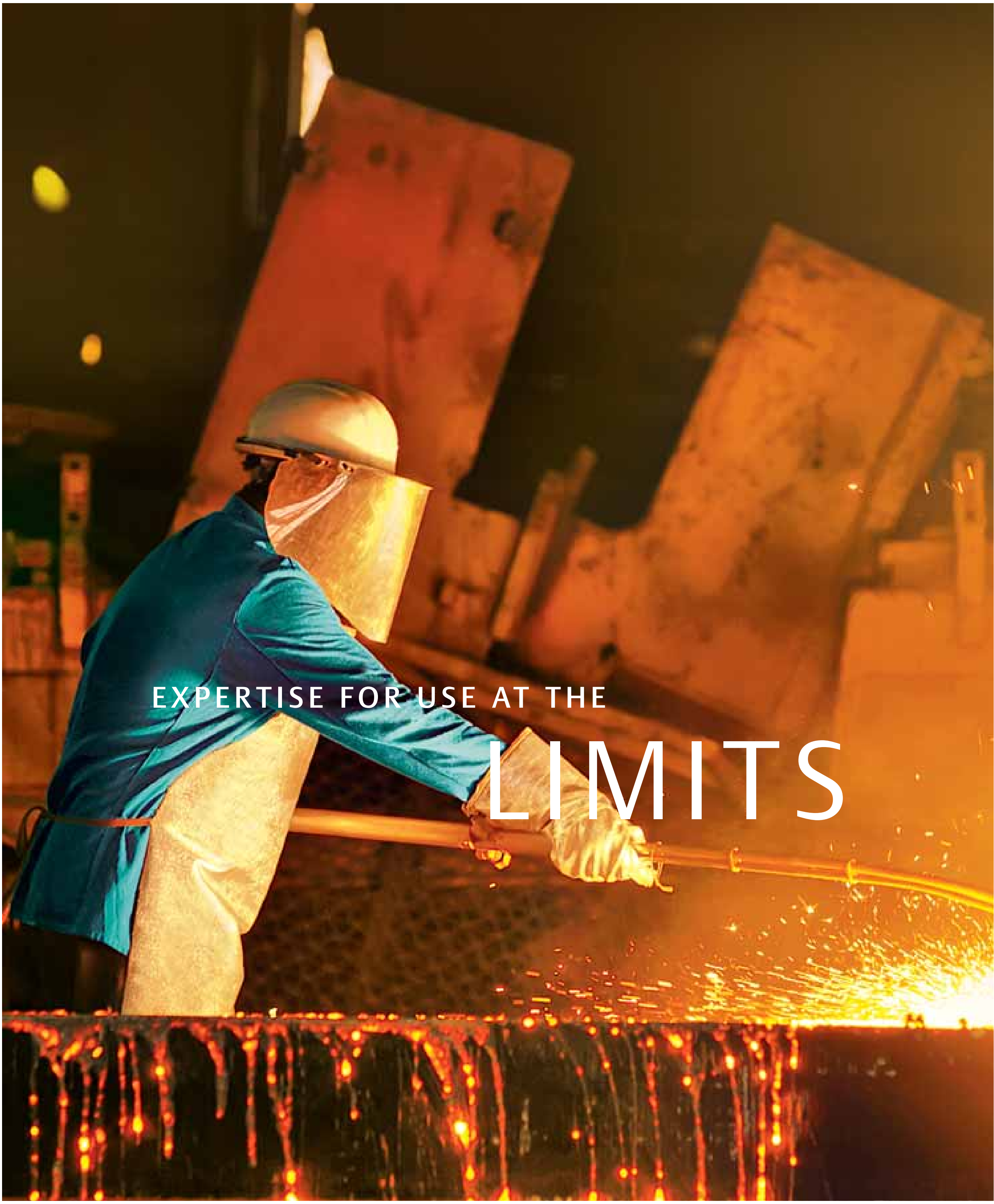
TEMPERATURE SPECTRUM FOR FUNCTIONAL FILLERS

Processing temperatures for plastics



The key advantage of our additives is that they are mineral and eco-friendly and are just as effective as the stabilizers currently in use, which contain highly toxic lead or cadmium. We expect the replacement of stabilizers containing heavy metals in the PVC processing industry to progress in the coming years.

Mineral and eco-friendly additives



EXPERTISE FOR USE AT THE LIMITS

Nabaltec ceramic raw materials and ceramic bodies in refractory applications, e.g. in steel production

MATERIALS WHICH IMPROVE DURABILITY

We use our experience and expertise to search for the best possible ways of finding innovative materials which improve durability and endurance. Working closely with our customers, we develop optimal solutions for use in our target markets.

Among the most important applications for Nabaltec's technical ceramics products is the refractory industry, where Nabaltec products are used to line blast furnaces in steel production and as lining for vats in glass production. Nabaltec supplies in-house developed ceramic raw materials for this purpose which serve as the central component in the refractory materials. The particular challenge in this regard is developing materials with the ability to withstand extreme temperatures. Nabaltec's specialty aluminum oxides help to withstand temperature fluctuations of up to 2,000°C nearly without abrasion. In the technical ceramics Nabaltec serves a very broad range of other industries and applications: the polishing industry, the automotive industry (particularly friction linings), engineering ceramics (particularly ceramic seals and grinders), dental technology and ballistics (especially personal and vehicle armor).

GROWTH THROUGH DIVERSITY OF APPLICATIONS

A key indicator of market growth in technical ceramics is the development of global steel production. Experts project that the refractory market will grow at a rate of 5% a year. Nabaltec itself estimates that the overall technical ceramics market will grow at an annual rate of about 3%. Nabaltec's goal is to develop new products and new applications which offer stable growth prospects for technical ceramics given their material characteristics.

COLLABORATION STRENGTHENS INNOVATION

THE FASCINATION COMES FROM THE BROAD RANGE OF APPLICATIONS: CERAMIC RAW MATERIALS AND CERAMIC BODIES IN SPECIAL QUALITIES OFFER APPLICATIONS IN ALL AREAS OF LIFE AND ALL INDUSTRIAL SECTORS.

BUSINESS DIVISON “TECHNICAL CERAMICS”

Our business division “Technical Ceramics” develops, manufactures and markets highly specialized products based on mineral raw materials: aluminum oxide and sintered mullite, in specific qualities, are used for a wide variety of industries and applications. The two business units, “Ceramic Raw Materials” and “Ceramic Bodies,” have operated successfully in this market for many years.

In this area as well, we work very closely and cooperatively with our customers. Together, we strive for innovations and consistent product improvements for a large number of industries and applications.

Nabaltec AG is recognized as the global market leader for ceramic bodies among suppliers with freely available capacity and in ceramic raw materials as well, we occupy a leading position in the global competitive environment.

CERAMIC RAW MATERIALS: GROWTH IN THE REFRACTORY INDUSTRY

Our goal is to constantly develop new markets with the help of individual product solutions and more than 30 alumina qualities. The most important target market is the refractory industry, which in turn supplies the steel industry. Nabaltec also offers highly specialized, ready-formulated mixtures for the technical fine ceramics industry. Further specialization opens up non-ceramic applications as well, such as the manufacture of polishing agents for the mechanical refinement of surfaces and use in friction linings, e.g. brakes, to improve safety and driving comfort. Other applications include use as an additive in toothpaste and in household ceramics (tile, glaze and pigment production, high-strength porcelain).

Highly specialized mixtures for the technical fine ceramics industry

Our synthetically manufactured mullite (sintered mullite) is a highly pure material which is used in a variety of qualities both within and outside of the ceramics industry. In addition to the standard grain ranges, we are also in a position to respond to specific customer needs and manufacture individual grain size distributions.

In an effort to exhaust the potential of this market segment together with our customers, we are constantly investing in optimizing and expanding our production facilities, as well as in innovative technologies and more advanced manufacturing processes. In particular, strengthening our market position in reactive alumina and aluminum oxides is one of the supporting pillars of our strategy.

Constant optimization of production facilities

CERAMIC BODIES: HOMOGENEITY AS A CRITERION OF QUALITY

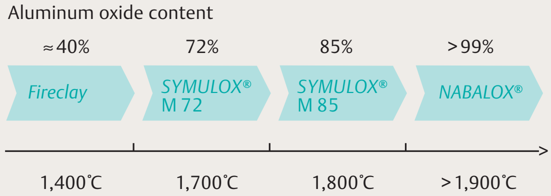
Use of aluminum oxide-based engineering ceramics components is on the rise in many industries. Their superior weight and durability makes them a welcome alternative to steel components and components made of other materials which are harmful to the environment, particularly from the standpoint of conserving resources. Nabaltec's "Ceramic Bodies" business unit goes a step beyond high-quality processing and refinement of raw materials. After all, no one knows the physical and chemical parameters of aluminum oxide better than we do: no one is in a better position to influence the constancy of parameters like grain size distribution, primary crystal size, bulk density, specific surfaces, grinding behavior and thermal reactivity than Nabaltec. Our raw material qualities are always optimally customized for specific ceramic applications. As a result, we are in a position to supply our customers with ready-to-press granulates for high-quality ceramic components.

Our highly specialized granulates have important applications in the field of technical ceramics, including seals, wear components, grinding tools and special customer-specific components for a wide variety of industries. Another market is ballistic protection, i.e. armor for vehicles and individuals, since ceramic solutions are distinguished by their low specific gravity and extreme hardness. The chemical industry relies on ceramic components whenever excellent chemical stability and high surface quality are indispensable. In electrical engineering, electrical insulating properties and thermal conductivity are especially important. In high-temperature applications, the extremely high melting point, up to 2,050°C, and outstanding resistance to thermal shocks are of particular importance.

Outstanding prospects for the future

This diversity is the basis for Nabaltec's outstanding prospects for the future in this business unit.

REFRACTORY PROPERTIES OF CERAMIC RAW MATERIALS



GROUP MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2011

1. OPERATIONS AND GENERAL CONDITIONS

1.1 BUSINESS OPERATION

Eco-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 240,000 tons per annum (t.p.a.) with an export share of nearly 70%.

The range of applications of Nabaltec products is extremely diversified:

Diverse range of applications

- flame retardants for the plastics industry used e.g. for cabling in tunnels, airports, high-rises 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 potential 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 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.

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

Targeted, client-specific product optimizations

1.2 CORPORATE STRUCTURE

Nabaltec, based in Schwandorf, was formed in 1994 and, in 1995, acquired the specialty alumina division of VAW aluminium AG. In September 2006, 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.

Formation in 1994

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 Company divisions, each in turn comprising of market segments, or respectively, of business divisions. In addition, the Company operates four service departments as profit, respectively, cost centers.

Organisation in two divisions

BUSINESS DIVISIONS

Functional Fillers:

- Flame Retardants
- Additives

Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS

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

1.3 STRATEGY

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

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

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

Very strong growth in all 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. 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

Export ratio about 70%

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. Our focus of attention regarding market expansion measures is currently on North America and Asia.

