

**CONSOLIDATED FINANCIAL STATEMENTS (HGB)  
OF NABALTEC GMBH  
AS AT 31 DECEMBER 2005**

**Consolidated Balance Sheet (HGB) as at 31 December 2005**

<u>ASSETS</u>	<u>31.12.2005</u>	<u>31.12.2004</u>
	€	€
<b>A. FIXED ASSETS</b>		
<b>I. Intangible Assets</b>		
Concessions, Industrial and Similar Rights and Assets and Licenses in such Rights and Assets .....	42,070.49	339,385.99
<b>II. Property, Plant and Equipment</b>		
1. Land, Land Rights and Buildings including Buildings on .....		
Third Party Land .....	5,998,159.74	5,633,950.68
2. Technical Equipment and Machines .....	9,506,586.41	10,198,480.10
3. Other Equipment, Operating and Office Equipment .....	637,584.12	558,551.46
4. Payments on Account and Assets under Construction .....	8,882,530.29	3,546,055.35
	<u>25,024,860.56</u>	<u>19,937,037.59</u>
<b>III. Financial Assets</b>		
1. Shares in Affiliated Companies .....	1,726.32	0.00
2. Other Loans .....	0.00	906.36
	<u>1,726.32</u>	<u>906.36</u>
	<u>25,068,657.37</u>	<u>20,277,329.94</u>
<b>B. CURRENT ASSETS</b>		
<b>I. Inventories</b>		
1. Raw Materials and Supplies .....	5,797,875.97	4,634,218.73
2. Finished Goods and Merchandise .....	5,365,985.36	3,870,135.91
	<u>11,163,861.33</u>	<u>8,504,354.64</u>
<b>II. Receivables and Other Assets</b>		
1. Trade Receivables .....	2,671,695.01	2,627,258.93
2. Other Assets .....	2,675,740.97	2,174,234.53
	<u>5,347,435.98</u>	<u>4,801,493.46</u>
<b>III. Cash in Hand and Cash at Banks</b>	<u>930,667.14</u>	<u>1,486,596.82</u>
	<u>17,441,964.45</u>	<u>14,792,444.92</u>
<b>C. PREPAID EXPENSES</b>	<u>18,990.75</u>	<u>14,052.09</u>
	<u><u>42,529,612.57</u></u>	<u><u>35,083,826.95</u></u>

**EQUITY AND LIABILITIES**

	<u>31.12.2005</u>	<u>31.12.2004</u>
	€	€
<b>A. EQUITY</b>		
I. Subscribed Capital .....	6,000,000.00	6,000,000.00
II. Capital from Profit Participation Rights .....	5,000,000.00	0.00
III. Capital Reserve .....	1,824,219.38	1,824,219.38
IV. Compensating Item from Currency Translation .....	12,752.02	0.00
V. Profit Carried Forward .....	762,601.40	320,262.71
VI. Consolidated Net Profit .....	1,076,644.70	1,442,338.69
VII. Compensating Item for Minority Shares .....	74,929.53	0.00
	<u>14,751,147.03</u>	<u>9,586,820.78</u>
<b>B. SPECIAL ITEM FOR FIXED ASSETS INVESTMENT GRANTS</b>	769,415.41	1,051,592.50
<b>C. ACCRUALS</b>		
1. Accruals for Pensions and Similar Obligations .....	5,271,141.00	4,850,860.00
2. Tax Accruals .....	719,600.00	638,600.00
3. Other Accruals .....	<u>3,095,062.67</u>	<u>3,280,662.70</u>
	9,085,803.67	8,770,122.70
<b>D. LIABILITIES</b>		
1. Liabilities to Banks .....	9,531,163.64	10,493,238.28
2. Trade Payables .....	5,533,630.16	4,619,791.25
3. Other Liabilities .....	2,858,452.66	553,825.56
• of which for Taxes € 699,371.01 (PY. € 211,466.29)		
• thereof for Social Security € 324,481.18 (PY. € 264,715.18)		
	<u>17,923,246.46</u>	<u>15,666,855.09</u>
<b>E. DEFERRED INCOME</b>	0.00	8,435.88
	<u>42,529,612.57</u>	<u>35,083,826.95</u>

**Consolidated Income Statement (HGB)  
for the Financial Year 2005**

	<u>01.01. - 31.12.2005</u>		<u>01.01. - 31.12.2004</u>	
	€	€	€	€
1. Sales Revenues .....		61,318,937.69		56,499,085.55
2. Increase (PY. Decline) in Finished Goods Inventories .....		1,509,297.94		- 879,039.79
3. Own Work Capitalized .....		262,615.54		154,590.77
<b>Gross Performance</b> .....		<u>63,090,851.17</u>		<u>55,774,636.53</u>
4. Other Operating Income .....		2,266,069.22		1,745,326.39
		<u>65,356,920.39</u>		<u>57,519,962.92</u>
5. Cost of Materials:				
a) Cost of Raw Materials and Supplies and Purchased Merchandise .....	34,702,503.48		28,880,792.83	
b) Cost of Purchased Services .....	<u>113,272.73</u>	<u>34,815,776.21</u>	<u>85,433.26</u>	<u>28,966,226.09</u>
<b>Gross Yield</b> .....		<u>30,541,144.18</u>		<u>28,553,736.83</u>
6. Personnel Expenses:				
a) Wages and Sallaries .....	10,251,381.18		9,567,550.55	
b) Social Security and other Pension Costs .....	2,565,946.08		2,468,168.87	
• thereof for Pension Costs € 567,327.61 (PY. € 487,431.10)				
7. Amortization /Depreciation of Intangible Assets and Property, Plant and Equipment .....	2,466,236.08		2,726,476.49	
8. Other Operating Expenses .....	<u>12,315,179.29</u>	<u>27,598,742.63</u>	<u>10,852,310.65</u>	<u>25,614,506.56</u>
		2,942,401.55		2,939,230.27
9. Income from Long Term Financial Investments .....	15.96		358.34	
10. Other Interest and Similar Income .....	8,723.64		8,042.32	
11. Interest and Similar Expenses .....	1,011,185.66		718,898.34	
<b>Financial Result</b> .....		<u>-1,002,446.06</u>		<u>- 710,497.68</u>
12. <b>Income from Ordinary Activities</b> .....		<u>1,939,955.49</u>		<u>2,228,732.59</u>
13. Taxes on Income .....	921,737.27		750,168.38	
14. Other Taxes .....	<u>36,626.52</u>	<u>958,363.79</u>	<u>36,225.52</u>	<u>786,393.90</u>
15. <b>Consolidated Net Income for the Year</b> .....		<u>981,591.70</u>		<u>1,442,338.69</u>
16. Loss Share attributable to Minority Shareholders .....		- 95,053.00		0.00
17. <b>Consolidated Net Income</b> .....		<u><u>1,076,644.70</u></u>		<u><u>1,442,338.69</u></u>

