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ANNUAL FINANCIAL STATEMENTS 2013
NABALTEC AG

Nabaltec

NABALTEC AG MANAGEMENT REPORT
FOR THE FINANCIAL YEAR 2013

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE GROUP'S BUSINESS MODEL

Business Operations

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide (ATH) and aluminum oxide. The Company belongs to the world's leading suppliers of functional fillers, ceramic raw material and ceramic bodies. The production capacity entails approximately 250.000 tons per annum (t.p.a.) with an export share of nearly 70%.

The range of applications of Nabaltec products is very diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment
- fillers and additives 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

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

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

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

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

Corporate Structure

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

Nabaltec AG owns a 51% interest in Nashtec LLC (USA) as part of a joint venture. Its joint venture partner is Sherwin Alumina. 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 units. In addition, the Company operates four service departments as profit, respectively, cost centers.

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

BUSINESS DIVISIONS

Functional Fillers:

- Flame Retardants
- Additives
- Environmental Technique

Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS

Administrative Services

Controlling/Finance

Technical Services

Laboratory Services

1.2 OBJECTIVES AND STRATEGIES

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

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

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

In the ceramic raw materials segment, the market for reactive alumina is developing over proportionally well due to increasing refractory industry quality requirements. Markets for technical ceramics and the 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 aluminum-oxide based readily available ceramic bodies for highly specialized applications in technical ceramics due to amongst others the state-of-the-art production facility for granulated ceramic bodies in Schwandorf.

2. **Strategic positioning within growth markets**

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

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

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

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

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

Nabaltec develops its own product portfolio along three dimensions:

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

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

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

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

6. **Securing future investments through a strong financial base**

In order to take full advantage of market potential relating to both business divisions, further investments are necessary. This investment activity is at the same time a high market entry barrier for potential new suppliers. Such as to ensure the disposal over the required investment capital, Nabaltec focuses on a broad financing basis consisting of equity, bank loans, subsidies as well as promissory note bonds emitted in 2013.

1.3 CONTROLLING

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

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

1.4 Basis of the remuneration system for the governing bodies

Management Board

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

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

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

As part of a D&O insurance with an insurance coverage of up to EUR 17,500,000, the board members are insured up to the 1.5 fold of the respective annual fixed salary giving consideration to a 10% deductible of the damage as required by law.

Supervisory Board

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

In the interest of the company, the board members are covered by this D&O insurance with an insurance coverage of up to EUR 17,500,000 without any deductible. The insurance premiums incurred are born by the company.

1.5 RESEARCH & 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 and our joint development efforts with customers. 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, Nabaltec considers research & development to be one of our core competencies.

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

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

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

Nabaltec's strong commitment to research & development is expressed in receiving various national and international awards and distinctions for innovation strength. For example, the Company already as much as seven times belongs to Germany's top 100 innovative medium sized German companies and was distinguished several times for her innovative energy.

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

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

During fiscal year 2013, the following developments played a central role in the “Functional Fillers” business division:

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

In the field of classical mineral flame retardants, such as APYRAL®, existing products are modified in coordination with our customers as well as in accordance with new application requirements, e.g. in the cable & wire industry. An example of such projects is the cooperation with Sumitomo Chemical. Together with our strategic partner, aim is taken at adapting our mineral filler materials for the Japanese market. In this regard, special attention is always given to achieving optimal characteristics of finished products especially for the Japanese market.

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

Nabaltec is working intensively on developing applications for the aircraft industry. Through adaption of our APYRAL®-AOH products, we received approval from our customers in the areas of fiberglass enforced plastics for interior applications in airplanes. Further approvals are being prepared or are already in process.

Nabaltec AG introduces new special fine grades of APYRAL® AOH und ACTILOX® B (boehmite) for technical thermoplastics, in which mineral flame retardants have to date not been applied on a large scale. In this case, our products not only excel as flame retardants but also contribute purposefully in improving other physical features of the finished parts manufactured.

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 plants.

During the reporting period, the following developments were at focus for the “Technical Ceramics” business division:

As part of the NABALOX® product segment, activities focused on developing various qualities for applying as abrasives. In order to prepare the market entry on a large scale, application studies at customers were conducted and approvals were obtained. Beyond this targeted market, the potential of the new products could be demonstrated.

The application of reactive aluminum oxides by Nabaltec lies mainly in the refractory industry, where the products already today significantly contribute toward the production of higher performance monolithic and formed products. As a result of continuing research for product improvement a new quality to supplement the portfolio could be introduced in the market.

Additionally, comprehensive technical application research as part of the project to develop new reactive aluminum oxides with a different scope of application was almost concluded. A first product as part of a pilot project was manufactured and introduced to the market.

Within the scope of an AiF-project our own development continued in the areas of characterization and optimization of technological processing characteristics of spray granulated aluminum oxides. In this context, various testing materials for external research were provided. Any optimization potential derived is to be transferred to the GRANALOX®-product range of Nabaltec.

In addition to various customer specific developments, a project to produce strength optimized ceramics was worked on.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

After only a rather moderate increase in world production of 3.8% and 3.1% was realized already in 2011 and 2012, respectively, according to the Kiel Institute for the World Economy (IfW) for 2013 an increase of 2.9% was recorded. Worldwide growth was lower than in the years before but during the year a pick-up of the global economic condition was noted. In the third quarter of 2013 the highest growth rate of world production since 2010 was noted. For this development, the advanced consolidation of the US private sector, first successes in achieving structural changes in the EUR zone as well as a rising business growth in emerging economies were important factors. Despite these impulses, growth for the total of 2013 weakened somewhat in important economic regions. The growth of the gross domestic product (GDP) in the USA improved by 1.6%, only, compared to prior year's 2.8%. China's GDP-growth decreased from 7.8% to 7.5% while India's growth rate moderately increased from 3.7% to 4.0%.

Starting with the second quarter, the EURO zone was able to come out of a recession. Prior to this the macro economic production decreased for six straight quarters. The economic development lacked momentum resulting in a 2013 slight decrease of the macro economic production in the EUR zone by -0.4% (prior year -0.7%)

The German economy, despite the recession in the EURO zone proved to be very resistant and could grow in 2013 albeit somewhat lower than in prior years. According to the Federal Bureau of Statistics, GDP-growth after taking inflation into account was 0.4% compared to

0.7% in 2012 and 3.3% in 2011. According to the Federal Bureau of Statistics, the German economy was affected by the ongoing recession in some European countries and by the worldwide economic development which could not be compensated by domestic demand. Further complicating matters was the negative impact of the trade balance due to increased imports. Significant positive stimulus was noted caused by private and government spending.

2.1.2 INDUSTRY DEVELOPMENT

In 2013, total revenue in the German chemical industry increased slightly to the prior year level by 0.5% to EUR 188.0 billion (source: German chemical industry association Verband der Chemischen Industrie e.V. (VCI)).

Although the production level of the German chemical industry rose by 1.5%, prices decreasing by -1% hampered sales growth.

Domestic sales of the German chemical industry in comparison to 2012 rose by 1% to EUR 75.0 billion. Exports stagnated at EUR 113,0 billion, however.

After two years of almost steady investments, in 2013 the chemical industry increased its capital expenditures for property, plant & equipment. Domestic investments were increased by 2% to EUR 6.4 billion compared to the prior year. The largest part of the increase related to additions to capacity (42%). However, the 2013 capital expenditures only slightly exceeded the amortization of EUR 5.8 billion which according to VCI largely depends on the domestic conditions for investments. Low planning reliability and long planning periods for large scale capital expenditures as well as large difference in energy costs are reasons why investments of the chemical industry increasingly are placed in Asia and especially to the USA.