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

Constant exchange of information with customers

Through our integrated sales team and application-specific advisory, we are engaged in a constant exchange with our customers. The Company's product and process development activities are continuously geared so as to offer customers processing advantages through simple and faster production processes and, consequently, those benefits relating to lower manufacturing and development costs. To this end, the testing facility in Kelheim and the research and development department at the Schwandorf site are constantly being expanded and the Company collaborates with research institutions.

Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both 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

Product portfolio continuously optimized

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 as well as through the further development of existent products for the expansion of their application range. So-doing, Nabaltec could not only replace plumbiferous substances in 2011, with the environmentally friendly stabilizer for the PVC industry, ACTILOX® CAHC, but also particularly access new application areas, thereby strengthening its market position in this competitive market environment.

Thanks to the 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

Margin-based capacity policy

Nabaltec pursues a margin oriented capacity policy. Fluctuations in demand 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.

6. Strong financing basis to secure future investments

In order to take full advantage of market opportunities relating to “Functional Fillers” and “Technical Ceramics”, further significant investments are necessary. This relatively high 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 in the amount of EUR 30.0 million.

Broad financing base

1.4 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, ROI, period of amortization and cash flows are the central key figures used as a basis for our business economic decisions.

2. COURSE OF BUSINESS IN 2011

2.1 A REVIEW OF THE FINANCIAL YEAR

Despite a year marked by an increasingly difficult economic and market environment, Nabaltec could achieve new record highs regarding the most important financial ratios. Revenue increased by 14.5% amounting to EUR 129.0 million, earnings before interest and tax (EBIT) increased by 92.3% amounting to EUR 12.5 million, while earnings per share doubled reaching EUR 0.45/share, equity grew by 11.4% to EUR 46.9 million.

New record highs

The most recently communicated revenue and earnings forecast for the financial year 2011 were met.

According to Management, Nabaltec AG’s market position could be further improved in 2011. The respective number one positions amongst the top 3 in the relevant target markets were either confirmed or improved. All regions and product areas developed positively in 2011.

The commencement of the 2012 was encouraging for the remainder of the financial year. The purchase retention of many customers that set in the third quarter of 2011 and was still felt in the fourth quarter of 2011 – amongst others, due to targeted stock reduction – resided beginning 2012, resulting in an increase in demand. Thanks to corresponding catch-up effects, the first quarter of 2012 took a positive start. With its product range and long term reputation, Nabaltec is optimally equipped for a continued successful financial year 2012.

A good start in 2012

2.2 MACROECONOMIC DEVELOPMENT

Weak global economic growth

Subsequent to an initially rather positive start of the year 2011, the upward global economic trend clearly lost momentum in the course of the year. Reasons for this were in particular the sovereign debt crisis in the euro zone, the uncertainties in the financial markets as well as the fiscal policies in the USA. According to the Kiel Institute for the World Economy (IfW), the growth of the gross domestic product (GDP) in the USA slowed down from 3.0% to 1.7%. Temporary factors, such as the strong rise in raw material prices and the consequences arising from the catastrophe in Japan, also had a noticeable effect on the global economy. Overall, growth in global production slowed down from 5.1% to 3.8%. Economic growth in the emerging markets also weakened in the course of the year. China's GDP-growth decreased from 10.3% to 9.5% as well as India's from 10.4% to 6.7%.

The euro zone was marked by a similar development in the course of 2011 as observed in the global economy. An initially strong start was followed by a clear downturn. Beside decreased global demand, the growing debt crisis, the high financial volatility and the continuously worsening consumer as well as company confidence had an encumbering effect. In total the growth of the overall economic production decreased from 1.8% to 1.5%.

3.0% German GDP growth

Based on information provided by the Federal Bureau of Statistics, Germany again achieved a clear increase, whereby growth was mainly observed in the first half of the year. GDP-growth was approximately 3.0% in 2011 compared to 3.7% in prior year. The most significant drivers were domestic demand and investments in machinery and buildings. Foreign trade as well as the situation in the labor market developed positively.

2.3 INDUSTRY DEVELOPMENT

In 2011, total revenue in the German chemical industry grew by 9% to EUR 186.5 billion (source: German chemical industry association Verband der Chemischen Industrie e.V. (VCI)). In comparison to prior year, exports grew by 10% to EUR 110.2 billion. Domestic revenue increased by 7.5% and reached a volume of EUR 76.3 billion.

Chemical and pharmaceutical prices increased in the past year on average by 5%. Especially increasing raw material costs forced many companies to raise product prices. Within the course of the year, raw material prices slightly decreased again. While demand receded, the price increase came to a standstill in the fourth quarter of 2011.

Due to the rapid recovery of the German chemical industry, companies already abandoned their investment reluctance in 2010. The trend continued in 2011. While the chemical industry already invested approximately EUR 5.8 billion in buildings and equipment in 2010, the VCI assumes that the investments in 2011 amounted to approximately EUR 6.4 billion. This corresponds to an increase of 10%.

Growing demand for eco-friendly flame retardants

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 6.5% till 2014 (on the basis of ATH, source: The Freedonia Group, Inc.). 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. A strong demand was felt in 2011, especially in the first half of the year.

In the third quarter of 2011, a clear slowdown followed, mainly due to a general uncertainty regarding further economic development. In 2011, the fourth quarter was characterized by strong stock reduction along the value chain in the respective target markets. Simultaneously however, demand nevertheless stabilized, which not least indicates new stimuli for 2012. According to Nabaltec AG, the prospects remain good regarding environmentally friendly additives in plastic production as well as regarding boehmite with its numerous applications.

Strong growth in the refractory market in 2011

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand within the steel industry. 2011 was marked by dynamic market growth, while demand was relatively stable in the third and fourth quarters of 2011 despite noticeable uncertainties in the international environment. Market experts also expect an annual growth of 5% for refractory products and approximately 3% for technical ceramics.

2.4 OVERVIEW OF THE COURSE OF BUSINESS OF THE NABALTEC GROUP

Despite having to face a year within which the market environment continued to prove difficult, Nabaltec AG could achieve another record in 2011. In particular, the first half year was extraordinarily dynamic. This decreased somewhat during the remainder of the year, especially due to a slowdown in the third quarter of 2011, which then stabilized on a reduced level in the fourth quarter 2011. Notwithstanding, Nabaltec could achieve new revenue and operating profits records.

Actual revenues amounted to EUR 129.0 million compared to the revenue forecast of at first EUR 135 million, and later between EUR 128 and EUR 131 million. Nabaltec set itself a high objective with the operating profit (EBIT) forecast of EUR 12 million, which could be confirmed with an amount of EUR 12.5 million.

2.5 DEVELOPMENT OF REVENUE

The Nabaltec Group realized EUR 129.0 million revenue in 2011, i.e. an increase of 14.5% compared to EUR 112.7 million in prior year. Turnover volume increased by 6.1% across all business areas. Direct exchange rate effects played a subordinated role in the development of revenues in 2011. The export share of 68.4% in 2011 remained only slightly behind the prior year level of 69.9%.

Record-high revenues in the first quarter of 2011

Particularly the first half-year, with the first quarter of 2011 leading the way, was responsible for the surpassing of the revenue all-time high. With revenue amounting to EUR 35.3 million, it is a new quarterly record high in the history of Nabaltec. And, also the subsequent quarter was only just behind with an amount of EUR 34.8 million. In the third quarter of 2011, a slowdown in demand was noticeable. This trend continued on a moderate level in the fourth quarter of 2011. Both the end customers as well as the processing industry reduced their stock levels to a minimum at year end.

Order back-log of EUR 24.6 million

Throughout the year, orders amounted to EUR 100.3 million in total. Nabaltec ended the financial year 2011 with an order back-log of EUR 24.6 million.

Revenues of the division “Functional Fillers” increased by 11.7%, from EUR 75.9 million in 2010 to EUR 84.8 million in 2011. This growth is based on a stable quantity of sales and an intensified concentration of strong value-added product areas.

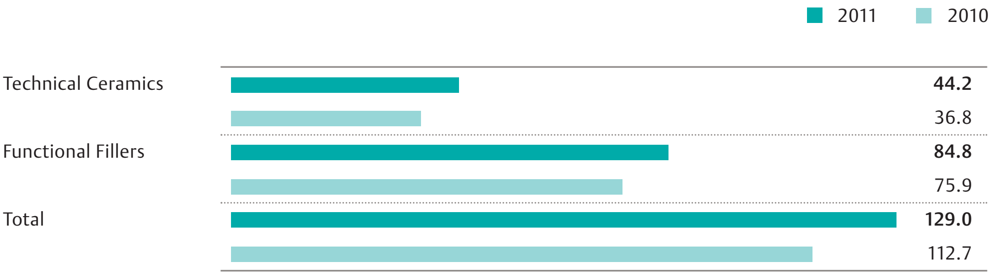
Nashtec braces its market position

The US subsidiary, Nashtec, could further brace her market position and in the meanwhile contributes noticeably toward the Group's revenues. Nashtec revenue increased by 19% compared to prior year. The USA continues to be the most important sales region for Nashtec. Moreover, Asia showed an over proportionate increase in revenue compared to 2010.

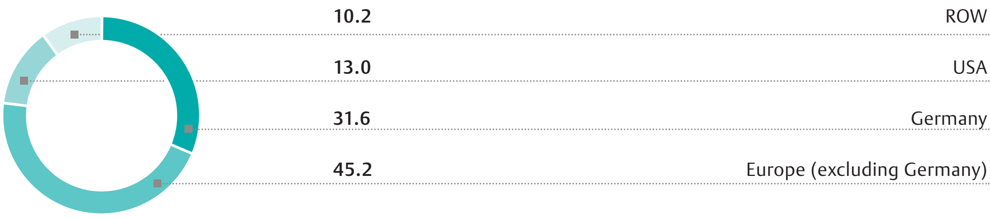
Strong revenue growth in "Technical Ceramics"

The division "Technical Ceramics" achieved an even higher increase in revenues compared to the Group average; 20.1% from EUR 36.8 million to EUR 44.2 million. The somewhat higher revenue growth compared to the division "Functional Fillers" arises from a lower reduction in the second half-year.

REVENUE BY BUSINESS SEGMENT 2011 (in EUR million)



REVENUE BY REGION 2011 (in %)



2.6 RESULTS OF OPERATIONS

Total performance up 17.9%

The Nabaltec Group's total performance grew by 17.9% in 2011 to EUR 132.8 million. Beside revenue growth, the increase in stock levels of finished goods amounting to EUR 3.1 million and capitalized internally generated assets in the amount of EUR 0.6 million contributed toward the increase in total performance.

Other operating income of EUR 1.4 million primarily consists of exchange rate gains and other income from goods and services delivered to third parties. Compared to prior year, other operating income decreased by EUR 0.8 million due to lower insurance income in 2011.