## Consolidated Cash Flow Statement (HGB) for the Financial Year 2005

	<b>01.01. - 31.12.2005</b>	<b>01.01. - 31.12.2004</b>
	<b>k€</b>	<b>k€</b>
Period Result .....	981	1,442
Depreciation (+) /Write-Ups (-) on Fixed Assets .....	2,466	2,726
Increase (+) / Decrease (-) in Accruals .....	316	-409
Other Non-Cash expenses (+) / Income (-) .....	-27	-227
Income (-) / Loss (+) from the Disposal of Fixed Assets .....	45	-21
Increase (-) / Decrease (+) in Inventories, Trade Receivables and other Assets not attributable to Investing or Financing activities ...	-3,210	62
Increase (+) / Decrease (-) in Trade Payables and other Liabilities not attributable to Investing or Financing activities .....	-75	2,096
<b>Cash Flow from Operating Activities</b> .....	<b>496</b>	<b>5,669</b>
Payments received from the Disposal of Property, Plant and Equipment Items .....	12	29
Payments made for Investments in Property, Plant and Equipment .....	-11,524	-4,176
Payments made for Investments in Intangible Assets .....	-16	-15
Payments received from the Disposal of Financial Assets .....	1	9
Payments made for Investments in Financial Assets .....	-2	0
Payments made due to Repayment Obligation concerning Investment Grants .....	-255	0
<b>Cash Flow from Investing Activities</b> .....	<b>-11,784</b>	<b>-4,153</b>
Payments received from Additions to Equity .....	5,000	0
Payments to Company Owners .....	-1,000	-300
Payments received from the Disposal of Fixed Assets within the Scope of Sale-and-Lease-Back Transactions .....	4,396	0
Payments received from the Raising of Finance Loans .....	7,142	3,853
Payments for Repayment of Finance Loans .....	-4,820	-3,682
<b>Cash Flow from Financing Activities</b> .....	<b>10,718</b>	<b>-129</b>
Change in Cash and Cash Equivalents .....	-570	1,387
Currency-, Consolidated Group- and Valuation-based Change in Cash and Cash Equivalents .....	14	0
Cash and Cash Equivalents at Beginning of Period .....	1,487	100
<b>Cash and Cash Equivalents at End of Period</b> .....	<b>931</b>	<b>1,487</b>

Cash and cash equivalents is comprised of cash at banks and cash in hand.

## Consolidated Statement of Changes in Shareholders' Equity (HGB) for the Financial Year 2005

	Parent company				Minority Shareholders					
	Subscribed Capital	Profit Participation Capital	Capital Reserve	Earned Group Equity	Group Income Compensatory item From Foreign Currency Translation	Equity	Minority Capital	Balance Group Result Compensation item from Foreign Currency Translation	Equity	Group Equity
	€	€	€	€	€	€	€	€	€	€
Balance at 1 January 2004	6,000,000.00	0.00	1,824,219.38	620,262.71	0.00	8,444,482.09	0.00	0.00	0.00	8,444,482.09
Distribution				-300,000.00		-300,000.00			0.00	-300,000.00
Consolidated Net Income for the Year				1,442,338.69		1,442,338.69			0.00	1,442,338.69
Balance at 31 December 2004	6,000,000.00	0.00	1,824,219.38	1,762,601.40	0.00	9,586,820.78	0.00	0.00	0.00	9,586,820.78
Balance at 1 January 2005	6,000,000.00	0.00	1,824,219.38	1,762,601.40	0.00	9,586,820.78	0.00	0.00	0.00	9,586,820.78
Addition to Profit Participation Capital		5,000,000.00				5,000,000.00			0.00	5,000,000.00
Distribution				-1,000,000.00		-1,000,000.00			0.00	-1,000,000.00
Change in the Consolidated Group						0.00			157,478.01	157,478.01
Other Changes				1,076,644.70	12,752.02	12,752.02		12,504.52	12,504.52	25,256.54
Consolidated Net Income for the Year				1,839,246.10	12,752.02	1,076,644.70		-95,053.00	-95,053.00	981,591.70
Balance at 31 December 2005	6,000,000.00	5,000,000.00	1,824,219.38	1,839,246.10	12,752.02	14,676,217.50	62,425.01	12,504.52	74,929.53	14,751,147.03

## Notes to the Consolidated Financial Statements (HGB) for the Financial Year 2005

### 1. General Disclosures on the Consolidated Financial Statements

Nabaltec GmbH, Schwandorf, is the parent company of the Nabaltec Group. The consolidated financial statements for the year ended 31 December 2005 were prepared on a voluntary basis in accordance with the requirements of Section 290 et seq., HGB. The Nabaltec Group was created in the financial year 2005 as a result of the formation of Nashtec L.P., USA. The type of expenditure format was used to classify the income statement.

### 2. Consolidated Group

The consolidated group includes the parent company, Nabaltec GmbH, Schwandorf, and Nashtec L.P., Corpus Christi (USA), by way of full consolidation. Nashtec L.P. was initially included in the consolidated financial statements as at 31 March 2005.

This company is newly formed, so that no differences from initial consolidation arise.

