

OUR KNOW-HOW FOR YOUR SAFETY

ANNUAL FINANCIAL STATEMENTS 2014
NABALTEC AG



NABALTEC AG MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2014

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE COMPANY'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 around 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 has 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 market segment “Environmental Engineering”, Nabaltec concentrates on the development of new raw materials for alternative energy storage, electro mobility and catalysis.

BUSINESS DIVISIONS

Functional Fillers:

- Flame Retardants
- Additives
- Environmental Engineering

Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

SERVICE CENTERS

Administrative Services

Controlling/Finance

Technical Services

Laboratory Services

1.2 OBJECTIVES AND STRATEGIES

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

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

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 and Freedonia. 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 encouraged particularly by regulatory requirements or self-imposed commitments from the industry. With an export share of around 70%, we already profit from these worldwide trends. The aim of being 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 being 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 has already been collaborating with various research institutions for 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 of 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 highly 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, promissory note bonds and subsidies.

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 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 relating 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 17,500,000.00 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 borne by the company.

1.5 RESEARCH & DEVELOPMENT

Research & development activities play a central role within the context of Nabaltec AG's overall strategy. The most important element within the research & 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 at an early stage 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. Through the technically educated sales force and its high competence, at the same time Nabaltec is also in the position to quickly identify and actively promote new trends in mature and new sales markets.

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 with universities, public and private institutions, as well as research and technology companies. Research partners currently include RWTH Aachen University, Fraunhofer Institute for Structural Durability, Synthetics Department, in Darmstadt, Saechsische Textilforschungsinstitut e.V., Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, and the research institute for inorganic materials – glass/ceramic in Höhr-Grenzhausen, Fraunhofer Institute for Silicate Development in Wuerzburg, German Institute for Flame Retardents and Ceramics in Höhr-Grenzhausen as well as the Study Group Fire resistant in Höhr-Grenzhausen. Additionally, Nabaltec emphasizes innovation by participating in various projects of AiF (Consortium of Industrial Research Associations) and BMWi (Federal Ministry of Economics and Technology) in both of our business 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 has already belonged seven times to Germany's top 100 innovative medium sized German companies and was distinguished several times for innovative energy.

Currently, the focus of our research & 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 all the time 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 qualities 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 right from the start.

During fiscal year 2014, the following developments played a central role in the "Functional Fillers" business division:

The market for minerals based flame retardants still represents a considerable growth market particularly for Nabaltec's innovative and environmentally friendly products. During 2014, growth was guaranteed by the substitution of halogenated flame retardants through non-halogenated flame retardants. In addition, through implementation of the CPR (Construction Products regulation) within the EU a further growth impulse was triggered. Through this EU-wide regulation new so far non-accessible applications for Nabaltec's mineral products unfold. In the reporting year, central focus was placed on the consequent opening up for development of these new application areas with partially newly developed products. Especially strong emphasis was placed on the exhaust gas and waste gas corrosiveness subjects as part of CPR which are material drivers for new fields of operations and applications.

In the field of insulants for buildings isolation and in cooperation with a partner, an optimized additives/flame protection system was developed successfully which allows processors to achieve a higher process reliability. The first product releases were already obtained by the end of the year. Again the focus was placed on the subject of substituting environmentally hazardous flame protection agents.

Cooperation with Sumitomo Chemical was further intensified during the year. Through the close connection of our strategic partner with OEMs in Japan, important momentums to further develop aluminum hydroxide and boehmites for the electrical and electronics industry were gained and implemented.

In addition, for the transportation and shipping business, Nabaltec in close cooperation with worldwide leading customers focused on the optimization of the product range for the automotive sector.

Regarding new trends in environmental engineering, Nabaltec AG is currently in the process of developing new raw materials 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 automobiles.

During the reporting year, focus was placed on the following developments for the "Technical Ceramics" business division:

As part of the NABALOX® product segment, activities focused on consistently advancing abrasives already established in the market. In close cooperation with our customers their special requirements were considered and specific solutions were worked out and implemented. Further special attention was placed on developing new softly calcined aluminum hydroxides used especially in the high value abrasives area. In order to prepare for the large scale industrial market entry, research was conducted at customers and approvals were obtained. A respective technical facility was installed on the Nabaltec premises. Also the development technology related assistance when placing the new facility into service was a major focus of the development activity. As expected, beyond the target market the potential of the new products could be demonstrated in other applications.