OPERATIONAL EXPENSE RATIOS COMPARED TO TOTAL PERFORMANCE (in %)

	2011	2010
Cost of materials	52.6	54.0
Personnel expenses	15.8	16.9
Other operating expenses	17.2	18.4

Compared to prior year, the cost-of-materials-ratio (compared to total performance) could broadly be decreased by 1.4 percentage points to 52.6%. Accordingly, the 2011 gross profit margin of 48.5% (compared to total performance) was higher than the prior year level of 48.0%. Nabaltec increased the absolute gross profit from EUR 54.0 million in 2010 to EUR 64.4 million in the reporting period. This improvement is attributable to the over proportionate increase in strong value-added products.

Relevant expense ratios down

In 2011, the personnel-expenses-ratio (compared to total performance) could also be reduced, namely from 16.9% to 15.8%. The number of employees in the Group rose from 372 per December 31, 2010 to 400 per December 31, 2011. The increase in manpower needs lies mainly in the further expansion of the production capacity in Schwandorf.

Other operating expenses increased from EUR 20.7 million to EUR 22.9 million. The expense-ratio (compared to total performance) improved, however, from 18.4% to 17.2%. While the distribution-costs-ratio decreased compared to 2010, cost-ratio relating to sales agent commissions and external services and repair services increased slightly in comparison to prior year. General administration, advisory and marketing costs could be reduced compared to 2010.

Earnings before interest, tax and depreciation and amortization (EBITDA) grew from EUR 14.3 million to EUR 20.6 million in 2011, and could therefore clearly be increased. Both divisions contributed equally toward this positive development in EBITDA. The very positive trend prevailing already in 2010 could be further improved particularly in the first half of 2011.

EBIT up by EUR 6.0 million

Taking into account the scheduled depreciation in the financial year 2011 in the amount of EUR 8.1 million, the operating result (EBIT) amounts to EUR 12.5 million compared to EUR 6.5 million in prior year. The significant improvement of EUR 6.0 million is primarily due to the expansion of sales in connection with higher value-added. The development of EBITDA and EBIT exhibit the intact and sustainable earnings power of Nabaltec AG on operational level.

Earnings before tax amounted to EUR 6.2 million (PY: EUR 1.4 million). This includes the financial result 2011 of EUR – 6.4 million, consisting of EUR 6.9 million interest expenses and EUR 0.5 million interest income. Prior year, the financial result amounted to EUR – 5.1 million. The increase in interest expenses results mainly from the interest arising from the corporate bonds expiring in October 2015. Simultaneously, initial positive effects could be realized from the restructuring of bank payables in 2011. These measures will comprehensively be felt in 2012.

Based on the earnings achieved before taxes amounting to EUR 6.2 million, tax expenditure of EUR 1.6 million was incurred (PY: tax revenue of EUR 0.7 million). The 2011 tax expenditure includes EUR 1.5 million deferred taxes.

Earnings per share doubled

Group earnings after non-controlling interests amounted to EUR 3.6 million (PY: EUR 1.8 million). Earnings per share doubled from EUR 0.22 in 2010 to EUR 0.45 in the reporting period.

Segment report: Development within the business segments

FUNCTIONAL FILLERS (in EUR million)

	2011	2010
Revenue	84.8	75.9
EBITDA	13.5	9.0
EBIT	7.7	3.4
Investments	12.1	4.6

Revenue growth for all product segments in "Functional Fillers" division

In 2011, revenue increased by 11.7% in the business segment "Functional Fillers". The setting forth of the excellent development in 2010 proved that the underlying market drivers for Nabaltec products are fully intact and that despite weakening demand in the second half-year, 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. Within this business segment, revenue relating to all product areas could be increased.

REVENUE BUSINESS DIVISION "FUNCTIONAL FILLERS" 2011
PER QUARTER (in EUR million)

Based on EBITDA, the business division "Functional Fillers" improved its earnings development by 50.0% from EUR 9.0 million to EUR 13.5 million in the reporting period. The success resulting from Nabaltec's intensifying its focus on strong value-added products is reflected in the increase in all key operating yield ratios.

Investment focus in "Functional Fillers" division

"Functional Fillers" was again the focus of 2011 investments within the Nabaltec Group. Approximately 80% of total investments went into this division, mainly for process optimization, logistics, energy optimization and the design of an additional fine hydroxide line.

TECHNICAL CERAMICS (in EUR million)

	2011	2010
Revenue	44.2	36.8
EBITDA	7.0	5.3
EBIT	4.8	3.2
Investments	2.8	2.2

In the reporting period, revenue increased from EUR 36.8 million in 2010 to EUR 44.2 million in the business segment “Technical Ceramics”. This segment was marked by a stronger growth (20.1%) than the “Functional Fillers” segment (11.7%).

20.1% revenue growth in “Technical Ceramics” division

REVENUE BUSINESS DIVISION “TECHNICAL CERAMICS” 2011
PER QUARTER (in EUR million)

Earnings development in the business segment “Technical Ceramics”, based on EBITDA, could be improved compared to prior year by an increase of 32.1% relating to products with a higher value-added.

Approximately 20% of total investments went into this segment, mainly for the optimization of production processes.

2.7 FINANCIAL POSITION

2.7.1 FINANCIAL MANAGEMENT

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

Thanks to the Company’s own production in the USA through her subsidiary, Nashtec, Nabaltec was 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.

Almost no impact from exchange rate fluctuations

Nabaltec has secured the Company’s long term financing needs, not least in regards to the extensive investment plan implemented in the last years. As of the balance sheet date, Nashtec was provided EUR 9.3 million (PY: EUR 9.1 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).

Long-term financing secured

Balanced debt financing structure

Nabaltec's growth 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. Moreover, Nabaltec disposes of subsidies from the government of Upper Palatinate for investment projects. In the second half-year, Nabaltec could restructure a significant part of the current long term bank loans. The conditions have been considerably improved compared to the previous credit agreements. Therefore, Nabaltec disposes of a balanced debt financing structure.

2.7.2 FINANCING

Equity ratio of 28.4%

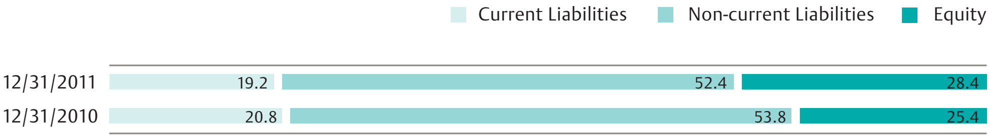
Group shareholders' equity increased from EUR 42.1 million to EUR 46.9 million as of 31 December 2011 due to the good development of net earnings in 2011. Consequently, the calculated equity ratio increased from 25.4% to 28.4%. This capital base can continue to be considered as sound compared to the industry.

Non-current and current liabilities reduced

Non-current liabilities slightly decreased in the reporting period from EUR 89.4 million to EUR 86.7 million. This includes the corporate bonds in the net amount of EUR 28.9 million. Long term payables to banks decreased by EUR 19.6 million in accordance with scheduled repayments as well as the early redemption of loans. The new loans in the amount of EUR 14.0 million were taken out, with a significantly improved interest structure. The retirement benefit obligation increased disproportionately by EUR 0.6 million due to the annual additions.

Current liabilities decreased in 2011 from EUR 34.5 million to EUR 31.8 million. The reason for this decrease was mainly the reduction in trade payables and less other payables. Short term payables to banks could also be decreased and payables arising from leasing agreements could be reduced to zero in the financial year 2011.

STRUCTURE OF EQUITY & LIABILITIES (in %)



2.7.3 OTHER OFF-BALANCE SHEET FINANCING INSTRUMENTS

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

2.7.4 INVESTMENTS

Focuses of investment: expanding capacity, process optimization and logistics

In the reporting period, the Nabaltec Group invested a total amount of EUR 14.9 million including the portion of the investment grant (PY: EUR 6.8 million). Again, investments focused on the business division "Functional Fillers", assuming round 80% of total investments, while 20% of the investments flowed into the business division "Technical Ceramics". Investments were focused on the expansion of capacity relating to fine hydroxide, the optimization of production processes and logistics. Additionally, investment measures were taken in infrastructure and energy optimization.

2.7.5 CASH FLOW

Net cash generated by operating activities on Group level amounting to EUR 13.6 million remained only slightly behind prior year (2010: EUR 15.4 million). The positive cash flow primarily attributable to the considerably improved development in operational earnings was compensated by the targeted increase of stock levels as well as decrease in trade payables.

Operating cash flow down slightly from the year before

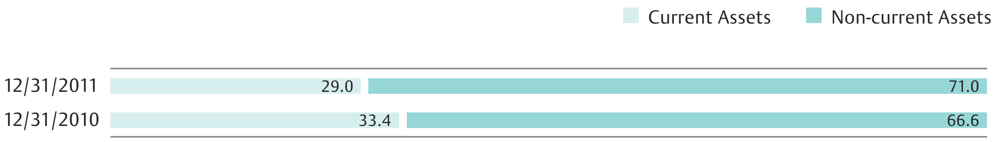
Net cash used by investing activities amounted to EUR – 15.5 million in the reporting period (2010: EUR – 7.5 million).
Net cash generated by financing activities amounted to EUR – 0.9 million in 2011 (PY: EUR 10.5 million). The redemption of finance loans in the amount of EUR 19.6 million was compensated by transfers arising from the dissolving of fixed term deposits in the amount of EUR 10.0 million as well as taking up new loans of in total EUR 14.0 million. The purpose of restructuring long term debt was the significant improvement of the interest rate structure.

Nabaltec Group’s total cash and cash equivalents as at December 31, 2011 amounted to EUR 16.3 million compared to EUR 19.0 million in prior year.

2.8 NET ASSETS

Nabaltec Group’s total assets decreased as at December 31, 2011 from EUR 166.0 million to EUR 165.4 million.

STRUCTURE OF ASSETS (in %)



Additions to property, plant and equipment in the amount of EUR 14.8 million were accompanied by depreciation in the amount of EUR 8.0 million. Advance payments and assets under construction substantially increased since significant investments in 2011 will only be taken into operation in the course of the year 2012. The sum of the non-current assets in the amount of EUR 117.5 million encompasses a deferred tax asset arising from the joint venture, Nashtec, amounting to EUR 0.9 million.
In total, the balance sheet was characterized by a clear shift toward non-current assets as this was influenced considerably by investment measures taken. Non-current assets amounted to 71.0% of the balance sheet total as per December 31, 2011 current assets amounted to 29.0%.

Shift in balance sheet ratios

3. NON-FINANCIAL PERFORMANCE INDICATORS

3.1 EMPLOYEES

Total of 400 employees, including 49 trainees

End 2011, Nabaltec Group employed in total 400 employees (December 31, 2010: 372). Thereof, 399 employees (December 31, 2010: 371) were employed in Germany. This figure also includes 49 apprentices (December 31, 2010: 48). Nabaltec sets high priority on sound professional training. Therefore, also in 2011, the rate of apprentices of 12.3% traditionally presents a remarkably large portion of the workforce. This rate remained more or less stable in comparison to prior year and far 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.