<u>Company</u>	<u>Share of Capital</u>	
	<u>in k€</u>	<u>%</u>
Nashtec LP, Corpus Christi (USA) .....	161	50.49

Nashtec Management Corporation was not included in the consolidated financial statements due to immateriality as defined in Section 296 (2) HGB.

### 3. Consolidation Principles

The consolidation of capital was carried out in accordance with the book value method pursuant to Section 301 (1) Sentence 2 No. 1 HGB. The date of initial consolidation corresponds to the date of the first-time inclusion of the subsidiary in the consolidated financial statements. The netting of investment book values with the subsidiaries' equity required to be consolidated was carried out on the basis of the amounts stated at the initial inclusion of the subsidiary in the consolidated financial statements.

For shares in consolidated subsidiaries not belonging to the parent, the consolidated balance sheet includes a separate compensating item for minority interests under equity in the amount of their shares in shareholders' equity pursuant to Section 307 (1) HGB. The consolidated income statement contains a separate line item for profit/loss allocable to minority shareholders, which appears below consolidated net income pursuant to Section 307 (2) HGB.

The consolidation of expenses and income is carried out in accordance with Section 305 (1) HGB by netting the sales revenues, other operating income and interest income of companies included in consolidated financial statements with the corresponding expenses.

Intra-group receivables and liabilities are netted pursuant to Section 303 (1) HGB. Differences arising from currency translation of receivables and liabilities denominated in foreign currencies are recognized in earnings.

The domestic and foreign group companies are subject to the uniform disclosure, accounting and valuation policies defined for the Group. In cases of discrepancies from the German classification or valuation provisions, corresponding reclassification and revaluation adjustments have been made.

### 4. Currency Translation

The EURO conversion of balance sheet items of the foreign subsidiary was carried out at the balance sheet exchange rate.

The translation of the income statement was based on average exchange rates. The resulting translation differences are recognized in equity with neutral effect on earnings. Any translation differences arising within the scope of capital consolidation are recognized in equity with neutral effect on earnings.

## 5. Accounting and Valuation Policies

The consolidated financial statements of Nabaltec GmbH are prepared in accordance with the following uniform accounting and valuation policies:

**Intangible assets** are stated at acquisition cost less scheduled straight-line amortization write-downs. The estimated useful life is 4 years.

**Property, Plant and Equipment** are stated at acquisition or production cost, less scheduled depreciation.

Scheduled depreciation is recorded straight-line in accordance with the estimated useful lives established in the business, which are oriented towards the highest admissible tax rates. Assets capable of independent use with values of up to € 410.00 are written down in full in the year of acquisition pursuant to Section 6 (2) EStG. Production costs do not include any interest on borrowed capital.

**Financial Assets** are stated at continued acquisition cost.

**Raw Materials, Supplies, and Merchandise** are stated at acquisition costs taking the lower of cost or market principle into account. Acquisition costs are calculated using the average cost method. Slow-moving items were subject to write-downs on the basis of the length of storage.

**Finished Goods** are stated at acquisition costs taking the strict lower of cost or market principle into account. Production cost includes direct materials and manufacturing costs, as well as adequate shares of materials and manufacturing overhead costs. Interest on borrowings and general administration costs were not included under production cost. Finished goods are aggregated into valuation units for group valuation purposes in accordance with Section 240 (4) HGB. The production cost of items of similar type or approximately equal value is not assigned to the individual items but calculated using the weighted average value of the respective group.

**Receivables and Other Assets** are stated at face value. Individual discernible risks are accounted for by recording individual value adjustments. The general default and credit risk for trade receivables was accounted for by a general allowance for doubtful accounts. Foreign currency receivables are measured at the selling rate applicable on the transaction date or the lower selling rate applicable at the balance sheet date.

**Liquid Assets** are stated at face value. Liquid assets denominated in foreign currencies are recorded at the lower of the selling rate on the transaction date or the lower selling rate applicable at the balance sheet date.

**Prepaid Expenses** are stated at face value. The disagio is amortized over the term of the loans.

**Subscribed Capital** is reported at face value.

The **Special Item for Fixed Assets Investment Grants** was reported under equity at the amount of the grant and released over the useful life of subsidized investments on a pro-rata basis.

**Accruals for Pensions and Similar Obligations** are recorded in accordance with actuarial principles at accrued values pursuant to Section 6a EStG using an interest rate of 6% and Dr. Klaus Heubeck's "2005 G" Mortality Tables (previous year: 1998 Mortality Tables).

**Tax Accruals** reflect the expected payments.

**Other Accruals** are recorded for all discernible risks and uncertain liabilities in the amounts required by prudential business judgment.

**Liabilities** are carried at their repayment or settlement amounts.

Foreign currency liabilities are stated at the higher of the buying rate at the transaction date or the buying rate applicable at the balance sheet date.

## 6. Note Disclosures on the Consolidated Balance Sheet

### **Fixed Assets**

The development of fixed assets in the financial year is presented on the following page.