The long term trend of increasing demand for non-halogenated, flame-retardant fillers and in particular aluminum hydroxide is still intact. Independent forecasts assume an annual increase in worldwide demand of 5% till 2017 (on the basis of ATH, source: Roskill). Market growth is especially stimulated by the growing public consciousness regarding fire safety as well as the ongoing replacement of potentially hazardous flame retardants with environmentally friendly, halogen-free aluminum hydroxide. This development in demand specifically affects fine precipitated aluminum hydroxide. In every quarter in 2013, Nabaltec could set forth the positive development of the prior year and achieve a new record regarding the production of fine precipitated aluminum hydroxide. According to Nabaltec AG, the prospects remain good regarding environmentally friendly additives in plastic production as well as regarding boehmite with its numerous applications.

In the special aluminum oxide and reactive aluminum oxide segments, the refractory market is influenced by the demand within the steel industry which in 2013 was hampered by weak demand and was only able to recover slightly during the last weeks of 2013. Nabaltec was able to withstand this development by diversification in customer business lines and above average development of strong value adding products. Market experts also expect an annual growth of around 3% for refractory products and technical ceramics (source: Roskill).

2.2 COURSE OF BUSINESS

Nabaltec AG's business developed satisfactorily in 2013. Different to prior years, the dynamic was not different in the two half years but rather was constant. During the first half year as well as the second half year, sales exceeded the comparable periods of the prior year. In total, revenue 2013 increased slightly by 2.9% to EUR 132.9 million while the operating profit (EBIT) increased by 3.2% to EUR 6.5 million (2012: EUR 6.3 million). Equity is reduced by 9.3% to EUR 39.9 million (2012: EUR 44.0 million), due to the discontinuation of the profit participation capital.

The most recently communicated revenue and earnings forecast for the financial year 2013 were thereby met.

According to Management, Nabaltec AG's market position was further improved in 2013. The respective number leading positions amongst the top 3 in the relevant target markets were either confirmed or improved.

Due to customer restriction in December of 2013 an above average decrease in sales was recorded. Many customers forcefully reduced their inventory levels. This caused Nabaltec's finished goods warehouse to be stocked well for the start of the new year and enables the company an ongoing ability to ship out products. In January and February of 2014 significant increases in product shipments were recorded. With its product range and long term reputation, Nabaltec is optimally equipped for a continued successful financial year 2014.

2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG

2.3.1 DEVELOPMENT OF REVENUE

Nabaltec AG realized sales revenue of EUR 132.9 million in 2013, and therefore exceeded prior year's level by 2.9% (2012: EUR 129.2 million). Turnover volume across all business areas increased by 6.8%. Direct exchange rate effects played a subordinated role in the development of revenues in 2013. The export share slightly increased to 69.2% from 69.0% in 2012.

As already in prior year, particularly the first half-year 2013 was the driving force for the good development in revenue. At the same time, the second half year significantly gained dynamic in comparison to 2011 an 2012. With sales of EUR 34.8 million, the first quarter of 2013 exceeded prior year's very strong first quarter. The second quarter with revenues of EUR 34.0 million almost matched the comparative value. In the second half of the year third quarter's EUR 33.8 million and fourth quarter's EUR 30.3 million significantly exceeded the 2012 numbers. Nonetheless in the fourth quarter the demand in December was marked by a significant downturn. Both the end customers as well as the processing industry reduced their stock levels to a minimum at year end.

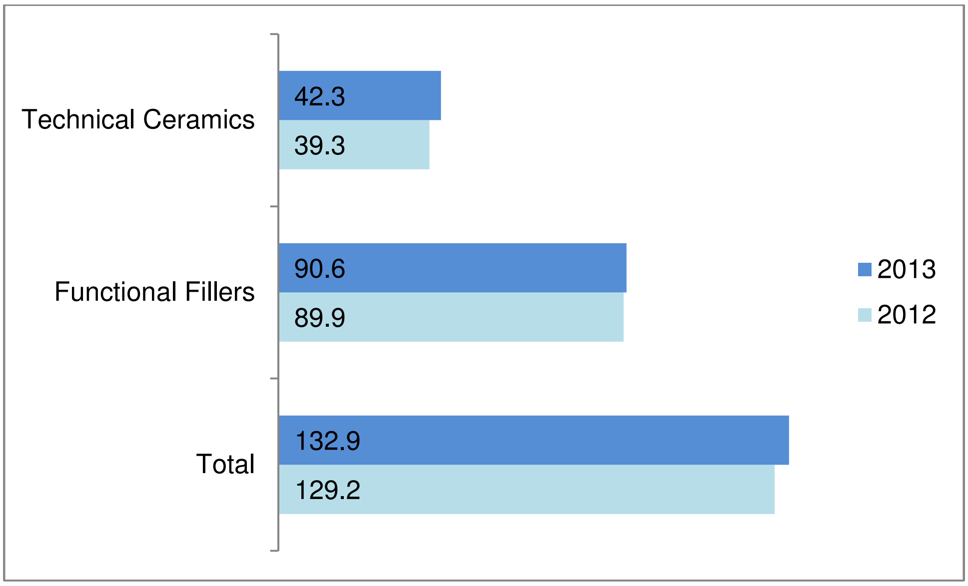
Throughout the year, orders amounted to EUR 131.5 million in total. Nabaltec ended the financial year 2013 with an order backlog of EUR 14.9 million.

The business division “Functional Fillers” increased its revenues in 2013 from EUR 89.9 million to EUR 90.6 million an increase of 0.8% compared to prior year. This growth is significantly based on an increase in sales quantity.

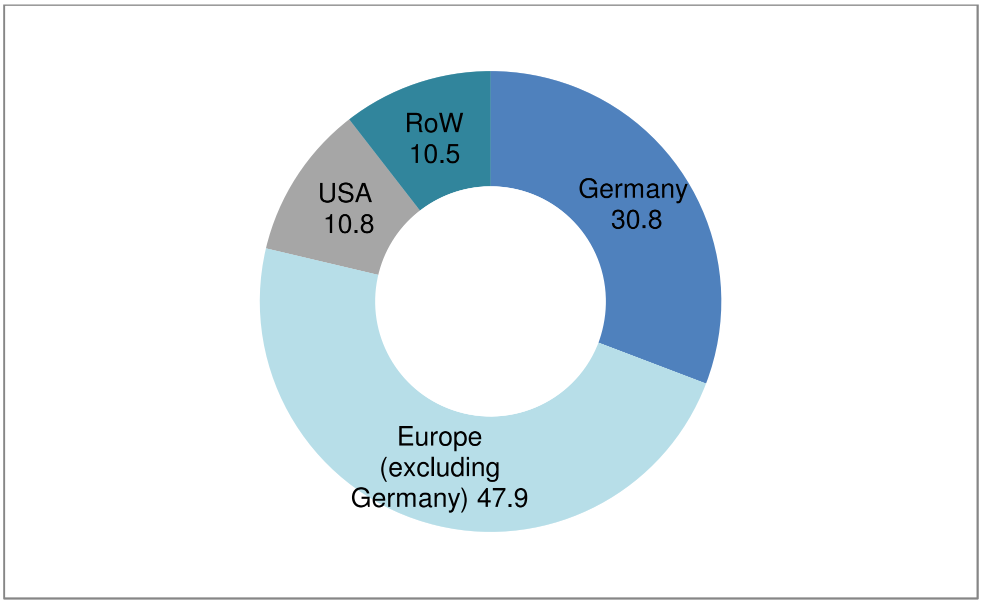
The US subsidiary, Nashtec, could further brace her market position.