Nabaltec among the Top 100 mid-size employers

Nabaltec AG regularly belongs to the 100 best employers in the German middle market, according to the national multi-sector company comparison, “TOP JOB” – 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.

3.2 RESEARCH AND DEVELOPMENT

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

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

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 German Plastics Institute 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 divisions.

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

Awards for innovation

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

The research and development focus on additives and boehmites in the last years will be intensively continued even after the product launch. The central focal 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 2011, the following developments played a central role in the "Functional Fillers" division:

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

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

Modification of existing products and development of new products

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

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

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

Nabaltec AG introduces new special fine grades of APYRAL® AOH and 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.

Orientation towards trends in environmental engineering

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

Constant optimization of products and production processes

In the area of reactive NABALOX® aluminum oxides, various projects aim at continuously improving products as well as at optimizing the related production processes. The application of reactive aluminum oxides by Nabaltec lies mainly in the refractory industry, where the products primarily contribute toward the new development and optimization of monolithic feeds. Furthermore, the work performed by the NABALOX® product group is directed at identifying, evaluating and optimizing innovative finishing processes for aluminum oxides for the application in the manufacturing of ceramic and polishing agents.

New sintering product for improved resistance to heat

In addition to the SYMULOX® product group, Nabaltec aspires to develop a new high-quality sintering product, which – due to its modified phase distribution, in comparison to existing grades – will result in an even further improved heat resistance of products in the intended refractory applications. Moreover, the development of this product shall in the long term support the aim of launching of material cycles regarding refractory materials. The developments in the SYMULOX® product group relating to special ceramic applications will be set forth.

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

3.3 CUSTOMER RELATIONS

Nabaltec demonstrates consistent quality and reliability as a supplier

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. 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 cooperations. 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.

3.4 MANAGEMENT SYSTEM

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 2011, an extensive monitoring audit for the existing management system based on ISO 9001, ISO 14001, BS OHSAS 18001 and EN 16001 was conducted. On the site in Corpus Christi, the quality management system (ISO 9001) was also successfully audited. In 2011, the certification of the energy management system based on EN 16001 was conducted by TÜV SÜD Management Service GmbH for the site in Kelheim. In addition, Nabaltec AG's laboratory services are accredited under the DIN EN ISO/IEC 17025 standard.

Health and safety management since 2007

3.5 ENVIRONMENTAL PROTECTION

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.

Nabaltec places special emphasis on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2011, 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.

Own energy needs covered with 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 re-employment in an entirely closed production cycle.

CAHC facility without production wastewater

3.6 CAPITAL MARKET

Since the initial public offering in 2006, Nabaltec disposes of intact access to the capital market. Access to the capital market, maintained by transparent and reliable communication at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively by the sales market. In 2010, Nabaltec was one of the first companies to successfully issue SME bonds in the value of EUR 30 million.

Access to capital market intact, ensuring independent financing

4. REPORT ON RISKS AND OPPORTUNITIES

4.1 RISK MANAGEMENT

Company's success depends on handling of risks and opportunities

For the 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. This inseparably goes hand in hand with risks and opportunities. Our success considerably depends on recognizing such risks and opportunities as well as dealing with these consciously and on bringing risks under control. Effective risk management is a core element for securing the Company long term, for its economic success in international markets and for its successful, sustainable future development.

Constant improvements to risk management system

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

The starting point of the actual risk management processes at Nabaltec is the identification and assessment 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.

Strategic planning system

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

Testing safeguarding tools and controlling systems

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

4.2 RISKS AND OPPORTUNITIES REGARDING FUTURE DEVELOPMENT

Sales Market

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

Quantity and margin risks

Procurement Market

We monitor our suppliers' economic situation very closely and deliberately build up alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of medium and long term contracts. The supply of the most important media, electricity, gas and vapor for the production process is also secured by long term agreements. The accrediting of the energy management system in accordance with EN 16001 underlines 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

Hedging instruments limit exchange and interest rate risks if necessary

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, 2011 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.

Bond issue increases independence

In 2011, factoring contributed towards increasing the secured portion of receivables and improving the Company's liquidity.

Personnel

Increased employee qualifications reduce personnel risks

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 and development activities contribute toward making Nabaltec an attractive employer within its own market segments and region.

Production, Process and IT

Integrated company-wide quality management

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

Certified environmental management

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.

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

Statutory requirements create additional market opportunities

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.

4.3 OVERALL ASSESSMENT

Currently no significant risks for 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. In general, the Company's risks are well-managed and their potential impact is therefore limited. The Company's future existence is secured.

5. CORPORATE MANAGEMENT DECLARATION

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

Corporate Management Declaration available at www.nabaltec.de

6. SUBSEQUENT EVENTS

There are no events to report that occurred subsequent to December 31, 2011 that might have a significant effect on the net assets, financial position or earnings of the Nabaltec Group.

7. OUTLOOK

7.1 OVERALL ASSESSMENT OF THE PROSPECTIVE TREND

Intact markets and stable demand in 2012

For her own products, Nabaltec also foresees intact sales markets across the board in 2012, 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 2011 and the long term reputation, Nabaltec sees good future prospects for its key products.

7.2 ECONOMIC ACTIVITY & INDUSTRY

3.3% GDP growth expected

The Deutsche Bank anticipates global economic growth of 3.3% for 2012. The over proportional growth in Asia (excluding Japan) shall weaken only slightly to 6.9%, while a plus of 2.5% is expected for the USA.

For the euro zone, but also for the global economy, combating the debt crisis will prove decisive for the actual development. To date, the Deutsche Bank anticipates an economic recess of 0.5% in the euro zone. Italy and France shall significantly contribute toward this development with – 1.3% and, respectively, – 0.3%.

DB Research foresees the German economy to stagnate. On the contrary, the Kiel Institute for the World Economy (IfW) expects the German GDP to grow slightly (by 0.5%). Their basic assumption, however, is that the financial markets will stabilize and that a solution for the debt crisis in Europe will be found.

GDP GROWTH FORECAST (in %)

	2012	2013
World	3.3	4.0
USA	2.5	3.0
Euro area	– 0.5	1.0
Germany	0.0	1.0
France	– 0.3	1.2
Italy	– 1.3	0.3
Great Britain	0.0	1.5
Japan	0.7	1.1
China	8.3	8.6
India	7.3	8.0

Source: Deutsche Bank – DB Research, “Aktueller Ausblick für die Weltwirtschaft”, January 19, 2012

Uptrend expected in the chemical industry

The German chemical industry association Verband der Chemischen Industrie e.V. (VCI) expects a continued upward trend in the German chemical industry in 2012, although somewhat more moderate than in prior year. The association forecast an increase in the German chemical production of 1.0% in 2012. Sales prices shall increase to the same degree. Regarding revenue, a plus of 2.0% is anticipated.

Even though the unresolved debt crisis in the EU and the USA will have a dampening effect on the chemical business in 2012, the VCI deems the industry to be free from the mood of crisis.

In 2012, the market trend regarding “Functional Fillers” and intermediary products for “Technical Ceramics” will be characterized by a stable competitive structure with constant to slightly higher prices, from Nabaltec’s point of view. The principle drivers and triggers have remained intact. Political requirements have globally resulted in additional stimuli for environmentally friendly flame retardants. Therefore, Nabaltec expects growth across all regions in the financial year 2012.

Market and growth drivers 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 automotive industry has consistently benefited from a strong demand. Consumer electronics could meet a better environment in 2012 than it had in the past. 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.

7.3 OUTLOOK ON THE COURSE OF BUSINESS

For 2012, Nabaltec expects further revenue growth, albeit at a slower rate than in 2011. The order backlog as at December 31, 2011 amounted to EUR 24.6 million. The financial year 2012 commenced on a positive note. Although prior year sales all-time highs could not yet be repeated, the momentum once again shows an upward trend after a moderate third and fourth quarter in 2011. In the second half of 2011, customers systematically reduced their stock levels to a minimum. Initial catch-up effects can be seen at the start of 2012. Additionally, a general recovery in Nabaltec’s target markets is recognizable, whereby mainly an increase in quantities is expected for 2012. Nevertheless, the economic development in the coming year still has to be awaited.

Fine hydroxides remain a key growth driver

In the business division “Functional Fillers”, the product range relating to fine hydroxide will continue to be a substantial growth driver in 2012 as in 2011. By taking into operation another fine hydroxide line in 2012 at the Schwandorf site, the Nabaltec Group will be able to reach a production level of 114,000 t.p.a., relating to fine hydroxide in the product mix.

New fine hydroxide line introduced

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

The Company’s product range, which is based on CD technology, is being further expanded in order to offer processing advantages to customers in additional processing areas and target markets. The cable & wire and insulation markets, the principal consumers of the fine hydroxides produced by the “Functional Fillers” division, are dependent on the construction sector. Positive growth impulses are expected for 2012 relating to the application segments in the low voltage range, in telecommunication and in IT. There are discernible signs of continued growth in the markets for non-halogenated fire protection. These expectations are supported by the development in legislation and the ever stricter fire protection regulations that are expediting the changeover from halogenated to non-halogenated flame retardants in the industry.

Cooperation with Sumitomo Chemical

In 2011, Nabaltec entered into cooperation with Sumitomo Chemical Co., Ltd. in both the aluminum oxide as well as the aluminum hydroxide segments. As first step, both companies agreed that Nabaltec would exclusively supply Sumitomo Chemical with a special fine hydroxide grade, effective December 1, 2011. Sumitomo Chemical distributes these special grades in East Asia. Nabaltec expects the first revenues and contribution margins from this cooperation in 2012. Furthermore, Nabaltec will examine whether cooperation projects, such as with Sumitomo in Asia or with Sherwin Alumina within the joint venture Nashtec in the USA, are adequate measures to move closer to the important sales markets and customers.

New applications for additives

In the rather new product line of additives for the plastics industry, 2012 will be a key year. After a start in 2012 that did not meet expectations, Nabaltec will also offer her additives for new application areas.

Further growth is also planned for the business division “Technical Ceramics”. An additional market penetration primarily with new grades is intended.

7.4 EXPECTED EARNINGS AND FINANCIAL POSITION

Further revenue growth in 2012

The on-going sovereign debt crisis as well as the financial crisis in Europe and the USA, and the lower expected global GDP growth has resulted in high uncertainties and volatility in capital markets. The considerable scale of these uncertainties momentarily makes it difficult to make a reliable forecast for 2012. Assuming that the economic development will not worsen, Nabaltec anticipates further revenue growth for 2012, albeit at an overall slower rate than in 2011. Given a stable economic environment, growth of more than 5% should be possible. For the financial year 2012, the Company expects a similar margin as in the past financial year with regards to the result from ordinary operations (EBIT). For the financial year 2013, Nabaltec expects further revenue growth as well as an increase in the result from ordinary operations (EBIT) compared to 2012.