The application of reactive aluminum oxides by Nabaltec lies mainly in the refractory industry, where the products already today significantly contribute to 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 into 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 into the market.

A new type of product line with completely new application features for the production of high refractory concretes was developed. The new product group was filed with the patent office. The brand name NABACAST® was registered.

In order to expand the application range of SYMULOX® M 72 and M 85, new projects with several partners were started. The first field introductions of the products were carried out in the steel industry, a market area so far untypical for sintered mullite.

On the basis of an in depth assessment of the market and closest cooperation with our customers, several specific developments were carried out for our customers in the area of the GRANALOX® product range. In addition to these customer specific developments, a project to manufacture ceramics with regard to optimized strength was processed successfully.

Within the scope of an AiF-project 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.

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 3.1% and 2.9% was realized already in 2012 and 2013, respectively, according to the Kiel Institute for the World Economy (IfW) for 2014 an increase of 3.4% was recorded, a lower growth than still expected a year ago. This was caused by unfavorable financing conditions in emerging nations, an economic downturn in Japan as well as weather related losses in the USA. After a subdued growth of the global gross domestic product in the first half of the year, the third quarter showed a noticeable gain. The third quarter in the USA resumed strongly as the total GDP for 2014 increased by 2.2% after prior year's 1.6%. In China an increase of the GDP of 7.4% came in lower than in the previous year with 7.7%, while the economy in India accelerated more pronounced by 5.9% (PY 4.7%). The business activity in the EURO zone again increased only slightly during the summer months after the beginning recovery in the spring had come to a halt. The GDP for the EURO zone increased by 0.8% more weakly than projected a year ago, but compared to prior year (2013: -0.4%) it was able to recover somewhat.

The German economy could assert itself in a difficult worldwide environment and on average during 2014 proved to be stable. After a dynamic beginning of the year followed by a weak summer phase, the economic situation stabilized towards the end of the year. According to the Federal Bureau of Statistics, the German economy's price adjusted GDP increased by 1.6% after 0.1% in the previous year 2013 and thus remained above the average of the last ten years of 1.2%. The usage side of the GDP showed the consumption to be the most important growth motor of the economy but capital expenditures also grew. As both exports and imports grew by 3.7% respectively 2.0% compared to the previous year and reached new record levels, the export business rendered a positive contribution to the GDP growth in 2014.

2.1.2 INDUSTRY DEVELOPMENT

In 2014, after a changing economic development, total revenue in the German chemical industry remained below expectations. With a cautious rise in demand and slightly lower prices (-1.0%) total sales could be expanded by 1.5% to EUR 193.6 billion (source: German chemical industry association VCI - Verband der Chemischen Industrie e.V.).

Domestic sales of the German chemical industry in comparison to the previous year rose by 2% to EUR 77.8 billion. Total exports grew by 1.0% to EUR 115.8 billion. Business with NAFTA-countries ("North American free trade Agreement") could be expanded strongly (+5.5%). Especially sales with pharmaceuticals contributed positive impulses. Exports to European countries posted slight gains (+1.0%). Despite the Crimean crisis, in conclusion sales with east European countries developed positively (+2.0) as only 4.0% of German chemical exports go to Russia and Ukraine. After a slight increase in investments in the previous year by the chemical industry, funds again increased in 2014 for capital expenditures for property, plant & equipment. Domestic investments of EUR 7 billion were higher by 2% than in the previous year. Thereof half was related to a production capacity extensions.

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 6.7% till 2021 (on the basis of ATH, source: Freedonia). 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 specifically affects the business line fine precipitated aluminum hydroxide. In every quarter in 2014, Nabaltec could set forth the already very 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 2014 could increase again but still remains on a low level. Nabaltec was able to withstand the low demand from the steel industry by diversification of industry business lines and above average development of strong value adding products. Market experts also continue to expect an annual growth of around 3% for refractory products and technical ceramics (source: Roskill).