The business division “Technical Ceramics” due to increased sales volume and development of a high level of value adding products achieved revenues of EUR 42.3 million compared to EUR 39.3 million in prior year, an increase of 7.6%.

Revenue by business division in 2013
(in EUR million)



Revenue by region 2013
(in %)



Nabaltec AG's total performance increased in 2013 by 4.0% from EUR 129.3 million to EUR 134.5 million. This is mainly due to the build up of stock levels of finished goods and work in progress compared to a reduction in prior year. Capitalized internally generated assets amounted to EUR 0.2 million.

Other operating income of EUR 1.3 million primarily consists of other income from goods and services delivered to third parties. Compared to prior year, other operating income decreased by EUR 0.4 million due to lower exchange rate gains.

Operational expense ratios compared to total performance		
	2013	2012
Cost of materials	56.4%	56.4%
Personnel expenses	16.6%	16.9%
Other operating expenses	16.9%	16.8%

Compared to prior year, the cost-of-materials-ratio (compared to total performance) remained stable at 56.4%. In absolute terms, gross profit exceeded the prior year with EUR 60.1 million in the reporting period and EUR 58.2 million in 2012.

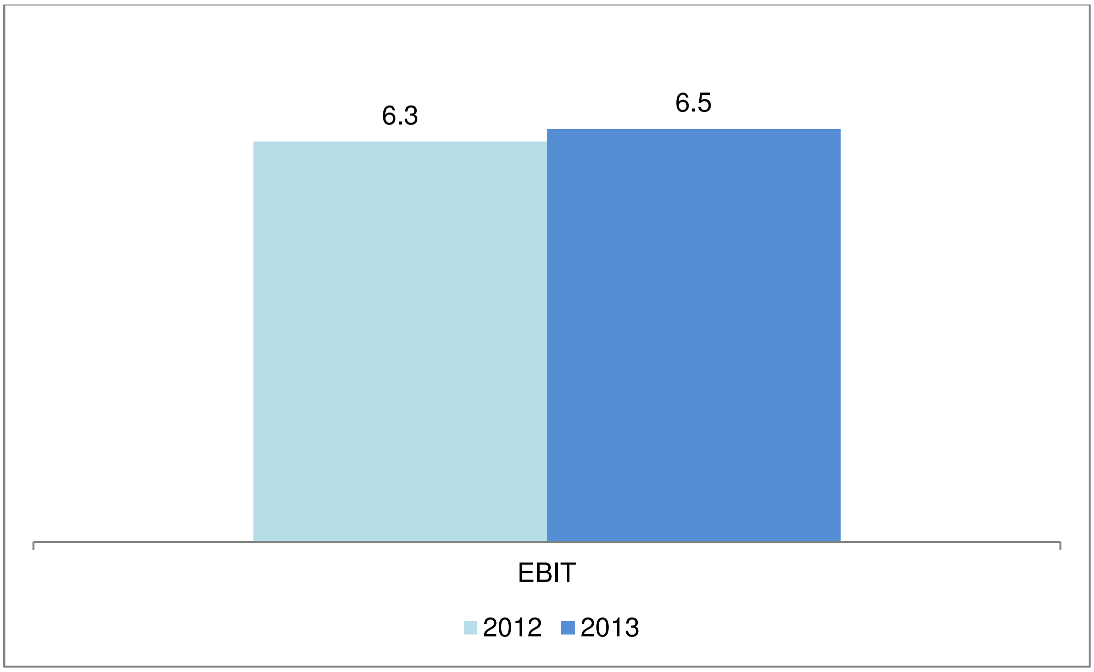
In 2013, the personnel-expenses-ratio (compared to total performance) of 16.6% decreased slightly to prior year level of 16.9% The number of employees decreased from 416 per 31 December 2012 to 413 per 31 December 2013.

Other operating expenses increased from EUR 21.7 million to EUR 22.7 million. The expense-ratio (compared to total performance) slightly rose from 16.8% to 16.9%. While the distribution-costs-ratio and the cost-ratio relating to sales agent commissions remained stable, costs for external services and repair services came in higher. Decreasing cost ratios for general administration, consulting, insurance, and employee benefit costs were noted.

Earnings before interest, tax and depreciation and amortization (EBITDA) increased by 3.4% from EUR 14.6 million to EUR 15.1 million. This is mainly due to the increased total performance for the business year.

Taking into account the scheduled depreciation/amortization in the financial year 2013 in the amount of EUR 8.6 million, the operating result (EBIT) amounts to EUR 6.5 million compared to EUR 6.3 million in prior year. This was primarily due to the upward trend in the overall performance despite higher depreciation/amortization compared to prior year.

EBIT (in EUR million)



Earnings before tax (EBT) amounted to EUR 1.8 million (2012: EUR 1.4 million).This includes the financial result 2013 of EUR -4.7 million (2012: EUR -4.9 million), consisting of EUR 4.8 million interest expenses, amortization of financial assets and securities in current assets of EUR 0.3 million and EUR 0.2 million interest income and income from other securities and loans of EUR 0.2 million. In addition, fourth quarter include interest expense on the corporate bonds and also the additional interest expense from the promissory note bond issued in October 2013. Due to the discontinuation of the interest expense for the corporate bonds starting January 2014, the financial result is expected to improve. By placing the promissory note bond, the financing of the company was secured on a long-term basis at good terms.

Exceptional expenditures of EUR 0.3 million result from the continuous adjustment of the retirement benefit obligation as per the German Accounting Law Modernization Act.

Tax expenditure of EUR 0.6 million was incurred in the 2013 business year (2012: EUR 0.5 million).

Profit for the year amounted to EUR 0.9 million (2012: EUR 0.6 million).

2.3.2 FINANCIAL POSITION

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

Thanks to our own production in the USA through our 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.

Up to the balance sheet date, Nashtec was provided EUR 7.8 million (2012: EUR 8.7 million) in liquid funds. Interest rates and contract terms correspond to those standards used for middle-sized enterprises. In the case of debt financing with variable interest, Nabaltec from case to case avails itself of various interest rate hedging instruments with a middle and longer term fixed interest period (e.g. interest swaps).

Financing needs for Nabaltec's growth as well as for making its investments is primarily secured through long term bank loans, and since October 2013, also through promissory note bonds in the amount of EUR 50.0 million. The bonds have a duration of three, five and seven years with variable and fixed interest terms. Therefore, Nabaltec disposes of a balanced debt financing structure. Subsidies for EUR 4.15 million from the government of Upper Palatinate for investment projects were approved of which EUR 3.15 million were disbursed in the fourth quarter of 2013. The bond of EUR 30 million placed in 2010 was terminated by Nabaltec and repaid by 31 December 2013.

2.3.2.1 CAPITAL STRUCTURE

Shareholders' equity decreased from EUR 44.0 million to EUR 39.9 million as of December 31, 2013. The equity ratio decreased from 34.2% to 27.9% which on one hand was caused by a discontinuation of the profit participation capital for EUR 5.0 million, on the other hand by an increase in total assets due to issuing the promissory note bonds and incurring long-term debt in the first quarter of 2013. This capital base can continue to be considered as sound compared to the industry.

Liabilities increased in the reporting period from EUR 70.1 million to EUR 87.3 million. This includes Nabaltec AG's promissory note bonds in the amount of net EUR 50.0 million as well as the long-term loan of EUR 5.0 million. As a consequence, long term payables to banks significantly increased by EUR 47.5 million. In return, corporate bond of EUR 30.0 million were redeemed. The retirement benefit obligation increased in 2013 by EUR 1.0 million to EUR 12.2 million. Trade payables were significantly lower from EUR 9.4 million to EUR 7.0 million.