Nabaltec will continue with the reduction of payables to banks in 2012. Scheduled redemptions in 2012 amount to EUR 8.1 million.

In 2012, investments in the low two-digit million-euro-range have been planned. Primarily, the expansion of capacities as well as new processes to produce additional grades will be invested in. Depreciation expenses within the Nabaltec Group will increase according to plan in 2012, reflecting investments.

Note with respect to uncertainties in the outlook:

The statements and information with respect to future developments stated above are based on current expectations as well as certain assumptions. They therefore involve several risks and uncertainties. A large number of factors, a significant part of which is not under 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.

Actual development may deviate from forecast

Schwandorf, March 2, 2012

Nabaltec AG
The Management Board

JOHANNES HECKMANN GERHARD WITZANY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2011

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

NOTES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

(in EUR '000)	Notes	01/01 - 12/31/2011	01/01 - 12/31/2010
Revenue	5.1	129,022	112,701
Increase in unfinished and finished products		3,131	– 364
Other own services capitalized	5.2	609	308
Total performance		**132,762**	**112,645**
Other operating income	5.3	1,442	2,165
Cost of materials	5.4	– 69,769	– 60,815
Gross profit		**64,435**	**53,995**
Personnel expenses	5.5	– 20,967	– 19,017
Depreciation and amortization	5.7	– 8,049	– 7,776
Other operating expenses	5.8	– 22,895	– 20,654
Operating result (EBIT)		**12,524**	**6,548**
Interest and similar income	5.10	556	215
Interest and similar expenses	5.11	– 6,909	– 5,326
Result from ordinary operations (EBT)		**6,171**	**1,437**
Income taxes	5.12	– 1,646	654
Consolidated result after taxes		**4,525**	**2,091**
thereof attributable to			
Shareholders of the parent company		3,630	1,779
Non-controlling interests		895	312
Consolidated result after taxes		**4,525**	**2,091**
Earnings per share (in EUR)*	7.5	**0.45**	**0.22**

* see also Note 6.8 Equity

(in EUR '000)	Notes	01/01 - 12/31/2011	01/01 - 12/31/2010
Consolidated result after taxes		**4,525**	**2,091**
Foreign Currency Translation (after taxes)		204	72
Net Result from Hedge Accounting (after taxes)		68	– 69
Other result		**272**	**3**
thereof attributable to			
Shareholders of the parent company		282	322
Non-controlling interests		– 10	– 319
Consolidated result after taxes		**4,797**	**2,094**
thereof attributable to			
Shareholders of the parent company		3,912	2,101
Non-controlling interests		885	– 7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2011

ASSETS (in EUR '000)

	Notes	12/31/2011	12/31/2010
Non-current assets		**117,541**	**110,559**
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	216
Property, plant and equipment		116,399	109,033
Land, leasehold rights and buildings on non-owned land	6.2	29,427	30,132
Technical equipment, plant and machinery	6.2	72,812	73,107
Other fixtures, fittings and equipment	6.2	2,465	2,315
Advance payments and plant and machinery under construction	6.2	11,695	3,479
Deferred tax assets	5.12	910	1,310
Current assets		**47,864**	**55,439**
Inventories		26,320	21,415
Raw materials and supplies	6.3	14,283	12,546
Unfinished goods	6.3	413	393
Finished products and merchandise	6.3	11,624	8,476
Trade receivables and other assets		5,197	15,067
Trade receivables	6.4	2,249	1,612
Income tax claims	6.5	127	169
Other assets	6.6	2,821	13,286
Cash and cash equivalents	6.7	16,347	18,957
TOTAL ASSETS		**165,405**	**165,998**

EQUITY & LIABILITIES (in EUR '000)

	Notes	12/31/2011	12/31/2010
Equity		**46,934**	**42,137**
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		– 793	– 2,572
Consolidated result after taxes		3,630	1,779
Accumulated other comprehensive result	6.8	– 294	– 576
Non-controlling interests	6.8	– 3,084	– 3,969
Non-current liabilities		**86,713**	**89,377**
Retirement benefit obligation	6.9	13,688	13,053
Other provisions	6.9	372	354
Financial liabilities arising from corporate bonds	6.10	28,928	28,694
Payables to banks	6.10	34,979	39,609
Profit participation capital	6.10	4,976	4,951
Deferred tax liabilities	5.12	3,770	2,716
Current liabilities		**31,758**	**34,484**
Income tax payable	6.10	190	16
Other provisions	6.9	349	424
Payables to banks	6.10	8,146	8,332
Trade payables	6.10	10,037	11,244
Liabilities from finance lease	6.10	0	319
Other liabilities	6.10	13,036	14,149
TOTAL EQUITY & LIABILITIES		**165,405**	**165,998**

CONSOLIDATED STATEMENT OF CASH FLOWS

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

(in EUR '000)	Notes	01/01 - 12/31/2011	01/01 - 12/31/2010
Cash flow from operating activities			
Period profit before taxes		**6,171**	**1,437**
+ Depreciation and amortization	5.7	8,049	7,776
–/+ Gain/loss from asset disposals		– 1	– 1
– Interest income	5.10	– 556	– 215
+ Interest expenses	5.11	6,909	5,326
Operating profit before working capital changes		**20,572**	**14,323**
+/– Increase/decrease in provisions		4	1,333
–/+ Increase/decrease in trade receivables and other assets not attributable to investing or financing activity		– 171	– 1,747
+/– Decrease/increase in inventories		– 4,905	– 2,202
+/– Increase/decrease in trade payables and other liabilities, not attributable to investment or financing activity		– 1,928	4,096
Cash flow from operating activities before taxes		**13,572**	**15,803**
–/+ Income taxes paid		23	– 401
Net cash generated by operating activities		**13,595**	**15,402**

(in EUR '000)	Notes	01/01 - 12/31/2011	01/01 - 12/31/2010
Cash flow from investing activities			
+ Cash received from disposals of property, plant and equipment		49	27
– Cash paid for purchases in property, plant and equipment	6.2	– 15,415	– 7,478
– Cash paid for investments in intangible assets	6.1	– 88	– 42
Net cash used in investing activities		**– 15,454**	**– 7,493**
Cash flow from financing activities			
+ Cash received from the issuance of corporate bonds		0	30,000
– Cash rendered for transaction costs relating to issuance of corporate bonds		0	– 1,341
– Cash rendered for investments in fixed deposits > 3 months		0	– 10,000
+ Cash received for investments in fixed deposits > 3 months		10,000	
+ Cash received from financial loans	6.10	14,000	0
– Cash rendered for payment of financial loans	6.10	– 19,586	– 3,128
– Cash rendered for liabilities from finance lease	6.10	– 319	– 958
– Interest paid		– 5,412	– 4,152
+ Interest received		431	99
Net cash generated by financing activities		**– 886**	**10,520**
Net change in cash and cash equivalents		**– 2,745**	**18,429**
Effects of exchange rate changes on the balance of cash held in foreign currencies		135	31
Cash and cash equivalents at the beginning of the year	6.7	18,957	497
Cash and cash equivalents at the end of the year	6.7	**16,347**	**18,957**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

(in EUR ’000)

	Equity attributable to shareholders of Nabaltec AG		
	Subscribed Capital	Capital reserve	Earnings reserves
Balance per 01/01/2010	8,000	29,764	9,707
Consolidation adjustment Nashtec LLC*	–	–	4
Foreign currency translation	–	–	–
Net gains from hedge accounting	–	–	–
Other gains/losses	–	–	–
Profit/loss for the period after tax	–	–	–
Consolidated profit for the period	–	–	–
Balance per 12/31/2010	8,000	29,764	9,711
Balance per 01/01/2011	8,000	29,764	9,711
Foreign currency translation	–	–	–
Net gains from hedge accounting	–	–	–
Other gains/losses	–	–	–
Profit/loss for the period after tax	–	–	–
Consolidated profit for the period	–	–	–
Balance per 12/31/2011	8,000	29,764	9,711

* we refer to the notes on the scope of consolidation

Profit carried forward	Accumulated other comprehensive result	Total	Non-controlling interests	Consolidated equity
– 2,527	– 898	44,046	– 4,003	40,043
– 45	—	– 41	41	0
—	361	361	– 289	72
—	– 39	– 39	– 30	– 69
—	322	322	– 319	3
1,779	—	1,779	312	2,091
1,779	322	2,101	– 7	2,094
– 793	– 576	46,106	– 3,969	42,137
– 793	– 576	46,106	– 3,969	42,137
—	262	262	– 58	204
—	20	20	48	68
—	282	282	– 10	272
3,630	—	3,630	895	4,525
3,630	282	3,912	885	4,797
2,837	– 294	50,018	– 3,084	46,934

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

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**

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

(in EUR '000)

	Historical Cost					
	Balance per 01/01/2010	Additions	Disposals	Transfers	Foreign Exchange Rate Differences	Balance per 12/31/2010
Intangible assets	**2,072**	**42**	**—**	**—**	**—**	**2,114**
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,007	36	—	—	—	2,043
Advance payments	65	6	—	—	—	71
Property, plant and equipment	**140,276**	**6,797**	**106**	**0**	**1,793**	**148,760**
Land, leasehold rights and buildings on non-freehold land	33,697	138	—	23	517	34,375
Technical equipment, plant and machinery	99,637	2,795	—	423	1,230	104,085
Other fixtures, fittings and equipment	6,244	633	106	4	46	6,821
Advance payments as well as plants and machinery under construction	698	3,231	—	– 450	—	3,479
Total non-current assets	**142,348**	**6,839**	**106**	**0**	**1,793**	**150,874**

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

Cumulative Depreciation/Amortization					Book Value	
Balance per 01/01/2010	Additions	Disposals	Foreign Exchange Rate Differences	Balance per 12/31/2010	Balance per 12/31/2010	Balance per 12/31/2009
1,839	59	—	—	1,898	216	233
1,839	59	—	—	1,898	145	168
—	—	—	—	—	71	65
31,807	7,717	80	283	39,727	109,033	108,469
3,021	1,128	– 34	60	4,243	30,132	30,676
24,781	6,045	45	197	30,978	73,107	74,856
4,005	544	69	26	4,506	2,315	2,239
—	—	—	—	—	3,479	698
33,646	7,776	80	283	41,625	109,249	108,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 2, 2012.

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, 2011 (including the prior year figures at December 31, 2010) 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 2011 were applied.

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

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

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, 2011 were applied in the financial year 2011. These also include the following standards and interpretations that had to be adopted for the first time, in particular:

- IAS 1 Presentation of Financial Statements (amended for Annual Improvements to IFRS): The amendments to IAS 1 clarify that companies can opt either to disclose a break-down of other comprehensive income (OCI) in the statement of changes in equity or in the notes to the financial statements. The amendments are applicable to annual periods beginning on or after July 1, 2010. The Group presents these disclosures in the statement of changes in equity.