2.2 COURSE OF BUSINESS

In the fiscal year 2014, Nabaltec AG could tie in to the already good development of the previous year and achieve improvements with the most important financial key numbers. During the year, sales stably developed on a high level and in all quarters exceeded the comparable numbers of the prior year. In total, 2014 revenues increased by 7.8% to EUR 143.3 million while the operating profit (EBIT) increased by 53.8% to EUR 10.0 million (2013 EUR 6.5 million). Equity grew by 9.3% to EUR 43.6 million (2013: EUR 39.9 million).

The communicated revenue and earnings forecast on the group level for the financial year 2014 were exceeded. This was based on the disproportional volume growth in combination with the increase of strong value adding products.

According to Management, Nabaltec AG's market position was further improved in 2014. The respective numbers of leading positions amongst the top 3 in the relevant target markets were either confirmed or improved.

Through all four quarters Nabaltec AG recorded solid growth. With its product range and the reputation built up over years, Nabaltec is optimally equipped for a continued successful financial year 2015.

2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG

2.3.1 DEVELOPMENT OF REVENUE

Nabaltec AG realized sales revenue of EUR 143.3 million in 2014, and therefore exceeded prior year's level by a strong plus of 7.8% (2013: EUR 132.9 million). Direct exchange rate effects played a subordinated role in the development of revenues in 2014. Turnover volume across all business areas increased significantly by 9.0%. The export share increased to 71.6% from 69.2% in 2013.

All four quarters equally contributed to the good sales development. The first quarter of 2014 with sales of EUR 36.8 million exceeded prior year's very strong first quarter. With sales of EUR 36.2 million, the second quarter also came in higher than the comparable number. In the second half of the year third quarter's EUR 36.5 million and fourth quarter's EUR 33.8 million again significantly exceeded the 2013 numbers.

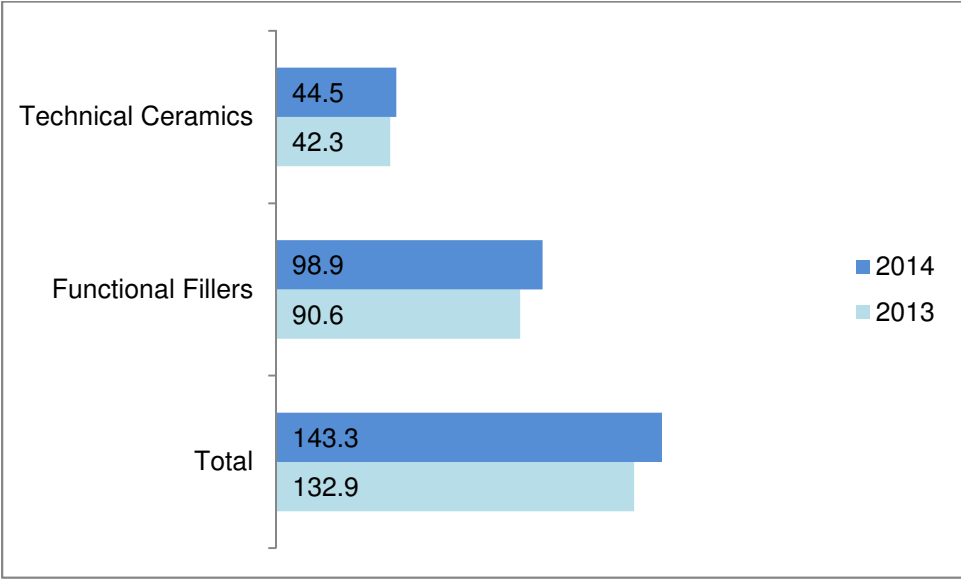
Throughout the year, orders amounted to EUR 151.2 million in total. As a result and compared to last year a plus of 15% was gained. Nabaltec ended the financial year 2014 with an order backlog of EUR 22.5 million.

The business division "Functional Fillers" increased its revenues in 2014 from EUR 90.6 million to EUR 98.9 million, an increase of 9.2% compared to prior year. This strength in growth and profitability is significantly based on an increase in sales quantity as well as a continued stronger concentration on value adding product areas.