## Schedule of Consolidated Fixed Assets of Nabaltec GmbH for the Period from 01.01. to 31.12.2005

	Acquisition/Production Cost						Balance 31.12.2005 €
	Balance 01.01.2005 €	Additions €	Disposals €	Reclassifications €			
					Book Value 31.12.2005 €	Book Value 31.12.2004 €	
<b>I. Intangible Assets</b>							
Concessions, Industrial and Similar Rights and Assets and Licenses in such Rights and Assets	1,717,492.93	15,621.88	0.00	0.00	1,733,114.81	0.00	1,733,114.81
<b>II. Property, Plant and Equipment</b>							
1. Land, Land Rights and Buildings including Buildings on Third Party Land	7,275,685.58	522,356.35	26,266.08	40,090.51	7,811,866.36	0.00	7,811,866.36
2. Technical Equipment and Machines	23,863,823.40	921,816.01	83,459.00	116,269.94	24,818,450.35	0.00	24,818,450.35
3. Other Equipment, Operating and Office Equipment	3,226,060.71	360,172.09	29,465.75	0.00	3,556,767.05	0.00	3,556,767.05
4. Payments on Account and Assets under Construction	3,546,055.35	9,888,884.12	4,396,048.73	-156,360.45	8,882,530.29	0.00	8,882,530.29
	37,911,625.04	11,693,228.57	4,535,239.56	0.00	45,069,614.05	0.00	45,069,614.05
<b>III. Financial Assets</b>							
1. Shares in Affiliated Companies	0.00	1,726.32	0.00	0.00	1,726.32	0.00	1,726.32
2. Other Loans	906.36	0.00	906.36	0.00	0.00	0.00	0.00
	906.36	1,726.32	906.36	0.00	1,726.32	0.00	1,726.32
	39,630,024.33	11,710,576.77	4,536,145.92	0.00	46,804,455.18	0.00	46,804,455.18
	€	€	€	€	€	€	€
	1,378,106.94	312,937.38	0.00	1,691,044.32	42,070.49	339,385.99	312,937.38
<b>I. Intangible Assets</b>							
Concessions, Industrial and Similar Rights and Assets and Licenses in such Rights and Assets	1,378,106.94	312,937.38	0.00	1,691,044.32	42,070.49	339,385.99	312,937.38
<b>II. Property, Plant and Equipment</b>							
1. Land, Land Rights and Buildings including Buildings on Third Party Land	1,641,734.90	183,913.92	11,942.20	1,813,706.62	5,998,159.74	5,633,950.68	183,913.92
2. Technical Equipment and Machines	13,665,343.30	1,693,744.39	47,223.75	15,311,863.94	9,506,586.41	10,198,480.10	1,693,744.39
3. Other Equipment, Operating and Office Equipment	2,667,509.25	275,640.39	23,966.71	2,919,182.93	637,584.12	558,551.46	275,640.39
4. Payments on Account and Assets under Construction	0.00	0.00	0.00	0.00	8,882,530.29	3,546,055.35	0.00
	17,974,587.45	2,153,298.70	83,132.66	20,044,753.49	25,024,860.56	19,937,037.59	2,153,298.70
<b>III. Financial Assets</b>							
1. Shares in Affiliated Companies	0.00	0.00	0.00	0.00	1,726.32	0.00	0.00
2. Other Loans	0.00	0.00	0.00	0.00	0.00	906.36	0.00
	0.00	0.00	0.00	0.00	1,726.32	906.36	0.00
	19,352,694.39	2,466,236.08	83,132.66	21,735,797.81	25,068,657.37	20,277,329.94	2,466,236.08

### **Receivables and Other Assets**

Other assets are comprised mainly of receivables from a factoring company for purchase price retentions and blocked amounts from sold customer receivables (k€ 1,158), an asset value from reinsurance (k€ 450), VAT refund claims (k€ 565), and a claim for the refund of mineral oil tax (k€ 206). The receivable from the reinsurance asset value of k€ 450 has a remaining term of more than one year. Other assets include receivables of k€ 139 from a loan to a shareholder of the parent company.

### **Prepaid Expenses**

This item includes a disagio in the amount of k€ 1.

### **Shareholders' Equity**

The development of the group's equity is shown in the schedule of consolidated shareholders' equity. The subscribed capital of the parent company Nabaltec GmbH amounts to k€ 6,000 and is fully paid in.

Shareholders' equity includes profit participation capital in the amount of k€ 5,000. The scheduled maturity ends in the year 2012. Prior to that time the contract parties are not provided with any ordinary termination rights. The profit participation capital is in conformity with the requirements of IDW HFA 1/1994 pertaining to disclosures under shareholders' equity.

### **Special Item for Fixed Assets Investment Grants**

The special item for fixed assets investment grants is released on a pro rata basis in accordance with the useful life of the subsidized investments.

### **Accruals**

Tax accruals include accruals for corporation tax and solidarity surcharge (k€ 434) und municipal trade tax (k€ 285).

Other accruals relate mainly to personnel commitments (k€ 1,206), cleanup and waste disposal costs (k€ 983) and anticipated losses from incomplete contracts (k€ 207).

### **Liabilities**

Other liabilities include liabilities in the amount of k€ 1,586 to a minority shareholder of a company included in the consolidated financial statements.

The classification of liabilities and residual maturities including collateral provided is shown in the following liabilities schedule:

	Total Amount	With Residual Maturities			Collateral Provided	Type of Collateral
		Up to 1 Year	1 to 5 Years	More than 5 Years		
	k€	k€	k€	k€	k€	
Liabilities to Banks .....	9,531	3,881	2,439	3,211	9,531	Mortgage, Assignment as Security
Trade Payables .....	5,534	5,534	0	0	0	
Other Liabilities .....	2,858	1,294	1,564	0	0	
	<u>17,923</u>	<u>10,709</u>	<u>4,003</u>	<u>3,211</u>	<u>9,531</u>	

## 7. Disclosures on the Consolidated Income Statement

### **Sales Revenues**

The classification of revenues according to geographic markets is as follows:

	2005		2004	
	k€	%	k€	%
Germany .....	21,339	34.8	18,279	32.4
Rest of Europe .....	34,297	55.9	28,814	51.0
North America .....	2,858	4.7	4,749	8.4
South America .....	123	0.2	140	0.2
Asia .....	2,720	4.4	4,303	7.6
Africa .....	346	0.6	686	1.2
Australia .....	0	0.0	0	0.0
	<u>61,683</u>	<u>100.6</u>	<u>56,971</u>	<u>100.8</u>
<b>Less</b> .....				
Discounts and Bonuses .....	<u>-364</u>	<u>-0.6</u>	<u>-472</u>	<u>-0.8</u>
	<u>61,319</u>	<u>100.0</u>	<u>56,499</u>	<u>100.0</u>

### **Other Operating Income**

Other operating income includes off-period income in the amount of k€ 683. It is comprised mainly of income from a court settlement (k€ 293) and the release of accruals (k€ 198).