Selected balance sheet positions in relation to total assets

	12/31/2013	12/31/2012
Equity	27.9%	34.2%
Provisions	11.1%	34.2%
Liabilities	61.0%	54.6%

Other off-balance sheet financing instruments

Nabaltec sold various technical equipment and machinery as part of a sale-and-lease-back transaction. Upon expiration of the lease contracts on 29 November 2013 and 31 December 2013 and based on purchase offers from the lessor, Nabaltec purchased the technical equipment and machinery.

On the closing dates 16 December 2013 and 2 January 2014, respectively, the fixed assets were capitalized as part of property plant & equipment. The remaining lease term of further lease contracts amounts up to five years. Furthermore, Nabaltec continuously uses factoring in connection with trade receivables, also to minimize potential default risks. Nabaltec Group does not use any other financial engineering instruments.

2.3.2.2 INVESTMENTS

In the reporting period, the Nabaltec Group invested a total amount of EUR 5.7 million net of including the portion of the investment grant while 2012 investments were EUR 8.8 million. Investments were in particular focused on the further optimization of processes in both business segments and the addition to capacity for strongly value adding products in the "Technical Ceramics" business division.

2.3.2.3 NET ASSETS

Nabaltec AG's total assets increased as at 31 December 2013 from EUR 128.5 million to EUR 143.1 million.

Important assets in relation to total assets

	12/31/2013	12/31/2012
Non current assets	58.3%	68.0%
thereof: property, plant & equipment	52.6%	60.9%
Current assets	41.7%	32.0%
Including: inventories	16.6%	16.6%

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

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

Significant profitability figures at Nabaltec AG:

Return on sales and capital	**2013**	**2012**
Return on equity	2.3%	1.4%
Return on Capital Employed (ROCE)	6.4%	6.2%

Return on equity, consisting of the ratio of profit to equity, amounted to 2.3% in the reporting period and was therefore above the prior year value of 1.4%. Reason for this is the increase in the annual result in connection with the lower equity.

Return on Capital Employed (ROCE) compares EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 6.4% after 6.2% in prior year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees
End 2013, Nabaltec AG employed in total 413 employees (31 December 2012: 416). All employees were employed in Germany. This figure includes 46 apprentices (31 December 2012: 53). Nabaltec sets a high value on sound professional training. Therefore, also in 2013, the rate of apprentices of 11.1% traditionally presents a remarkably large portion of the workforce. This rate was slightly lower in comparison to prior year but exceeded the industry average significantly. 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 AG regularly belongs to the 100 best employers in the German middle market, according to the national multi-sector company comparison, ‘TOP JOB’. Such distinctions which Nabaltec received for the third time in 2012, indicate how seriously the Company takes its responsibility toward her employees. Nabaltec’s central concern is to offer her employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees’ corporate identity, commitment and involvement.

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

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

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

Management Systems
In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and workmen’s compensation board requirements, 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 2013, an extensive monitoring audit of the existing management system based on ISO 9001 and ISO 14001 was performed in the Schwandorf and Kelheim locations. Furthermore, an audit of BS OHSAS 18001 was reperformed. On the site in Corpus Christi, the quality management system (ISO 9001) was also successfully reaudited.

In order to effectively meet the requirements of a continuously changing energy market, Nabaltec AG already introduced a certified energy management system in the year 2010. In 2012, the certification of the energy management system was modified from the European Norm EN 16001 to the international Norm ISO 50001 and successfully reaudited. In 2013 In addition, a reaccrediting audit for the laboratory accreditation took place in accordance with DIN EN ISO/IEC 17025, which was performed by the German Accreditation Body (Deutsche Akkreditierungsstelle, DAkkS).

Environmental protection

Nabaltec requires its own products to significantly contribute toward environmental protection and toward the improvement of the eco balance of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. For instance, they replace heavy metal-based additives, such as lead, and halogenated flame retardant components, such as bromine, in plastics. In this respect, it is of central importance that research and development, production as well as up and downstream logistics are conducted as environmentally friendly as possible. The conservation of natural resources is of central concern for Nabaltec and a prerequisite for the social acceptance of the Company. Nabaltec AG actively accepts responsibility for the environment; a commitment that extends well beyond her own sites. An example thereof is the reduction in water usage taken from the Naab river. Water usage decreased from 2011 to 2012 around 20% a level which could be maintained also in 2013. This is caused by many small improvements in the processes.

As in prior years, special emphasis was placed on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2013, this area was invested in. Through joint efforts with external partners, Nabaltec developed techniques requiring much less process energy, leading to a substantial reduction in CO_2 emissions. Participating in the task force energy management of “Bayern Innovativ GmbH” was extended until 2016. The goal is to transfer and receive innovations relating to continuous improvement processes to and from other enterprises. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec’s energy needs are covered by renewable energy.

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

Capital Market
Since the initial public offering in 2006, Nabaltec disposes of intact access to the capital market. This is proven by the bond offering in 2010 as well as the promissory note bond in 2013. This market access, maintained by transparent and reliable communication at all times, secures Nabaltec a balanced and largely independent means of financing, which is also perceived positively by the sales market.

3. REPORT ON SUBSEQUENT EVENTS
No further events that have a significant impact on Nabaltec Group's net assets, financial position or earnings capacity and that would have to be disclosed occurred subsequent to the balance sheet date 31 December 2013.

4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS
4.1 OUTLOOK

Overall statement on the prospective development
For her own products, Nabaltec also foresees intact sales markets across the board in 2014, 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 2013 and the long term reputation, Nabaltec sees good future prospects for its key products.

Economic and industry development
The Kiel Institute for the World Economy (IfW) expects the global GDP to grow by 3.7% in 2014. Growth in Asia (excluding Japan) is expected to be over proportional at 6.6%, while a plus of 2.3% is expected in the USA. A prerequisite for these forecasts is that the central banks of the large advanced economies stick to their expansive monetary policies and that the central bank interest rates for the most important currencies continue to remain very low.

For the EURO zone, after a decline of 0.4% in 2013, IfW anticipates an increase in economic performance of 0.9% in 2014 as the countries in crisis are expected to have come out of the recession. Greece (-1.0%), Cyprus (-3.5), only, shall negatively influence the development within the EURO zone.

IfW foresees the German economy to grow slightly by 1.7%. Deutsche Bank (DB) somewhat more discreet anticipates a plus of 1.5%, while assuming that global economic growth will be lively and the absence of larger turbulences in the EURO zone or the emerging markets.

GDP Growth Forecast		
in % compared to prior year	2014	2015
World	3.7	4.0
USA	2.3	3.0
EURO zone	0.9	1.6
Germany	1.7	2.5
France	0.8	1.4
Italy	0.4	1.0
Great Britain	2.0	2.3
Japan	1.5	1.1
China	7.5	7.0
India	5.0	5.0

Source: IfW, “Weltkonjunktur im Winter 2013”, 18 December 2013

After increasing the production in the chemical industry in 2013, with sales, however, due to lower prices, almost staying flat, the industry is cautiously optimistic in looking ahead to 2014. The German chemical industry association Verband der Chemischen Industrie e.V. (VCI) expects an upward trend of 2.0% in production in 2014. Despite slightly lower manufacturing prices (-0.5%), industry sales are expected to rise by 1.5% to EUR 191 billion. Thereby the chemical industry association assumes continuous domestic growth.