- IAS 24 Related Party Disclosures (revised 2009): The amendments consist of a clarification of the definition of a related party. The new definition strengthens the symmetric approach for the determination of relationships with related parties and clarifies the circumstances in which persons and persons in key positions can influence the relationships to related entities and persons within an enterprise. Furthermore, the amendments simplify the reporting requirements of companies in which a government owns an interest. Under the revised standard, certain kinds of related-party transactions resulting from government ownership of private companies are exempt from some of the disclosure requirements. The revised standard is effective for annual periods beginning on or after January 1, 2011. They did not have an effect on the consolidated financial statements.

- IAS 32 Financial Instruments: Presentation (revised): The amendment clarifies that rights issues, options and warrants denominated in a currency other than the issuer's functional currency and offered on a pro-rated basis to all owners of the same class of equity must be classified as equity. Such rights issues have so far been accounted for as liabilities. The change relates only to issues of a fixed number of shares at a fixed foreign-currency exercise price. The amendments are effective for annual periods beginning on or after January 1, 2011. Given that the Group does not dispose of this type of instruments, the amendments do not have an effect on the consolidated financial statements.

- IFRS 7 Financial Instruments (amended for Annual Improvements to IFRS): The changes relate to the reduction of required disclosures on held securities and requires additional qualitative information that shall replace quantitative information. The amendments are effective for annual periods beginning on or after July 1, 2010. The revised standard did not affect the consolidated financial statements.

- IFRIC 14 Prepayments of a Minimum Funding Requirement (revised): The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Without the amendments, in some circumstances entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. The amendments must be applied retrospectively to the earliest comparative period presented. The change did not have an effect on the consolidated financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. In particular, the equity instrument should be measured at its fair value. The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued. The amendment is effective for annual periods beginning on or after July 1, 2010. The change did not affect the consolidated financial statements.

The following new and revised IFRS 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. cash-flow hedging, foreign currency translation), and those elements that will not. Applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. The presentation of other comprehensive income will be adjusted accordingly in future reporting periods.

- 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. According to the current assessment, the first-time adoption of the revised standard will not affect the consolidated financial statements.

- IAS 19 (revised 2011) Employee Benefits: The amendments in the revised version of IAS 19 relate to the recognition and measurement of defined benefit cost and the accounting of termination benefits. These changes are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted. The first-time adoption will have consequences for the consolidated financial statements.

- 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, jointly 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, 2013.

- 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. Based on our current assessment, the first-time adoption of the amended version of IFRS 1 will not have any effects 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. Based on our current assessment, the first-time adoption of the amended version of IFRS 7 will not have any effects on the consolidated financial statements.

- IFRS 9 Financial Instruments: The IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2015. The first-time adoption will have consequences for the consolidated financial statements.

- 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, 2013. 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, 2013. 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, 2013. 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. The first-time adoption will prospectively not have any 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

	2011	2010
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 Corporation was to date 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	–8,143,353	–6,294,622.40	2,541,371	1,825,697.56

* 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, 2011, the provision for pensions and similar benefits amounts to EUR 13,688 thousand (PY: EUR 13,053 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, 2011, the carrying amount of recognized provisions is EUR 126 thousand (PY: EUR 120 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, 2011, the carrying amount of the recognized other provisions was EUR 136 thousand (PY: EUR 143 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, 2011 (before netting with deferred tax liabilities) is EUR 4,716 thousand (PY: EUR 5,901 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, 2011 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.

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 straight-line 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.

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). As in prior year, no financial liabilities (FVtPL) were classified by the Group as financial liabilities at fair value through profit or loss at the balance sheet date. 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 2011, EUR 609 thousand (PY: EUR 308 thousand) were capitalized as other own services for various technical equipment and machinery, thereof EUR 302 thousand (PY: EUR 66 thousand) for construction period interest.

5.3 OTHER OPERATING INCOME

The following is a specification of other operating income:

(in EUR '000)

	2011	2010
Foreign currency translation gains	504	658
Payments in kind	140	115
Delivery of process water	129	66
Other	121	72
Reimbursements from insurances	121	877
Government grants and similar grants	109	44
Personnel services	98	91
Services provided by laboratory	92	85
Gain from sale of warehouse and scrap	56	63
Gains on disposal of property, plant and equipment	41	24
Income from reversal of provisions	26	35
Routing and tracking services	5	35
Total	**1,442**	**2,165**

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)

	2011	2010
Raw materials, supplies and merchandise	69,006	60,305
Cost of purchased services	763	510
Total	**69,769**	**60,815**

5.5 PERSONNEL EXPENSES

Personnel expenses are specified in the table below:

(in EUR '000)

	2011	2010
Wages and salaries	17,607	14,568
Social security	2,933	2,709
Expenses for retirement benefit obligation	315	1,651
Other pension expenses	112	89
Total	**20,967**	**19,017**

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

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 1,459 thousand (PY: EUR 1,268 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:

	2011	2010
Blue-collar employees	195	177
White-collar employees	138	126
Part-time employees	13	15
Total	**346**	**318**

In additional, an average of 47 apprentices (PY: 43) 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 2011.

5.8 OTHER OPERATING EXPENSES

The following is a specification of other operating expenses:

(in EUR '000)

	2011	2010
Transportation charges	8,422	7,570
Services from third parties not attributable to the process of production	5,321	4,318
Sales commission	2,662	2,180
Minimum lease payments (rent and lease)	2,403	2,244
Insurances	795	585
Other administration expenses	780	870
Legal and advisory fees	514	912
Travel expenses	514	335
Employee benefit costs	418	329
Foreign currency translation losses	355	382
Other	340	499
Advertising expenses	220	266
Other taxes	81	13
Losses from sale of fixed assets	40	23
Bad debt allowance	30	128
Total	**22,895**	**20,654**

5.9 RESEARCH & DEVELOPMENT COSTS

In 2011, various research and development costs of EUR 2,194 thousand (PY: EUR 1,821 thousand) were recognized as expenses.

5.10 INTEREST AND SIMILAR INCOME

Interest and similar income are presented in the table below:

(in EUR '000)

	2011	2010
Interest income from bank balances	392	99
Return on plan assets (liability insurance)	127	116
Interest income from interest rate swaps	37	0
Total	**556**	**215**

5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are presented in the table below:

(in EUR '000)	2011	2010
Interest expenses paid to banks	2,456	3,189
Interest expenses arising from corporate bonds	1,950	411
Interest expenses arising from provisions	698	668
Interest expenses arising from factoring	582	396
Interest expenses arising from compound interest	504	– 138
Interest expenses arising from profit participation right	405	405
Other	170	197
Commission on bank guaranty	66	134
Losses from interest rate swaps	49	0
Interest expenses arising from interest rate swaps	23	0
Expenses arising from finance lease	6	64
Total	**6,909**	**5,326**

5.12 INCOME TAXES

Income taxes are specified as follows:

(in EUR '000)	2011	2010
Current income taxes:		
Current tax expenses in respect of the current year	192	16
Adjustments recognized in current year in relation to the current tax of prior years	0	0
Deferred taxes:		
Origination and reversal of temporary differences	1,454	– 670
Total	**1,646**	**– 654**

The current tax expenses for the financial year 2011 consist of current trade tax and corporate tax as well as US withholding tax for 2011.

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.

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)	2011	2010
Tax rate	28.08%	28.08%
Earnings before tax (EBT)	6,171	1,437
Expected tax expense	1,733	404
Deviations		
1. First-time recognition of deferred taxes related to interest carry forwards	– 158	0
2. Adjustment of deferred tax assets related to interest carry forwards USA	148	0
3. First-time recognition of deferred taxes related to loss carry forwards USA	0	– 1,310
4. Utilization of loss carry forwards not yet capitalized	0	– 70
5. Deviating foreign tax rates	55	38
6. Non-deductible expenses	88	102
7. Tax effects from consolidation measures	– 218	192
8. Other	– 2	– 10
Tax expenses presented in the consolidated statement of comprehensive income	**1,646**	**– 654**

Deferred tax assets and liabilities are specified as follows:

(in EUR '000)	Consolidated Balance Sheet		Consolidated Statement of Comprehensive Income	
	12/31/2011	12/31/2010	2011	2010
Deferred tax assets				
Financial assets	0	20	– 20	– 184
Prepaid expenses	0	81	– 81	– 14
Other assets	310	275	35	275
Retirement benefit obligation	1,248	1,113	135	129
Other provisions	402	495	– 93	82
Liabilities from financial leasing	0	89	– 89	– 269
Liabilities from profit participation	101	1,049	– 948	151
Loss carry forward	2,632	2,779	– 147	– 83
Other	23	0	23	0
Total deferred tax assets – gross	4,716	5,901	– 1,185	87
Deferred tax assets not recognized	0	0	0	– 1,115
Total deferred tax assets – net	**4,716**	**5,901**	**– 1,185**	**1,202**
Deferred tax liabilities				
Non-current assets	6,871	6,554	– 317	– 300
Inventories	275	306	31	– 25
Other	430	447	17	– 207
Total deferred tax liabilities	**7,576**	**7,307**	**– 269**	**– 532**
	– 2,860	**– 1,406**	**– 1,454**	**670**

The deferred tax asset arising from the loss carry forward relates to Nashtec LLC in the amount of EUR 2,020 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 5,940 thousand (PY: EUR 6,384 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)

	2011	2010
Expiration within		
1 year	0	0
2 - 5 years	0	0
6 - 10 years	0	0
11 - 20 years	5,940	6,384

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, 2011 German tax loss carry forwards as well as interest carry forwards in the amount of 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, 2011.

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 has entered into lease and hire-purchase agreements relating to various technical equipment and part of other fixtures, fittings and equipment. These agreements are classified as finance leases in accordance with IAS 17. Contract terms comply with those commonly applied in the industry. The lease agreements originally had a contract term of 3 – 6 years and do not include price adjustment clauses. Some of the lease agreements include purchase options. As of December 31, 2011, 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 2,396 thousand). Likewise with prior year, no additions were made in the course of the financial year.

Assets amounting to EUR 57,209 thousand (PY: EUR 59,462 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, 2011 (PY: EUR 9,690 thousand) were assigned by way of collateral for bank loans.

Borrowing costs in the amount of EUR 302 thousand (PY: EUR 66 thousand) were capitalized in the annual period 2011 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)	12/31/2011	12/31/2010
Raw materials and supplies	14,283	12,546
Unfinished goods	413	393
Finished products and merchandise	11,624	8,476
Total	**26,320**	**21,415**

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

Inventory write-downs in the amount of EUR 338 thousand (PY: EUR 336 thousand) were recognized as expenses.