Income from the release of the special item for fixed assets investment grants amounts to k€ 175.

### **Other Operating Expenses**

Other operating expenses contain off-period expenses in the amount of k€ 192, comprised of expenses for the correction of the investment grant (k€ 148) and losses from disposals of fixed assets (k€ 45).

## 8. Group Segment Reporting (HGB) for the Financial Year 2005

In accordance with its internal organization and reporting structure, Nabaltec is comprised of the business units Functional Fillers and Technical Ceramics. The segment results selected for reporting purposes are Earnings before Interest and Taxes (EBIT) and Earning before Interest, Taxes and Depreciation/Amortization (EBITDA).

In addition, a presentation according to regions for the segments Functional Fillers and Technical Ceramic is shown. Regions were defined for Germany, Rest of Europe, USA and Rest of World (RoW).

	Fillers 2005	Ceramics 2005	Nabaltec Group 2005	Fillers 2004	Ceramics 2004	Nabaltec Group 2004
<b>Segments according to Units</b>						
in k€						
Sales Revenues .....	38,351	22,968	61,319	33,536	22,963	56,499
<b>Segment Result</b>						
EBITDA .....	3,123	2,285	5,408	3,495	2,171	5,666
EBIT .....	1,754	1,188	2,942	1,919	1,021	2,940
Amortization/ Depreciation .....	1,369	1,097	2,466	1,576	1,150	2,726
Other Non Cash Items .....	181	108	289	- 378	- 258	- 636
Assets*) .....	28,564	13,016	41,580	21,994	11,589	33,583
Investments in Fixed Assets .....	9,844	1,867	11,711	3,855	336	4,191
Debts .....	13,657	4,266	17,923	10,264	5,403	15,667
<b>Segments according to Regions</b>						
in k€						
<b>Sales Revenues</b>						
Germany .....	7,959	13,163	21,122	5,936	12,002	17,938
Rest of Europe .....	26,090	8,075	34,165	21,037	7,656	28,693
USA .....	1,884	877	2,761	2,733	1,885	4,618
RoW .....	2,418	853	3,271	3,830	1,420	5,250
Total .....	38,351	22,968	61,319	33,536	22,963	56,499
<b>Assets*)</b>						
Germany .....	21,201	13,016	34,217	21,994	11,589	33,583
Rest of Europe .....	0	0	0	0	0	0
USA .....	7,363	0	7,363	0	0	0
RoW .....	0	0	0	0	0	0
Total .....	28,564	13,016	41,580	21,994	11,589	33,583
<b>Investments in Fixed Assets</b>						
Germany .....	2,481	1,867	4,348	3,855	336	4,191
Rest of Europe .....	0	0	0	0	0	0
USA .....	7,363	0	7,363	0	0	0
RoW .....	0	0	0	0	0	0
Total .....	9,844	1,867	11,711	3,855	336	4,191

\*) Fixed and current assets, exclusive of liquid assets.

## 9. Other Disclosures

### **Contingent Liabilities and Other Financial Commitments**

The following other financial commitments, which are significant for the evaluation of the financial position, are in existence:

	31.12.2005	31.12.2004
	k€	k€
a) Commitments from Rental, Lease, Service and Consulting Agreements ....	7,382	2,650
thereof with a term of		
- up to 1 year .....	1,694	623
- from 1 to 5 years .....	5,687	1,868
- of more than 5 years .....	1	129
b) Commitments (Outstanding purchases) from Capital Spending Orders .....	130	867
- thereof due up to 1 year .....	130	867

Contingent Liabilities pursuant to Section 251 in conjunction with Section 268 (7) HGB are as follows:

Liabilities from issuance and transfer of bills	kEUR 0
Liabilities for guarantees, bill guarantees, and cheque guarantees	kEUR 0
Liabilities from warranty agreements	kEUR 0
Contingent liabilities for the provision of collateral concerning third party liabilities	kEUR 0

**Company Shareholdings pursuant to Section 285 No. 11 HGB:**

The Company holds a 51 % participating interest in Nashtec Management Corporation, Texas, USA, which performs the management of Nashtec L. P., Texas, USA. The shareholders' equity of Nashtec Management Corporation, Texas, USA, amounted to kUSD 4 as at 31 December 2005.

Annual financial statements have not been presented to date.

Moreover, the Company holds a 50.5 % interest in the production company Nashtec L. P., Texas, USA and 0.5 % indirect interest in the same company via Nashtec Management Corporation, Texas, USA. The partners' contributions at Nashtec L. P., Texas, USA, as at 31 December 2005 totaled kUSD 413, shareholders' equity kUSD 271, and the net result for the year kUSD - 141.

**Derivative Financial Instruments**

In the framework of the Company's risk management system, derivative financial instruments are employed with a view to minimizing the interest-rate and currency exchange risks.

Fair values are determined by independent financial services companies.

Face values and fair values of the financial instruments as at 31 December 2005 are structured as follows:

**Interest Rate Contracts**

Description	Currency	31.12.2005		31.12.2004	Maturity
		Face value	Fair Value	Fair Value	
Interest Swap . . . . .	EUR	894,760.79	-718.85	-5,013.31	30 June 2006

Derivative interest rate swaps are deployed for limitation of the interest rate risk. To that extent the interest rate swaps were provided for through valuation units with corresponding loan and current account liabilities, so that an accrual to account for anticipated losses from incomplete contracts was not required to be recorded.

**Currency Hedging Contracts**

	31.12.2005		31.12.2004	
	Face Value	Market Value	Face Value	Market Value
	€	€	€	€
Currency forward transactions USD . . . . .	4,361,519.28	-60,919.08	0.00	0.00
Currency forward transactions GBP . . . . .	697,836.71	-26,477.00	0.00	0.00

The currency hedging contracts are valued on the basis of the reference exchange rates in consideration of the respective premium or discount on the forward transaction. An accrual in the amount of the negative market value was recorded to account for anticipated losses from incomplete contracts.