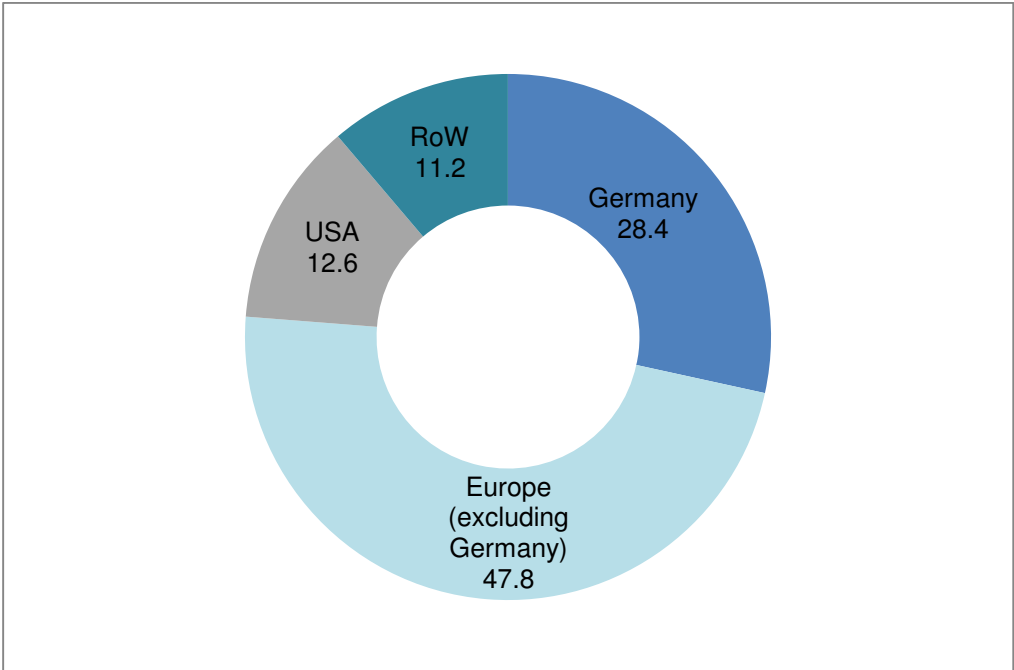
The US subsidiary, Nashtec, could further brace her market position.

The business division "Technical Ceramics" due to increased sales volume achieved revenues of EUR 44.5 million compared to EUR 42.3 million in prior year, an increase of 5.2%.

Revenue by business division in 2014
(in EUR million)



Revenue by region 2014
(in %)



Nabaltec AG's total performance increased in 2014 by 6.2% from EUR 134.5 million to EUR 142.8 million. This is mainly due to sales increases in combination with only a low decrease in the level of finished goods and work in progress. Capitalized internally generated assets amounted to EUR 0.4 million.

Other operating income of EUR 3.1 million (2013: 1.3 million) primarily consists of exchange rate gains and other income from goods and services delivered to third parties.

Operational expense ratios compared to total performance		
	2014	2013
Cost of materials	55.8%	56.4%
Personnel expenses	18.4%	16.6%
Other operating expenses	14.7%	16.9%

Compared to prior year, the cost-of-materials-ratio (compared to total performance) could be lowered by 0.6 percentage points to 55.8%. In absolute terms, gross profit exceeded the prior year with EUR 66.2 million by EUR 6.1 million in the reporting period and EUR 60.1 million in 2013.