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

Outlook on the course of business

For 2014, Nabaltec sets its sight firmly on renewed growth. The start in 2014 set off positively. The increase in revenue shall primarily be achieved via growth in quantities in combination with an increase in higher value-added products. Nevertheless, the economic development in the coming year still has to be awaited.
Order back-log per 31 December 2013, amounted to EUR 14.9 million.

In the business division “Functional Fillers”, the product range relating to fine hydroxide will continue to be by far the most significant product line, with good growth prospects at the same time. The growth drivers remain unchanged and intact, particularly in the areas in which the substitution of applied halogenated material is the focus. For 2014, Nabaltec also expects triggers from the newer product ranges relating to boehmite and CAHC. Based on the opinion of the Company and on the basis of customer reaction, the prospects remain positive.

Assuming the continued recovery of the steel industry, we foresee a continuing positive development in business division “Technical Ceramics”.

Expected earnings, net assets and financial position
Considering that the economic development will continue to stabilize, for 2014 Nabaltec expects revenue growth in the mid-single-digit percentage range. The Company for 2014 expects the result from ordinary operations (EBIT) on prior year level. To ensure the further stabilization and improvement of earning power, a stringent cost management in all areas is in place.

Capital expenditures for 2014 are expected to almost double compared to the low prior year level. Investment priority lies in the development of optimizing processes, additions to capacitiy, and replacement investments in all areas.

The financial result in 2014 shall improve compared to prior year. Nabaltec will redeem payables to banks as scheduled in the amount of approximately EUR 8 million.

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

4.2 RISKS AND OPPORTUNITIES REPORT

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

Procurement Market
We monitor our suppliers’ economic situation very closely and deliberately build up alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of medium and long term contracts. The supply of the most important media, electricity,

gas and vapor for the production process is also secured by long term agreements. The accrediting of the energy management system in accordance with ISO 50001 supports these efforts. In the case of strong growth, Nabaltec disposes of alternative scenarios and preliminary considerations to cover rising energy needs at attractive conditions. In addition, permanent efforts are being made to optimize production processes in order to reduce the specific energy usage. An additional risk is the more disproportional increase in logistics costs. On the one hand, Nabaltec 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
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 of Nabaltec AG are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period, covenants valid as at 31 December 2013 were not violated. Given the successful placement of the promissory note bond in October 2013, Nabaltec AG's financing situation has further improved.

In 2013, factoring contributed towards financing a majority of the receivables and improving the Company's liquidity.

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

Production, Process and IT
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 data protection official.

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

Technological Development
Potential technological risks could result from customers substituting Nabaltec products due to a change in technology, from the disuse of newer technology or from not recognizing technological development. As the innovation leader, 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 occupying new markets through fast-pace product adjustments and by generating process and quality advantages together with our clients; thereby, setting the stage for economic success.

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

Nabaltec's with its intensive usage of electricity faces international competition and therefore according to current law is exempt from the renewal energy surcharge. On 10 December 2013 the official notification of the Federal Office for Economy and Export Control for the exemption for the year 2014 was received by Nabaltec. On 18 December 2013, the EU Commission announced that it will open subsidy proceedings against the German renewable energy law (EEG). Public disclosure occurred on 7 February 2014. An agreement on new regulation and funding guidelines for future subsidies in the renewable energy sector for intensive energy usage companies is expected during 2014. Nabaltec faces the future risk of reductions relating to the special compensation provision.

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

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

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

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

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

Overall assessment

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

5. CORPORATE GOVERNANCE STATEMENT AND REPORT

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

Schwandorf, 3 March 2014

Nabal*tec* AG
The Management Board

Johannes Heckmann Gerhard Witzany

Balance Sheet as of December 31, 2013, Nabaltec AG, Schwandorf

A S S E T S

	12/31/2013 EUR '000	12/31/2012 EUR '000
A. NON-CURRENT ASSETS		
I. Intangible Assets		
1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	111	156
2. Advance payments	88	47
	199	203
II. Property, Plant and Equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	14,885	14,887
2. Technical equipment and machinery	55,060	58,510
3. Other fixtures, fittings and equipment	2,763	2,333
4. Advance payments as well as plant and machinery under construction	2,516	2,572
	75,224	78,302
III. Financial Assets		
1. Shares in affiliated companies	163	163
2. Loans to affiliated companies	7,800	8,702
	7,963	8,865
	83,386	87,370
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	11,668	10,672
2. Finished goods and purchased products	12,069	10,645
	23,737	21,317
II. Accounts Receivable and other Assets		
1. Trade receivables	4,287	3,411
2. Other assets	3,663	3,299
	7,950	6,710
III. Cash and cash equivalents	27,990	13,053
	59,677	41,080
C. PREPAID EXPENSES	41	65
	143,104	128,515

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

	12/31/2013 EUR '000	12/31/2012 EUR '000
A. SHAREHOLDERS' EQUITY		
I. Subscribed capital	8,000	8,000
II. Capital reserve	30,824	30,824
III. Profit participation capital	0	5,000
IV. Accumulated profits	1,068	197
	39,892	44,021
B. NON-CURRENT ASSETS INVESTMENT GRANTS	10	28
C. PROVISIONS		
1. Retirement benefit obligation and similar provisions	12,211	11,177
2. Accrued taxes	699	638
3. Other provisions and accrued liabilities	2,973	2,580
	15,883	14,395
D. ACCOUNTS PAYABLE		
1. Liabilities arising from corporate bonds	0	30,000
2. Payables to banks	76,746	29,220
3. Trade payables	6,985	9,369
4. Payables to affiliated companies	385	524
5. Other payables	3,203	958
- thereof relating to taxes EUR 218 thousand (PY: EUR 237 thousand)		
- thereof relating to social securities: EUR 24 thousand (PY: EUR 21 thousand)		
	87,319	70,071
	143,104	128,515

Income Statement, Nabaltec AG, Schwandorf
for the period January 1 to December 31, 2013

			01/01 - 12/31/2013		01/01 - 12/31/2012
		EUR '000	EUR '000	EUR '000	EUR '000
1.	Revenue		132,934		129,213
2.	Change in finished goods		1,352		-504
3.	Other capitalized own services		223		622
Total performance			134,509		129,331
4.	Other operating income - thereof exchange rate differences: EUR 138 thousand (PY: EUR 528 thousand)		1,349		1,707
			135,858		131,038
5.	Cost of materials:				
	a) Cost of raw materials and supplies and purchased goods	74,775		71,762	
	b) Cost of purchased services	983	75,758	1,098	72,860
Gross profit			60,100		58,178
6.	Personnel expenses:				
	a) Wages and salaries	18,483		17,928	
	b) Social security and other pension costs - thereof for pension costs: EUR 623 thousand (PY: EUR 808 thousand)	3,840		3,992	
7.	Amortization/Depreciation of intangible assets and property, plant and equipment	8,610		8,306	
8.	Other operating expenses - thereof exchange rate differences: EUR 300 thousand (PY: EUR 405 thousand)	22,687	53,620	21,658	51,884
			6,480		6,294
9.	Income from securities and loans (financial assets) - thereof from affiliated companies: EUR 183 thousand (PY: EUR 204 thousand)	183		204	
10.	Interest and similar income	160		277	
11.	Amortization of financial assets and securities in current assets - thereof from affiliated companies: EUR 296 thousand (PY: EUR 85 thousand)	296		85	
12.	Interest and similar expenses - thereof for compounding interest: EUR 655 thousand (PY: EUR 642 thousand) - thereof for profit participation rights capital: EUR 26 thousand (PY: EUR 405 thousand)	4,756		5,299	
Financial result			-4,709		-4,903
13.	**Result from ordinary operating activities**		1,771		1,391
14.	Exceptional expenditures	267		267	
15.	Exceptional result		267		267
			1,504		1,124
16.	Income taxes	583		466	
17.	Other taxes	50	633	49	515
18.	**Net result for the year**		871		609
19.	Profit carried forward		197		0
20.	Addition/Withdrawal profit participation capital		0		-412
21.	**Accumulated profit**		1,068		197