**Human Resources**

The average number personnel employed in the financial year was as follows:

	Nabaltec Number	Nashtec Number
Industrial Employees . . . . .	150	
Salaried employees . . . . .	80	1
Trainees . . . . .	34	
Persons under Minor Employment Contracts . . . . .	12	
	<u>276</u>	<u>1</u>

### **Management**

Mr. Johannes Heckmann, Technical Managing Director  
Mr. Gerhard Witzany, Commercial Managing Director

The Managing Partner, Mr. Gerhard Witzany, was granted a loan in the amount of k€ 150 with an Agreement dated 22 May 2003. The loan bears an interest rate of 5.0 % p. a. and is payable at equal annual instalments of k€ 30 beginning from 30 June 2005. Early repayment is possible at any time. As at 31 December 2005, it amounted to k€ 139.

Disclosure of the total remuneration of Management was omitted pursuant to Section 286 (4) HGB.

### **Significant Transactions with Related Parties**

The following persons are considered to be related parties:

Mr. Johannes Heckmann, Managing Directors and Partner  
Mr. Gerhard Witzany, Managing Directors and Partner  
Mr. Thomas Heckmann  
Mr. Dieter Heckmann  
Ms. Renate Witzany  
Nashtec Management Corporation, Corpus Christi (USA)  
Nashtec L.P., Corpus Christi (USA)

Nabaltec GmbH provided Nashtec L.P., Corpus Christi (USA) with a shareholder loan in the amount of k€ 1,532 for the start of business operations. The interest rate of the loan is aligned to the 3-Month-Libor Rate + 200 basis points. According to the planning of the Nabaltec GmbH Management, repayment of the loan is to begin from Financial Year 2008.

In the event that the capital ratio reported in the future audited financial statements of the borrower should fall below 20 %, the shareholders of Nabaltec GmbH made an agreement with Hypo Vereinsbank to equip the borrower with new capital without delay in order to provide for a capital ratio of at least 20 %.

Schwandorf, 15 September 2006

Nabaltec GmbH

The Management

Johannes Heckmann

Gerhard Witzany

## Group Management Report for the Financial Year 2005

### General Economic Situation

The anticipated global economic recovery did not materialize to the extent expected during the reporting year. Domestic demand was up only slightly compared with the previous year, while foreign demand was on a continuing positive trend, particularly in the area of cable compounds for telecommunication and data processing systems. Internationally, the strong demand for steel indicated a positive trend in the ceramic and refractory industry.

The strength of the Euro in comparison with the US Dollar generated cost- and, consequently, competitive advantage for competitors from these currency regions (USA, Asia), which, however, materialized only in part due to qualitative limitations.

### Situation in the Industry

In the industry environment, which has been stabilized by acquisitions over the past years, the main competitors, Almatix, Albemarle, Alcan, MAL, operate with partly differing product and marketing emphases. New competitive influences are expected from the low-specialization area, particularly from India and China.

The market prices of primary materials (smelter grade oxide, aluminum hydroxide) continued to increase due to the strong demand. Shortages, however, are not to be expected as extensive new capacities will be entering the market in the years to come.

The demand for non-halogenated, flame retardant fillers (aluminum hydroxide) continues to rise, and is supported on a global level by revised fire protection regulations. Medium-term market forecasts project annual growth of 6 % in global demand. To keep abreast with this growth, which relates primarily to fine aluminum hydroxides, Nabaltec will establish a production facility for fine aluminum hydroxide with the joint venture partner Sherwin Alumina in Corpus Christi (Texas, USA) with a starting capacity of 25,000 tons per year. The start of production is planned for the second half of 2006. The price level was further stabilized by a high level of utilization of existing capacities; it was possible to realize price increases at the level of average cost increases.

The market in the area of special oxides and reactive alumina continues to be characterized by a surplus of free capacity for less refined products, while capacity limits for highly refined products are evident. To this extent, the development of prices in the product areas is dependent on the competitive environment.

### Sales Revenues and Results

In the “**Flame Retardant Fillers**” business unit, Nabaltec is focusing on the following market segments with the APYRAL® product range:

- with granular crystalline hydroxides and mixed hydroxides as sealing compounds in the electro-technical area on the cast resins market, and in the area of constructive elements on the market for resins
- with fine aluminum hydroxides (fine hydroxides) on the market for cable coating and insulation
- with boehmite qualities on the market for catalytic raw materials

The object of this concentration is to achieve quality leadership in the areas concerned and to maintain the Company's global market position among the three leading suppliers.

In the **granular crystalline hydroxide** product area, sales revenue decreased by 2 %; in the **fine hydroxides** product area, revenue was up by 16 % on the previous year. In the **boehmite** product area, where an important customer was regained in the third quarter, satisfactory revenues and margins were posted once again.

This business unit closed the year with a 14 % revenue increase, and holds a 63 % share in total revenue (59 % in the previous year).

In the “**ceramic raw materials**” business unit, the conversion of the primary material base to smelter grade oxide was completed. The changed raw materials base required comprehensive development effort, as many products had to be re-sampled and released by customers. The focus on more refined products is reflected in the further development of our qualities.

Unit sales concerning NABALOX® oxides dropped slightly, and the competitive situation permitted only slight price increases, so that revenues increased by 4 %. The leading market position in polishing alumina could only be partially maintained through reformulations required due to the change in raw materials. In the refractory market segment, sales revenue for SYMULOX® dropped by 45 % due to cyclical demand fluctuations for large contracts from the glass industry.

In the “**ceramic masses**” business unit, Nabaltec holds the global leading market position in over-the-counter ceramic masses for technical ceramics with the GRANALOX® product range. The position was further expanded through collaborative developments with customers, which lead to very close customer/supplier relationships. Sales revenues in this area were up by 12 % (33 % in the previous year), which is in line with the volume increase.

Overall, the Nabaltec Group posted revenues of k€ 61,319, exceeding the previous year’s value by approx. 9 %.

### **Net Assets, Financial Position and Results of Operations**

Fixed assets of the Nabaltec Group increased to k€ 25,069 (k€ 20,277 in the previous year) due to extensive investment activities, which included the capital spending for the Nashtec joint venture.