6.4 TRADE RECEIVABLES

Trade receivables are specified in the table below:

(in EUR '000)	12/31/2011	12/31/2010
Trade receivables – gross	2,739	2,072
Bad debt allowance	– 490	– 460
Total	**2,249**	**1,612**

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 127 thousand (PY: EUR 169 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)	12/31/2011	12/31/2010
Receivables from fixed deposits > 3 months	0	10,000
Receivables from factoring	1,177	1,129
Other	682	995
Other financial assets	**1,859**	**12,124**

(in EUR '000)	12/31/2011	12/31/2010
VAT (value added tax) receivables	841	1,067
Prepaid expenses	121	95
Other non-financial assets	962	1,162
Total	**2,821**	**13,286**

The receivables from factoring in the amount of EUR 1,177 thousand (PY: EUR 1,129 thousand) presented at December 31, 2011, 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)	12/31/2011	12/31/2010
Cash in banks	16,345	18,956
Petty cash	2	1
Total	**16,347**	**18,957**

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 October 23, 2006, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions until October 22, 2011, by up to EUR 3,000 thousand through the issuance of up to 3,000,000 non-par bearer shares (non-par shares) 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 2006/I). The Authorized Capital 2006/I was not used and was nullified per the resolution of the annual shareholders meeting held on June 9, 2011.

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 October 23, 2006, the capital stock was increased conditionally by the issuance of up to 3,000,000 non-par bearer shares (non-par shares) (Conditional Capital 2006/I). The Conditional Capital only serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants that were issued by the Company with the authorization of the annual shareholders' meeting of October 23, 2006. The Conditional Capital was not used and was nullified per the resolution of the annual shareholders meeting held on June 9, 2011.

By resolution of the annual shareholders' meeting of June 9, 2011, the capital stock was increased conditionally by the issuance of up to 4,000,000 non-par bearer shares (non-par shares) (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, 2011, 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, 2011, 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 2011 and 2010.

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. As of December 31, 2011, accumulated other comprehensive expenses amounted to EUR – 294 thousand (PY: EUR – 576 thousand).

Interest held by other shareholders

As at December 31, 2011, non-controlling interests amount to EUR – 3,084 thousand (PY: EUR – 3,969 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 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**

FINANCIAL YEAR 2010 (in EUR ’000)

	Opening Balance 01/01/2010	Additions	Write-downs	Reversal	Closing Balance 12/31/2010
Provisions for personnel	545	74	104	0	515
Provisions related to ecological/decommissioning obligations	247	0	92	35	120
Other provisions	76	140	73	0	143
Total	**868**	**214**	**269**	**35**	**778**

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 issued to Management and employees based on the pension scheme. Part of contributions to the pension plans are paid to liability insurances.

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)

	2011	2010
Current service cost	513	448
Interest expenses	682	651
Expected return on plan assets	– 42	– 37
Actuarial gains (–) and losses (+)	– 188	1.202
Expenses for pension benefits	**965**	**2.264**
Actual return on plan assets	32	22

Actuarial gains and losses are immediately fully recognized in the income statement and, similar to current service cost, is presented under personnel expenses. 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.

ASSETS/LIABILITIES UNDER
DEFINED BENEFIT OBLIGATIONS (in EUR '000)

	12/31/2011	12/31/2010
Defined benefit obligation	14,794	14,033
Fair value of plan assets	– 1,106	– 980
	13,688	**13,053**
Unrecognized actuarial gains/losses	0	0
Unrecognized past service cost	0	0
Defined benefit obligation	**13,688**	**13,053**

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, 2010	11,942
Interest expenses	651
Current service cost	448
Benefits paid	– 210
Actuarial gains/losses	1,202
Other	0
Defined benefit obligations at December 31, 2010	**14,033**
Interest expenses	682
Current service cost	513
Benefits paid	– 236
Actuarial gains/losses	– 198
Other	0
Defined benefit obligations at December 31, 2011	**14,794**

Of the total defined benefit obligation amounting to EUR 14,794 thousand as per December 31, 2011 (PY: EUR 14,033 thousand), an amount of EUR 4,614 thousand (PY: EUR 4,363 thousand) is covered by liability insurances.

For 2012, benefit payments are expected to amount to approximately EUR 241 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, 2010	864
Expected return	37
Employer contributions	94
Benefits paid	0
Actuarial gains/losses	– 15
Fair value of plan assets at December 31, 2010	**980**
Expected return	42
Employer contributions	94
Benefits paid	0
Actuarial gains/losses	– 10
Fair value of plan assets at December 31, 2011	**1,106**

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 94 thousand for the financial year 2012.

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

(in EUR '000)	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Present value of the defined benefit obligation	14,794	14,033	11,942	10,395	10,253
Fair value of plan assets	1,106	980	864	752	647
Pension provision	13,688	13,053	11,078	9,643	9,606

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

(in %)	2011	2010
Discount rate	5.00	4.90
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.

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	12/31/2011	28,928	–	28,928	–
from corporate bonds	12/31/2010	28,694	–	28,694	–
Payable to banks	12/31/2011	43,125	8,146	34,979	0
	12/31/2010	47,941	8,332	33,144	6,465
Profit participation	12/31/2011	4,976	–	4,976	–
capital	12/31/2010	4,951	–	4,951	–
Trade payables	12/31/2011	10,037	10,037	–	–
	12/31/2010	11,244	11,244	–	–
Liabilities from	12/31/2011	0	0	–	–
finance lease	12/31/2010	319	319	–	–
Income taxes payable	12/31/2011	190	190	–	–
	12/31/2010	16	16	–	–
Other liabilities	12/31/2011	13,036	13,036	–	–
	12/31/2010	14,149	14,149	–	–
Total	**12/31/2011**	**100,292**	**31,409**	**68,883**	**0**
	12/31/2010	**107,314**	**34,060**	**66,789**	**6,465**

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 temporis amortization of these transaction costs, this amount decreased to EUR 1,072 thousand as at December 31, 2011 (PY: EUR 1,306 thousand); therefore, the corporate bonds amounted EUR 28,928 thousand (PY: EUR 28,694 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 2011, covenants valid as at December 31, 2011, were adhered to. In the second half of 2011, Nabaltec AG could restructure a substantial part of the long term payables to banks. The new conditions are a significant improvement compared to the previous credit agreements.

Profit participation capital

As per December 31, 2011, the Company has a liability pertaining to profit participation capital in the amount of EUR 4,976 thousand (PY: EUR 4,951 thousand). The scheduled term of the profit participation capital with an amount of EUR 5,000 thousand ends in 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 2011.

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. The right to redemption payments is not effective, should such rights only be covered by committed equity. This could result in prospective cash flows deviating from contractual cash flows. Nabaltec will meet the profit participation rights as contractually agreed. According to the intermediate budget, there will be sufficient fund will be available so as to fully pay the redemption amount upon maturity. Correspondingly, the contractual cash flows are anticipated.

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, 2011 there were no liabilities from finance leases.

With regards to rental and lease expenses in financial years 2011 and 2010, 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 financial year.

Other liabilities

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

(in EUR '000)	12/31/2011	12/31/2010
Loan due to non-controlling shareholder	9,236	8,914
Negative fair value of interest rate swap	707	726
Investment grants	523	1,983
Interest expenses arising from corporate bonds	411	411
Employer's Liability Insurance Association	253	313
Other	232	204
Preparation and audit of the annual financial statements	185	135
Other current financial liabilities	**11,547**	**12,686**

(in EUR '000)	12/31/2011	12/31/2010
Outstanding vacation claims	636	578
Bonuses and performance-based pay	564	530
Payables to tax authorities	203	175
Invention remuneration	57	0
Social securities payable	22	20
Other consumption tax	7	160
Other current non-financial liabilities	**1,489**	**1,463**
Total other current liabilities	**13,036**	**14,149**

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 523 thousand (PY: EUR 1,983 thousand) comprise a fixed assets investment grant already received from the government of Upper Palatinate (Oberpfalz) for prospectively planned investments. This investment grant has not been allocated to a specific investment as yet. These items consisted exclusively of other financial liabilities. The carrying amount is approximately equal to its fair value. As at December 31, 2011 EUR 5,477 thousand (PY: EUR 4,017 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 are 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 2,403 thousand (PY: EUR 2,244 thousand) was recognized as expenses under rental and operating lease agreements.

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

(in EUR '000)

	12/31/2011	12/31/2010
Minimum lease payments due in < 1 year	2,497	2,456
Minimum lease payments due 1 – 5 years	2,729	4,831
Minimum lease payments due > 5 years	186	0
Total	5,412	**7,287**

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, 2011, the Company was subject to open purchase orders for capital expenditure projects in the amount of EUR 5,655 thousand (PY: EUR 1,611 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		Fair value	
		2011	2010	2011	2010
Financial assets					
Trade receivables	LaR	2,249	1,612	2,249	1,612
Other receivables					
Other non-derivative and financial assets	LaR	1,859	12,124	1,859	12,124
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	16,347	18,957	16,347	18,957
Financial liabilities					
Financial liabilities at amortized cost					
Financial liabilities arising from corporate bonds	FLaC	28,928	28,694	28,928	28,694
Payables to banks	FLaC	43,125	47,941	43,125	47,941
Profit participation capital	FLaC	4,976	4,951	4,976	4,951
Trade payables	FLaC	10,037	11,244	10,037	11,244
Liabilities from finance lease	–	0	319	0	319
Other financial liabilities					
Other non-derivative financial liabilities	FLaC	10,840	11,960	10,840	11,960
Negative fair value interest rate derivatives (without a hedging relationship)	HfT/FVtPL	49	0	49	0
Negative fair value interest rate derivatives (designated in an effective cash flow hedging relationship)	–	658	726	658	726
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 gain/loss 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 gain/ loss 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**

MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39

			From subsequent measurement			
		From interest	At Fair Value	Currency translation	Impairment/ allowance	Net gain/ loss 2010
Loans and Receivables	LaR	99	–	4	– 128	– 25
Held for Trading	HfT	–	–	–	–	–
Other Liabilities	FLaC	– 4,460	–	272	–	– 4,188
Total 2010		**– 4,361**	**–**	**276**	**– 128**	**– 4,213**

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 2,184 thousand for 2011 (PY: EUR 446 thousand) and relating to profit participation capital amount to EUR 429 thousand (PY: EUR 429 thousand).

Net gains/losses arising from the subsequent measurement of derivative financial instruments classified as held for trading include interest as well as foreign currency translation 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 gains/losses 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 gains/losses from impairment mainly include 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:

12/31/2011 (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

12/31/2010 (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	726	0	726

In 2011, 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, 2011, in the amount of EUR – 658 thousand (PY: EUR – 726 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 2011 of EUR 68 thousand (PY: loss of EUR 69 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.