Statement of changes in non-current assets, Nabaltec AG

for the period January 1 to December 31, 2013

	Historical Cost					Cumulative Depreciation/Amortization						
	January 1, 2013	Additions	Transfers	Disposals	December 31, 2013	January 1, 2013	Additions	Appreciation	Disposals	December 31, 2013	Book Value December 31, 2013	Book Value December 31, 2012
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets												
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,246,599.21	9,101.71	8,712.12	0.00	2,264,413.04	2,090,544.97	62,652.05	0.00	0.00	2,153,197.02	111,216.02	156.054.24
2. Advance payments	46,984.02	49,275.41	-8,712.12	0.00	87,547.31	0.00	0.00	0.00	0.00	0.00	87,547.31	46,984.02
	2,293,583.23	58,377.12	0.00	0.00	2,351,960.35	2,090,544.97	62,652.05	0.00	0.00	2,153,197.02	198,763.33	203,038.26
II. Property, plant and equipment												
1. Land, leasehold rights and buildings on non-freehold land	20,171,404.98	644,170.50	75,346.97	0.00	20,890,922.45	5,284,343.01	721,803.47	0.00	0.00	6,006,146.48	14,884,775.97	14,887,061,97
2. Technical equipment, plant and machinery	103,379,981.52	1,903,014.02	1,965,823.05	0.00	107,248,818.59	44,869,896.17	7,318,889,97	0.00	0,00	52,188,786.14	55,060,032.45	58,510,085.35
3. Other fixtures, fittings and equipment	6,584,571.73	935,694.58	10,452.08	27,712.17	7,503,006.22	4,251,140.98	506,401.48	0.00	17,500.08	4,740,042.38	2,762,963.84	2,333,430.75
4. Advance payments as well as plants and machinery under construction	2,571,817.45	1,995,688.74	-2,051,622.10	0.00	2,515,884.09	0.00	0.00	0.00	0.00	0.00	2,515,884.09	2,571,817.45
	132,707,775.68	5,478,567.84	0.00	27.712,17	138,158,631.35	54,405,380,16	8,547,094.92	0.00	17,500.08	62,934,975.00	75,223,656.35	78,302,395.52
III. Financial assets												
1. Shares in affiliated companies	162,930.73	0.00	0.00	0.00	162,930.73	0.00	0.00	0.00	0.00	0.00	162,930.73	162,930.73
2. Loans to affiliated companies	8,924,961.19	183,265.92	0.00	789,716.45	8,318,510,66	222,705.56	296,017.42	0.00	0.00	518,722.98	7,799,787.68	8,702,255,63
	9,087,891.92	183,265.92	0.00	789,716.45	8,481,441.39	222,705.56	296,017.42	0.00	0.00	518,722.98	7,962,718.41	8,865,186.36
	144,089,250.83	5,720,210.88	0.00	817,428.62	148,992,033.09	56,718,630.69	8,905,764.39	0.00	17,500.08	65,606,895.00	83,385,138.09	87,370,620.14

Nabaltec AG, Schwandorf

Notes for the financial year 2013

General information on the financial statements

The annual financial statements were prepared in accordance with the accounting provisions of the German Commercial Code (hereafter referred to as “HGB”) subsequent to the German Act on the Modernization of Accounting Regulations (“Bilanzrechtsmodernisierungsgesetz”, also referred to as “BilMoG”) effective 25 May 2009. The amended provisions were adopted for the first time to the financial year 2010. Additionally, the provisions of the German Stock Corporation Act and Articles of Association were complied by. The total cost method was applied for the income statement.

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

Basic principles, methods and significant accounting policies

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

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

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

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

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

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

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

Receivables and other assets are stated at nominal values. Specific allowances for doubtful debts are recognized for receivables based on estimated individual, irrecoverable amounts. No lump sum allowance on receivables was recognized in the reporting period.

Cash and cash equivalents are carried at nominal values.

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

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

Subscribed capital is carried at nominal value.

Investment grants for property, plant & equipment are stated at the nominal value of the grant and written-down in accordance with the useful lives of the subsidized assets.

The **retirement benefit obligation** is determined based on the projected-unit-credit method by applying actuarial principles with an interest rate of 4.91% p.a. on the basis of the mortality tables 2005 G of Prof. Dr. Klaus Heubeck. By virtue of the right of choice according to Article 67 Paragraph 1 Sentence 1 EGHGB, as in prior years, EUR 267 thousand was transferred to the retirement benefit obligation in the financial year (i.e. 1/15 of the balance determined as at 1 January 2010). The Company has pension plan reinsurance, which is pledged to the pensioners. Correspondingly, the liabilities and the asset value of the pension plan reinsurance are presented as a net amount in accordance with Section 246 Paragraph 2 HGB.

Other provisions are recognized for remaining obligations such as identifiable risks and contingencies based on amounts dictated by prudent business judgement. In valuing the amounts required to settle the obligation, necessary cost increases are included. Other provisions with a remaining term of more than one year are shown at respective discounted values with a discount rate published by the federal reserve bank.

Payables are measured at their amounts repayable.

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

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

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

Notes to the balance sheet

Non-current assets

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

In the reporting period, interest on borrowed capital in the amount of EUR 93 thousand was included in the acquisition costs for construction.

Receivables and other assets

Other assets consist mainly of receivables from factoring (EUR 1,011 thousand), VAT-return claims (EUR 2,061 thousand), a petroleum tax-return claim (EUR 248 thousand), an electricity tax-return claim (EUR 258 thousand) as well as a capital gains tax-return claim and interest on corporate income tax (EUR 53 thousand). Receivables and other assets have a term to maturity of less than one year.

Prepaid expenses

Prepaid expenses amounting to EUR 42 thousand consist of expenses paid in advance for the coming financial year.

Equity

a) Issued capital	EUR 8,000,000.00

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

b) Authorized capital

As of December 31, 2013, the following capital was authorized (Expires 8 June 2016)	EUR 4,000,000.00

By resolution of the annual shareholders' meeting of 9 June 2011, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions until 8 June 2016, by up to EUR 4,000 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).

c) Conditional capital	EUR 3,000,000.00

By resolution of the annual shareholders' meeting of 9 June 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 9 June 2011. According to the conditions of the corporate bonds, the Conditional Capital also serves to issue shares to holders of convertible bonds foreseen with conversion obligations.

d) Capital reserve	EUR 30,824,219.38

As of 31 December 2013, the capital reserve amounts to EUR 30,824 thousand (PY: EUR 30,824 thousand).

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

e) Profit participation capital	EUR 0.00

Equity included a profit participation capital with a nominal amount of EUR 5,000 thousand. The scheduled term ended in 2013. Before this date the parties to the contract parties had no due right for termination of the contract. The profit participation capital met the requirements set out by the Institute of Public Auditors in Germany, Incorporated Association (IDW HFA 1/1994) for the classification as equity.