In October, Nabaltec GmbH subscribed for a € 5.0 million mezzanine equity tranche with equiNotes. As a result, the capital ratio can be maintained at a level significantly above 30 %, even in the phase of high capital expenditures aimed at improving the Group’s competitiveness and bolstering its market position.

Nashtec’s investment financing is secured through a credit agreement between Nashtec and the Bank of America, for which an interest cap was concluded as a hedge against interest rate changes. Loan commitments were repaid as planned. Total liabilities grew by 14 % to k€ 17,923, however, primarily due to the borrowings for the Nashtec project. The Company’s liquidity was sufficiently ensured at all times; the credit facilities granted were not fully utilized.

Nabaltec Group earnings before tax of k€ 1,940 (previous year 2,229) were on track with the favorable earnings development despite expenses incurred for the Nashtec project and infrastructural improvements. Provisional measures for expected expenses related to environmental clean-up, waste disposal and infrastructure were recorded at the amounts required.

### **Derivative Financial Instruments**

Currency hedges of GBP and USD in the amount of k€ 5,060 recorded as of December 31, 2005 serve to hedge against payments on current contracts in 2006 and 2007. An accrual to account for anticipated losses from incomplete contracts of k€ 87 was recorded in the amount of the negative market value according to the bank notification.

In addition, there is an interest rate swap to the nominal amount of k€ 895 with a market value of k€ -1 according to information provided by the bank which is due on 30 June 2006. The derivative interest rate swap is used to limit the interest rate risk.

The financing for the investment in the Nashtec joint venture was secured with an interest rate cap over the 10 year financing term.

### **Sourcing and Production**

Medium-term supply contracts ensure the provision of primary materials and energy at all times. Owing to the development projects carried out in the past there is no dependence on individual raw material qualities.



The cost-efficient provision of raw materials based on sodium aluminate solution for the Nashtec joint venture is ensured on a long-term basis through the Sherwin Alumina joint venture partner from the latter's own production.

Capacity for fine hydroxides was further increased by 10,000 t to 50,000 t with the investment in a third production line of APYRAL® 40 CD. The plant was ready for operation from the beginning of January, 2005, and has been utilized in full since the start of production. Customers have continued to confirm our qualitative market leadership in this product area.

Quality consistency was further improved following the conversion of oxide production to the use of smelter grade oxides. The continued development of production technology with the help of a test rotary tube furnace is aimed at determining in advance the processing parameters in the use of various primary material qualities and, consequently, reducing the time and testing requirements for primary material conversions.

Following reconstruction measures for technical improvements and adaptations to development objectives, the technical plant at Kelheim entered into operation in the second quarter as planned. The plant offers Nabaltec the possibility of developing new products and processes, particularly in the area of catalytic raw materials. Initial successes have been recorded in the development of new boehmites and pseudo-boehmites, which have already achieved a high level of market acceptance and are being produced in a small series in Kelheim.

The project for introduction of an integrated data processing system designed for data management and recording in the production areas was further implemented within the time stipulated and was introduced in other areas.

### **Organization und Human Resources**

The organization of Nabaltec GmbH, which is classified into three business units and three service areas managed as profit or cost centers, contributes significantly to targeted market presentation:

#### **Business Units**

- Fillers
- Ceramic Materials
- Ceramic Masses

#### **Service Areas**

- Commercial Services
- Technical Services
- Analysis Center

This organizational structure allows for a high level of earnings responsibility among employees and facilitates effective cost control.

The introduction of team work models is progressing. It optimizes employee responsibility concerning working time flexibility and team management.

At a rate of 13 %, Nabaltec provides for the training and qualification of young people at a higher than average rate through training programs for industry and IT engineers as well as chemical laboratory assistants and chemical technicians. Last year, too, graduates were again represented among the district chamber of commerce best of class.

With 275 employees in Schwandorf and 2 employees at Nashtec, personnel increased slightly to 277 employees as of 31 December 2005.

### **Environmental Protection**

With the successful completion of the repeat audit and upgrade in accordance with ISO 14001:2004 through the Technical Inspection Agency [TÜV] of Bavaria, Nabaltec GmbH underscores its obligation to active environmental protection.

DIN EN ISO/IEC 17025:2000 accreditation of the analysis center underscores the efficiency of this area, and provides the opportunity of acquiring external contracts for waste water analyses as well.

### **Quality Management**

With the successful completion of the repeat audit in accordance with ISO 9001:2000 through the Technical Inspection Agency [TÜV] of Bavaria, Nabaltec GmbH supports its claim to a high level of quality in all areas of operation.

The improvement and maintenance of the quality management system are ensured through internal audits carried out at regular intervals.

The audit of Nashtec in accordance with ISO 9001:2000 is planned shortly after the start of production with a view to documenting the same quality standard for both production facilities.

### **Research and Development**

Research and development activities are focused on the areas of

- process development and energy optimization
- development of the range of existing products, and
- new product developments.

In addition to quality improvements concerning our own products, process development is targeted towards efficient use of various primary materials and the most targeted production of our special products with the smallest requirement for commodity products.

Due to the very energy-intensive production, which is associated with continually growing energy costs, Nabaltec has entered into a cooperation with Shell Energy Efficiency to review all thermal and electrical processes for savings potential on a performance basis, and to accompany the respective implementation.

Further developments in the ceramic mass product range in combination with important key customers once again contributed to the volume expansion of this business. During this process, projects from the *Arbeitsgemeinschaft industrieller Forschungsvereinigungen* [work group of industrial research associations] were initiated with various industrial partners.

Further development of the product range is being pushed forward in all areas through collaboration with customers as well as institutes and plant manufacturers with a view to providing customers with quality and processing advantages through Nabaltec's products.

Nabaltec's innovation capability is underscored, inter alia, by its participation in the EU research project "FLEXIFUNBAR." The objective of this project is the development of highly technical textile fibers based on non-halogenated, mineral flame retardants.