Additionally, a new interest rate swap with a negative fair value of EUR 49 thousand as per December 31, 2011, was entered into, resulting in a loss of EUR 49 thousand, recognized in the 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)	2011	2010
Balance per 01/01/	460	332
Additions recognized as expenses in the income statement	30	128
Reversal	0	0
Balance per 12/31/	490	460

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
12/31/2011	2,249	2,249	0	0	0	0
12/31/2010	1,612	1,612	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	12/31/2011	37,800	1,955	35,845	–
	12/31/2010	39,750	1,950	37,800	–
Payables to banks	12/31/2011	47,419	9,693	37,726	0
	12/31/2010	55,953	10,679	38,609	6,665
Profit participation capital	12/31/2011	5,515	405	5,110	–
	12/31/2010	5,810	405	5,405	–
Trade payables	12/31/2011	10,037	10,037	–	–
	12/31/2010	11,244	11,244	–	–
Liabilities from finance lease	12/31/2011	0	0	–	–
	12/31/2010	325	325	–	–
Other financial liabilities	12/31/2011	11,547	11,547	–	–
	12/31/2010	12,686	12,686	–	–
Total (financial liabilities)	**12/31/2011**	**112,318**	**33,637**	**78,681**	**0**
	12/31/2010	**125,768**	**37,289**	**81,814**	**6,665**

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
2011		
USD	+5	159
USD	–5	–159
2010		
USD	+5	96
USD	–5	–96

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
2011			
Europe	+10	–32	7
USA	+10	–18	16
Europe	–10	33	–7
USA	–10	18	–2
2010			
Europe	+10	–16	0
USA	+10	–6	22
Europe	–10	16	0
USA	–10	6	–22

* 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, 2011 and 2010, monitored for purposes of the Group's capital management, are presented in the table below:

	12/31/2011 in EUR '000	12/31/2010 in EUR '000	Change in %
Equity	**46,934**	**42,137**	**11.38**
in % of total capital	35.24	31.69	11.20
Non-current financial liabilities	68,883	73,254	– 5.97
Current financial liabilities	17,382	17,565	– 1.04
Debt*	**86,265**	**90,819**	**– 5.01**
as % of total capital	64.76	68.31	– 5.20
Total capital for capital management purposes	**133,199**	**132,956**	**0.18**

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

In the financial year, equity increased by EUR 4,797 thousand to EUR 46,934 thousand in principle due to the profit incurred by the Group.

Borrowed capital decreased by EUR 4,554 thousand to EUR 86,265 thousand in the financial year due primarily to the redemption of long term payables to bank.

In total, the capital measures conducted in 2011 increased the equity ratio (as a percentage of total capital) to 35.24% compared to prior year 31.69%. The ratio of debt to total capital, according to the definition applied for capital management purposes, sunk from 68.31% as of December 31, 2010 to 64.76% as of December 31, 2011.

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 1,065 thousand (PY: EUR 914 thousand) in the financial year 2011. In addition, post-employment expenditures of EUR 219 thousand (PY: EUR 831 thousand) were incurred.

Members of the Management Board hold the following interest in the Company as at December 31, 2011:

Johannes Heckmann	1,295,250 no-par value shares
Gerhard Witzany	1,254,310 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 2011.

Members of the Supervisory Board hold the following interest in the Company as at December 31, 2011:

Dr. Leopold von Heimendahl	44,200 no-par value shares
Dr. Dieter Braun	43,000 no-par value shares
Prof. Dr. Jürgen G. Heinrich	1,700 no-par value shares

At December 31, 2011 and 2010, there were receivables due from and payables due to related parties as follows:

(in EUR '000)	Receivables		Payables	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Entities controlled by members of the Supervisory Board	0	0	0	0
Entities controlled by members of the Management Board	10	10	0	7

At December 31, 2011 or in the course of 2011 as well as at December 31, 2010 or in the course of 2010, there were neither allowances for bad debt nor expenses for uncollectible receivables or bad debt due from related parties.

In 2011 and 2010, 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	
	2011	2010	2011	2010
Entities controlled by members of the Supervisory Board	0	0	5	5
Entities controlled by members of the Management Board	102	91	50	11

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 102 thousand; PY: EUR 91 thousand), plant design (expenses amounting to EUR 47 thousand; PY: EUR 0 thousand) and other services (expenses amounting to EUR 3 thousand; PY: EUR 11 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 1,023 thousand as at the balance sheet date December 31, 2011. With regard to the members of the Supervisory Board, the payable amounts to a nominal value of EUR 385 thousand.

7.5 EARNINGS PER SHARE

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

	2011	2010
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 2011 and 2010.

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

	2011	2010
Consolidated earnings after tax – Shareholders of Nabaltec AG (in EUR '000)	3,630	1,779
Undiluted weighted average number of common shares outstanding	8,000,000	8,000,000
Earnings per share (in EUR)	0.45	0.22

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 2011 and 2010, no inter-segment transactions between the business divisions were incurred.

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	13,534	7,039	–	20,573
EBIT	7,716	4,808	–	12,524
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

FINANCIAL YEAR ENDED DECEMBER 31, 2010 (in EUR '000)

	Functional Fillers	Technical Ceramics	Other	Nabaltec Group
Revenues				
Third party revenue	75,916	36,785	–	112,701
Segment result				
EBITDA	9,022	5,302	–	14,324
EBIT	3,391	3,157	–	6,548
Assets and liabilities				
Segment assets	105,270	40,293	20,435	165,998
Segment liabilities	12,009	5,248	106,604	123,861
Other segment information				
Capital expenditures				
– Property, plant and equipment	4,610	2,187	–	6,797
– Intangible assets	25	17	–	42
Depreciation and amortization				
– Property, plant and equipment	5,605	2,112	–	7,717
– Intangible assets	26	33	–	59

Information by region

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

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

FINANCIAL YEAR ENDED DECEMBER 31, 2010 (in EUR '000)

	Germany	Rest of Europe	USA	RoW	Total
Revenues					
Third party revenue	33,938	51,411	16,752	10,600	112,701
Other segment information					
Segment assets	144,975	–	21,023	–	165,998
Capital expenditures					
– Property, plant and equipment	6,663	–	134	–	6,797
– Intangible assets	42	–	–	–	42

In 2011, one customer accounted for more than 10% of total revenues. Revenue from this customer amounts to EUR 13,449 thousand and is included in the "Functional Fillers" segment. Similarly, in 2010, one customer accounted for more than 10% of total revenues (EUR 12,477 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. 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

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 2011 financial statements amounts of EUR 80 thousand (including the fee for the audit of the Company's consolidated financial statements 2011). For other assurance services, the auditor received a fee of EUR 3 thousand. The fee for tax advisory services amounts to EUR 17 thousand and for other services to EUR 5 thousand.

Schwandorf, March 2, 2012

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, 2011. 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. Additionally, we were engaged to assess whether the consolidated financial statements have been prepared in accordance with the IFRS as a whole.

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 9, 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann)	(Sauer)
Auditor	Auditor

BALANCE SHEET OF NABALTEC AG

AS OF DECEMBER 31, 2011

ASSETS (in EUR '000)

	12/31/2011	12/31/2010
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	188	105
2. Advance payments	1	71
	189	**176**
II. Property, Plant and Equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	14,646	15,123
2. Technical equipment and machinery	49,682	50,242
3. Other fixtures, fittings and euqipment	2,131	2,000
4. Advance payments as well as plant and machinery under construction	11,527	3,353
	77,986	**70,718**
III. Financial Assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	9,271	9,079
3. Other loans	0	0
	9,434	**9,242**
	87,609	**80,136**
B. Current Assets		
I. Inventories		
1. Raw materials and supplies	12,891	11,080
2. Finished goods and purchased products	11,263	8,118
	24,154	**19,198**
II. Accounts Receivable and other Assets		
1. Trade receivables	2,237	1,596
2. Other assets	2,827	13,361
	5,064	**14,957**
III. Cash and cash equivalents	**15,356**	**18,672**
	44,574	**52,827**
C. Prepaid Expenses	**68**	**334**
TOTAL ASSETS	**132,251**	**133,297**

EQUITY & LIABILITIES (in EUR '000)

	12/31/2011	12/31/2010
A. Shareholders' Equity		
I. Subscribed capital Conditional capital EUR 3,000 thousand (PY: EUR 3,000 thousand)	8,000	8,000
II. Capital reserve	30,824	30,824
III. Profit participation capital	4,588	1,211
IV. Accumulated profits	0	0
	43,412	**40,035**
B. Non-current Assets Investment Grants	**35**	**42**
C. Provisions		
1. Retirement benefit obligation and similar provisions	9,892	8,738
2. Accrued taxes	190	16
3. Other provisions and accrued liabilities	3,253	3,302
	13,335	**12,056**
D. Accounts Payable		
1. Liabilities arising from corporate bonds	30,000	30,000
2. Payables to banks	35,026	38,589
3. Trade payables	8,592	9,534
4. Payables to affiliated companies	459	248
5. Other payables – thereof relating to taxes EUR 203 thousand (PY: EUR 174 thousand) – thereof relating to social securities: EUR 22 thousand (PY: EUR 20 thousand)	1,392	2,793
	75,469	**81,164**
TOTAL EQUITY & LIABILITIES	**132,251**	**133,297**

INCOME STATEMENT

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

(in EUR ’000)	01/01 - 12/31/2011		01/01 - 12/31/2010	
1. Revenue		129,022		112,701
2. Change in finished goods		3,133		– 756
3. Other capitalized own services		609		308
Total performance		**132,764**		**112,253**
4. Other operating income		1,699		**2,787**
		134,463		**115,040**
5. Cost of materials:				
a) Cost of raw materials and supplies and purchased goods	74,223		63,933	
b) Cost of purchased services	763	74,986	510	64,443
Gross profit		**59,477**		**50,597**
6. Personnel expenses:				
a) Wages and salaries	17,449		14,410	
b) Social security and other pension costs – thereof for pension costs: EUR 673 thousand (PY: EUR 665 thousand)	3,606		3,375	
7. Amortization/Depreciation of intangible assets and property, plant and equipment	7,313		7,023	
8. Other operating expenses	21,894	50,262	21,722	46,530
		9,215		**4,067**
9. Income from securities and loans (financial assets) – thereof from affiliated companies: EUR 176 thousand (PY: EUR 190 thousand)	176		190	
10. Interest and similar income	431		99	
11. Interest and similar expenses – thereof for profit participation rights capital: EUR 405 thousand (PY: EUR 405 thousand)	5,905		4,526	
Financial result		**– 5,298**		**– 4,237**
12. Result from ordinary operating activities		**3,917**		**– 170**
13. Exceptional expenditures	267		320	
14. Exceptional result		267		320
		3,650		**– 490**
15. Income taxes	192		16	
16. Other taxes	81	273	13	29
17. Net result for the year		**3,377**		**– 519**
18. Profit carried forward		0		0
19. Addition/Withdrawal profit participation capital		– 3,377		519
20. Accumulated profit		**0**		**0**

FINANCIAL CALENDAR 2012

Interim Report 1/2012	29 May 2012
Annual General Meeting	21 June 2012
Interim Report 2/2012	21 August 2012
Corporate bond: annual interest payment	15 October 2012
Interim Report 3/2012	27 November 2012

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