The profit participation capital was redeemed as scheduled in January 2013.

f) Profit carried forward	EUR	1,067,605.26
1 January 2013	EUR	196,853.84
Net annual profit 2013	EUR	870,751.42
Transfer to profit participation rights capital	EUR	0.00
31 December 2013	EUR	1,067,605.26
	================	

Investment grants for property plant & equipment

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

Retirement benefit obligation

The retirement benefit obligation has been measured in accordance with the recognized actuarial principles based on the so called projected-unit-credit (PUC) method. The mortality table 2005 G of Prof. Heubeck was used as biometric basis for actuarial calculations. Further, the following parameters were used in the calculation: interest rate p.a. 4.91%, rate of compensation increase p.a. 2.75% and rate of pension increase p.a. 2.00%. The interest rate used for discounting is based on the average market interest rate determined by the Bundesbank (German Central Bank) with an assumed remaining term to maturity of 15 years.

The revaluation of the retirement benefit obligation as at 1 January 2010 results in a difference of EUR 4,009 thousand; in the reporting period, an amount of EUR 267 thousand (1/15 according to Article 67 Paragraph 1 Sentence 1 EGHGB) was transferred to the retirement benefit obligation as in prior years, the remaining shortfall as at 31 December 2013, therefore amounts to EUR 2,940 thousand.

Pension plan reinsurances have been pledged, hence, direct commitments regarding the pension scheme are secured from other creditors. Therefore, the liabilities can be netted against the corresponding assets as well as the expenses can be netted against the corresponding income. Insofar, the asset value of the pension plan reinsurance amounting to EUR 1,369 thousand has been netted with the repayable amount of the provision in the amount of EUR 13,580 thousand, resulting in a net amount in the balance sheet of EUR 12,211 thousand as per the balance sheet date. The line item interest and similar expenses includes gains arising from the reinsurance in the amount of EUR 150 thousand. The fair value of the pension plan reinsurances corresponds to the asset value. The asset value includes the current payment of contributions as well as gains arising from the return on the pension plan reinsurance, which develops in line with the investment performance of the insurer.

Other provisions

Other provisions primarily consist of personnel obligations (EUR 1,777 thousand) and invoices not yet received (EUR 793 thousand).

Provisions for jubilee benefits are measured based on the PUC method applying an interest rate of 4.91% p.a. and rate of compensation increase of 2.75% p.a.

Payables

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

(Prior year figures in parentheses)

	Total amount	Term to maturity			Collateral-ized amounts	Type of collateralization
		< 1 year	1 – 5 years	> 5 years		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	
Liabilities arising from corporate bonds	0 (30,000)	0 (0)	0 (30,000)	0 (0)	0 (0)	
Payables to banks	76,746 (29,220)	8,208 (7,849)	51,538 (21,371)	17,000 (0)	21,746 (29,220)	Land charges, security assignment
Trade payables	6,985 (9,369)	6,985 (9,369)	0 (0)	0 (0)	0 (0)	
Intercompany paya-bles	385 (524)	385 (524)	0 (0)	0 (0)	0 (0)	
Other payables	3,203 (958)	3,203 (958)	0 (0)	0 (0)	0 (0)	
	87,319 (70,071)	18,781 (18,700)	51,538 (51,371)	17,000 (0)	21,746 (29,220)	

On 15 October 2010, Nabaltec AG successfully issued her initial corporate bonds in the amount of EUR 30 million. The security disposes of a term to maturity ending 14 October 2015, and a fixed interest rate of 6.50% p.a. The redemption price amounted to 100.00%. The corporate bonds were terminated early within the period prescribed and repaid including pro rata interest on 31 December 2013.

The strong increase in bank debt is caused by the low-cost refinancing by means of promissory note bonds.

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

In accordance with HFA 1/1984, grants received but not yet invested, in the amount of EUR 2,571 thousand as at 31 December 2013, were classified as other payables without any setting-off investments. These grants relate to an investment subsidy approved in September for EUR 4,150 of which a partial amount of EUR 3,150 was paid on 3 December 2013.

Notes to the income statement

Revenue

Revenue by geographical location is specified below:

	2013		2012	
	EUR '000	%	EUR '000	%
Germany	40,915	30.8	40,023	31.0
Rest of Europe	63,606	47.8	59,988	46.4
USA	14,431	10.9	14,774	11.4
RoW	13,982	10.5	14,428	11.2
	132,934	100.0	129,213	100.0

Revenue by business division:

	2013		2012	
	EUR '000	%	EUR '000	%
Functional Fillers	90,596	68.2	89,932	69.6
Technical Ceramics	42,338	31.8	39,281	30.4
	132,934	100.0	129,213	100.0

Other operating income

Other operating income includes the gains arising from exchange rate differences in the amount of EUR 138 thousand.

Exceptional expenditures

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

Other disclosures

Disclosures relating to off-balance sheet transactions

In order to improve the Company's liquidity position, Nabaltec entered into lease agreements with an annual expense of EUR 1,968 thousand and sold receivables to a factor in the amount of EUR 14,645 thousand. In 2013, expenses arising from the transfer of payment risks to the factor and for the processing and pre-funding of the sales of the receivables amount to EUR 515 thousand.

Contingencies and other financial obligations

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

	31 December 2013 EUR '000	31 December 2012 EUR '000
Obligations arising from warranty contracts	0	1,231
- thereof in favor of affiliated companies:	0	1,231

The Company has obligations arising from sureties and guarantees to third parties amounting to EUR 1,231 thousand (guarantee liabilities). This surety was related completely to Nashtec LLC's bank debts in the amount of EUR 1,231 thousand. This guaranty expired in 2013 and on 1 June 2013 the company was released from the obligation.

Other financial obligations

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

		31 December 2013 EUR '000	31 December 2012 EUR '000
a)	Obligations arising from rental, lease, service and consulting agreements	1,672	3,737
	thereof		
	- maturing within 1 year	575	2,482
	- maturing within 1 – 5 years	692	843
	- maturing in more than 5 years	405	412
b)	Obligations arising from capital expenditures contracts (order obligations) thereof	2,782	2,092
	- maturing within 1 year	2,782	2,092
	Total	4,454	5,829
	- thereof to affiliated companies	0	0

Declaration on the German Corporate Governance Code

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

Auditors' fee

The fee for the audit of the 2013 financial statements amounts to EUR 87 thousand (including the consolidated financial statements 2013). For other assurance services, the auditor received a fee of EUR 7 thousand. The fee for tax advisory services amounts to EUR 41 thousand and other services amounts to EUR 5 thousand.

Related parties transactions in terms of Section 285 Paragraph 21 HGB

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

Share ownership pursuant to Section 285 Paragraph 11 HGB

	Share in Equity		Last Year's Equity *) Nashtec		Lastr Year's Earnings *) Nashtec	
Direct Participation	in %	in USD	in USD	in EUR	in USD	in EUR
Nashtec LLC, Texas (USA)	51.0	210,266.00	-2,167,283.00	-1,574,259.46	2,898,772.00	2,182,481.55

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

In 2013, the subsidiary, Nashtec LLC, was not provided with any additional funds.

Derivatives

On 4 October 2011, the Company entered into an interest rate swap agreement effective 6 October 2011. The underlying nominal amount is in the order of EUR 10,000 thousand as well as a variable interest rate based on the 3 months EURIBOR. Both the variable as well as the fixed amounts are due on a quarterly basis on the 6th of the month through the end of the agreement term, 8 October 2012. The bank has the option of prolonging the term by one year, respectively, at the latest till 6 October 2016. As per 8 October 2013, as in prior year, the agreement was not terminated. As there is no hedging relation, the fair value of the interest rate swap amounts to EUR -164 thousand as at 31 December 2013 (PY: EUR -260 thousand). In the financial year, EUR 96 thousand have been released from the provision for contingent losses through the income statement.