Moreover, within the scope of a Federal Ministry of Education and Research [BMBF] project conducted jointly with the University of Bayreuth, Nabaltec is developing a new mineral filler based on boehmite for non-halogenated fire protection.

### **Nashtec**

Together with the Sherwin Alumina partner, the "Nashtec" joint venture was established in the USA with the objective of building a production facility in Corpus Christi (Texas, USA), on the site of the partner's aluminum oxide plant, for the manufacture of 25,000 t fine aluminum hydroxide – APYRAL® 40 CD – per year.

In 2005, the outstanding contractual and approval prerequisites were met to enable the start of construction in September 2005. The plant is scheduled to begin operations in the third quarter of 2006.

The project financing is provided by the Bank of America and the partners. The total investment volume is approximately USD 25 million, of which 80 % is financed by Bank of America and the remainder is financed by the partners in proportion of their shareholdings.

According to the contractual provisions, Nabaltec will operate as sole marketer of production volumes from Nashtec. Invoicing will occur through Nabaltec and sales revenues will be integrated into the existing factoring arrangements.

This will enable Nabaltec to further improve its position as Number 2 in the fine hydroxide market and become the only provider with production locations in both consumption centers.

## **Outlook**

Public discussions are in favor of equipping plastics and synthetic resins with non-halogenated, flame retardant fillers, a practice which is ever more frequently becoming the standard in EU legislation, in the USA and also in Asia. In particular, this development contributes to increased use of aluminum hydroxide, which today is already the dominant non-halogenated, flame retardant filler in terms of quantity. For this reason, continuing dynamic growth is expected for the future as well. A high level of capacity utilization was achieved through the introduction of APYRAL® 40 CD quality, leading to further targeted investments in the fine hydroxide area, in order to maintain the balance between supply and demand, and to develop Nabaltec to become market leader in addition to quality leadership.

With the investment in the Nashtec production site in the USA, Nabaltec is ensuring steady global supply at a uniformly high level of quality to customers for fine aluminum hydroxide.

The economic situation allows for expectations of further growth within the ceramics and fire resistant sectors of industry; revenue improvements can be expected because of the industry situation. Customer development is moving towards increased use of fine, reactive aluminum oxide, which Nabaltec accommodates through targeted expansion investments in this product area and by the development of new products. The cost advantages gained from the conversion to use of smelter grade oxide, cost effective, patented de-alkalization and the positioning concerning reactive, low-alkali aluminum oxides encourage expectations of long-term income improvements.

Following the development in 2005, the Nabaltec Group expects significant revenue growth in 2006 and 2007 as well, supported by both volume increases in all areas at Schwandorf and Corpus Christi, and by value increases. Orders on hand as of 31 December 2005 were higher than planned at k€ 12,122 for Nabaltec GmbH, in line with the expectations of continued strong demand. This will be accompanied by the renewed improvement and stabilization of income levels. The supply of primary materials for the locations Schwandorf and Kelheim continues to be secured by medium-term contracts, and the materials supply for the Nashtec joint venture is secured on a long-term basis through joint venture partner Sherwin Alumina within the scope of a joint venture agreement.

## **Risk Management**

Global innovative activities in the highly competitive markets entail business risks. Consistent risk management and ongoing development of risk management instruments in all areas are a means to ensure that significant risks to the Company are recognized and eliminated. The starting point for risk management is the identification and evaluation of various types and profiles of risks, which are monitored and reviewed by controlling. Reports on business risks and current status reports are prepared for the Company's management and discussed at management level. Comprehensive operational planning with target agreements, including regular forecast calculations, are vital to an efficient risk management system.

Nabaltec introduced a strategic planning system in order to take advantage of medium- and long-term opportunities and to recognize risks. The strategy formulation process includes all relevant areas. Through the involvement of experts, Nabaltec counteracts any risks arising from competition, antitrust, fiscal and environmental regulations and guidelines from the outset. The product and environmental risks are curtailed by quality assurance measures, such as certification of our activities under international standards, ongoing improvement of facilities and procedures, development of new products and further development on existing products, as well as involvement in international expert panels.

Risk management also includes periodic reviews of the efficiency of hedging tools and reliability of control systems. Damage and liability risks are covered by appropriate insurance coverage to limit financial effects to liquidity, the financial condition and results and income situation, and to rule out the possibility of situations that endanger the Company's existence as a going concern.

With the introduction of factoring in 2002, the share of insured receivables was further increased and the Company's liquidity was significantly improved. Exchange rate risks are limited through specific currency hedging measures in the USD and GBP currency area. Within the scope of medium-term financing, swaps are used to secure interest rates, or credit agreements based on fixed interest rates are concluded.

Demand fluctuations and fluctuating labor requirements in the service areas are counteracted in close coordination with employee representatives within the scope of flexible work time regulations as stipulated in the chemical industry's collective wage agreements.

Risks of future development are not in existence at this time due to our continued observation of our relevant markets, the ongoing development of our products, and adaptations to the needs of existing and potential customers.

The Company is not exposed to any discernible risks that would endanger the going concern assumption during the reporting period or in the future.

#### **Events of Special Significance after the Balance Sheet Date**

No events of special significance occurred after the balance sheet date.

Schwandorf, 15 September 2006

NABALTEC GMBH

The Management

Johannes Heckmann

Gerhard Witzany

## **AUDITOR'S REPORT**

To Nabaltec AG (formerly: Nabaltec GmbH):

We have audited the consolidated financial statements prepared by Nabaltec GmbH - comprising the balance sheet, the income statement, the notes to the consolidated financial statements, the cash flow statement and the statement of changes in shareholders' equity and the segment reporting - and the Group management report for the business year from 1 January 2005 to 31 December 2005. The preparation of the consolidated financial statements and Group management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 23 October 2006

**AWT Horwath GmbH**  
**Wirtschaftsprüfungsgesellschaft**

**M. Rauchfuss**  
**Wirtschaftsprüfer**

**ppa. Chr. Bayer**  
**Wirtschaftsprüfer**