On 23 December 2011, the Company entered into an interest rate swap agreement effective 30 December 2011, to hedge an existent bank loan with a secured and agreed upon variable interest rate based on the 3-month EURIBOR. The underlying nominal amount is in the order of the redemption schedule of the loan and initially amounted to EUR 3,000 thousand. As in prior year, a total amount of EUR 600 thousand was repaid in 2013. Both the variable as well as the fixed amount is due on a quarterly basis at month's end through the end of the agreement term, 31 December 2016. The fair value of the interest rate swap amounts to EUR -37 thousand (PY: EUR -69 thousand) as at 31 December 2013.

In connection with the placement of the promissory note bonds, the following interest rate swaps were arranged to hedge the interest rate risk from promissory note bonds with variable interest on 6-month Euribor base.

Nominal amount EUR thousand	Duration period	Fair Value EUR thousand
27,000	10/23/2013 – 10/23/2018	-372
16,500	10/23/2013 – 10/23/2020	-294

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

In addition for the first time in the financial year 2013, the company entered into US Dollar foreign exchange contracts to hedge purchases of raw materials. The derivative extends over two years and covers the company's monthly US-$ purchases at fixed exchange rates. Total volume of the transaction is EUR 25,200 thousand. At 31 December 2013, the fair value of the transaction is EUR -100 thousand. In connection with the underlying transaction a valuation unit pursuant to section 254 HGB is created, therefore no loss provision is required.

The valuation units are considered to be micro hedges the effectiveness of which is assessed by the Critical Term Match method.

Deferred taxes

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

Balance sheet item	**Carrying amount**			**Deferred tax**	
	Commercial valuation EUR '000	Tax valuation EUR '000	Difference EUR '000	Asset EUR '000	Liability EUR '000
Deferred tax asset					
Retirement benefit obligation	-13,580	-10,629	-2,951	829	
Other provisions	-2,974	-2,493	-481	135	
Financial assets (Loan Nashtec)	7,800	8,319	-519	146	
	-8,754	-4,803	-3,951	1,110	
Deferred tax liability					
Trade and other receivables	4,287	4,283	4		1
Trade payables	-6,985	-6,994	9		3
	-2,698	-2,711	13		4
Loss carry forward				230	
Balance				1,336	

Employees

The average number of employees during the business year:

	2013 Number
Blue-collar employees	212
White-collar employees	143
Part-time employees	11
	366

In addition, an average of 47 apprentices was employed in the course of the financial year.

Management board and supervisory board

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

Members of the **Management Board**:

Mr. Johannes Heckmann
Industrial Engineer

Mr. Gerhard Witzany
Business Graduate

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

Supervisory Board

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

Mr. Dr. Leopold von Heimendahl (chairman)

Physicist in retirement

Mr. Dr. Dieter J. Braun (vice chairman)
Chemist in retirement

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

The supervisory board members received total remuneration of EUR 49 thousand for the financial year 2013.

Schwandorf, 3 March 2014

Nabaltec AG

The Management Board

Johannes Heckmann   Gerhard Witzany

Independent Auditor's Report

We have audited the annual financial statements - comprising the balance sheet, income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of Nabaltec AG, Schwandorf, for the financial year from 1 January to 31 December 2013. The bookkeeping and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

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

Our audit has not led to any reservations.

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

Nuremberg, 7 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Thiermann) Auditor

(Fischer) Auditor

Appropriation of distributable profit

The management board proposes that the distributable profit of the 2013 financial year, amounting to EUR 1,067,605.26, will be used as follows:

An amount of EUR 480,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.06 per share on the 8,000,000 non par value shares entitled to dividend payments for the 2013 financial year. The remainder in the amount of EUR 587,605.26 will be carried forward.

Schwandorf, April 2014

The Management Board

Johannes Heckmann Gerhard Witzany

Report of the supervisory board

Ladies and Gentlemen,
Dear Shareholders,

Nabaltec AG can look back on a successful 2013, a year in which revenues set a new record high. This development demonstrates once again that Nabaltec AG's market and competitive position in the global market is very solid and that the drivers in our markets remain intact. Nevertheless, the Supervisory Board and Management Board devoted particular attention to carefully observing the fast-changing market situation so as to be able to take rapid action at any time.

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 2013 reporting year, the Supervisory Board convened for four regular sessions: on 19 April 2013, on 20 June 2013, after the Annual General Meeting, on 7 October 2013 and on 12 December 2013. No meetings were held in 2014 prior to the Supervisory Board meeting of 10 April, which votes on adoption of the financial statements. All members were present at each session in 2013. The members of the Supervisory Board also conducted deliberations in writing and over the phone additionally. Where necessary, the Supervisory Board has adopted resolutions outside of the regular meetings. Draft resolutions were approved in writing on four occasions in 2013. These actions included early redemption of the bond issue and the launch of a loan against borrower's note with a volume of up to EUR 50 million, as well as the conclusion of supply agreements for raw materials.

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 2013 reporting year in the course of deliberations, in draft resolutions or through exercise of the Board's supervisory mandate. In the estimation of the Supervisory Board, a sufficient number of members may be viewed as independent, since two members of the Supervisory Board have no personal or business relationship with the company or with the Management Board. An agreement exists between Nabaltec AG and Professor Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board reviewed its performance in the past Financial Year, particularly the efficiency of its procedures and the timely supply of adequate information, and the result of its examination was positive.

Focus of deliberations
Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, the Supervisory Board was kept informed e.g. of market trends, the risk and competitive situation, the development of sales, revenues and earnings and the accomplishment of objectives through monthly and quarterly reports. In addition, the Chairman of the Supervisory Board kept himself constantly informed of the current course of business, major transactions and crucial Management

Board decisions. To that end, the Chairman of the Supervisory Board was engaged in a close and routine exchange of information and ideas with both members of the Management Board.

The development of revenues and earnings were routinely discussed at Supervisory Board sessions, as well as suitable measures to optimize revenue and earnings growth, the assets and financial position, risk management and questions of compliance and corporate strategy. In addition, intensive consideration was given to the following issues in 2013:

- the 2012 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- corporate governance, particularly the changes to the Code on 13 May 2013;
- the market potential of new products;
- planning for 2014 and mid-term planning through 2016;
- investment and financing planning for 2014-2016.

Another focus of the deliberations in 2013, as well as the supervisory and monitoring activity, included the goals and status of realization of innovation projects and, especially in the session 2014 slated for adoption of the 2013 financial statements, was the effectiveness of the risk management system and the entire accounting process in Nabaltec AG and Nabaltec Group, as well as monitoring the internal controlling system.

On 8 March 2013, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2013, which was posted on the company's website, www.nabaltec.de, where it can be viewed by shareholders at any time. Both the Management Board and the Supervisory Board dealt with the changes to the German Corporate Governance Code as of 13 May 2013, particularly at the meeting of 12 December 2013, preparing issuance of the 2014 Declaration of Compliance. Further information about corporate governance at Nabaltec AG can be found in the Corporate Governance Report on the company's website, www.nabaltec.de, in the Investor Relations/Corporate Governance section.

2013 annual financial statements and consolidated financial statements
Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to § 315a of the German Commercial Code, and the consolidated management report. The Supervisory Board issued the audit mandate by resolution of the Annual General Meeting of 20 June 2013. 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 2013 audit was on the "financial management" process.

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 10 April 2014. 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 "financial management" unit. The auditor was not able to find any accounting-related weaknesses in that area. The Management Board and the auditors have answered all of the Supervisory Board's questions fully and to its satisfaction.

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 2013 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 goes to all of Nabaltec AG's employees, who once again demonstrated their solidarity with the company in 2013, achieving success through innovative ideas and at the same time kept in view the lasting satisfaction of the customers.

Schwandorf, 10 April 2014

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

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