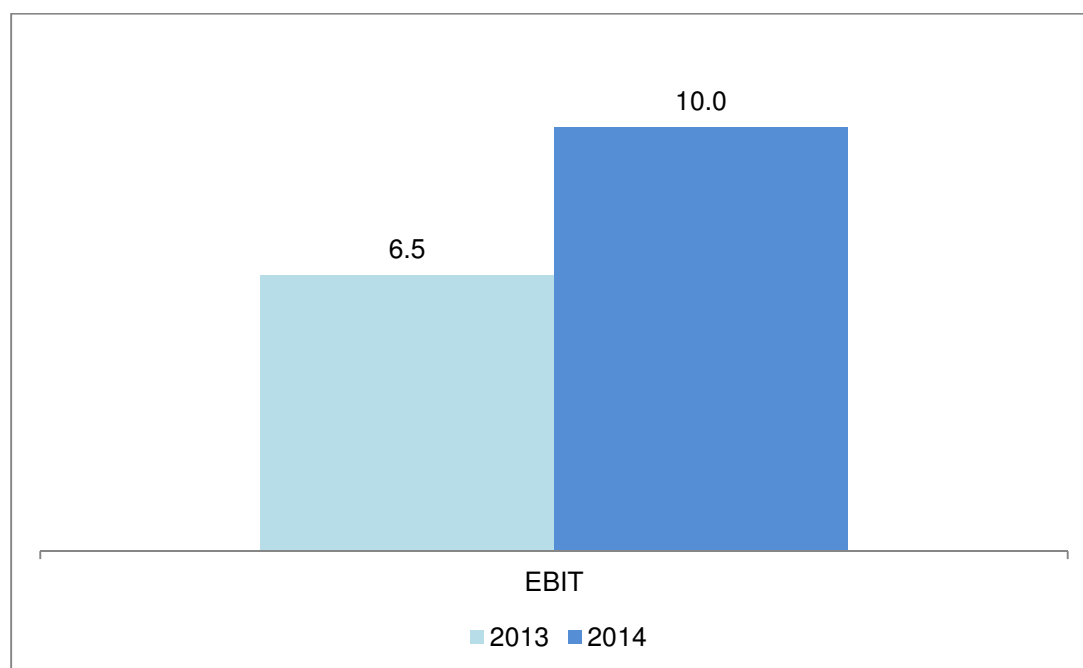
In 2014, the personnel-expenses-ratio (compared to total performance) of 18.4% increased to prior year level of 16.6%. Included are the effects of a tariff increase, the cancellation of the 2013 pay cut and an increase of the number of employees from 413 per 31 December 2013 to 422 per 31 December 2014.

Other operating expenses decreased from EUR 22.7 million to EUR 21.0 million. The expense-ratio (compared to total performance) significantly improved from 16.9% to 14.7%. While the distribution-costs-ratio and the cost-ratio relating to sales agent commissions mainly remained stable, rent and leasing expenses were materially lower than last year. In addition, decreasing expenses for external services and repair services were noted.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 25.2% from EUR 15.1 million to EUR 18.9 million. This is mainly due to the increased total performance and by the business division "Functional Fillers" contributing with its further expansion of value adding products.

Taking into account the scheduled depreciation/amortization in the financial year 2014 in the amount of EUR 9.0 million, the operating result (EBIT) amounts to EUR 10.0 million compared to EUR 6.5 million in prior year. Similarly to the effect on EBITDA, this development was due to the upward trend in the overall performance as well as the significant increase in the business division "Functional Fillers".

EBIT (in EUR million)



Earnings before tax (EBT) amounted to EUR 6.4 million (2013: EUR 1.8 million). This includes the financial result 2014 of EUR -3.6 million, consisting of EUR 3.8 million interest expenses and EUR 0.2 million interest income and income from other securities and loans. Last year's financial result was EUR -4.7 million. The improvement in the business year is mainly due to lower interest expense caused by the conversion of corporate bonds into promissory note bonds in the fourth quarter 2013 as well as the scheduled redemption of existing loans.

Tax expense of EUR 1.9 million was incurred in the 2014 business year (2013: EUR 0.6 million).

Profit for the year amounted to EUR 4.2 million (2013: EUR 0.9 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 fundraising. The US subsidiary, Nashtec, is integrated in the Group's liquidity management.

Thanks to our own production in the USA by our subsidiary, Nashtec, Nabaltec was able to mainly eliminate exchange rate effects derived from fluctuations between US dollar and EURO. Nabaltec pursues a thorough currency hedging policy regarding any exceeding 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 8.5 million (2013: EUR 7.8 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 through promissory note bonds. Therefore, Nabaltec has at its disposal 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 2013.

2.3.2.1 CAPITAL STRUCTURE

Shareholders' equity increased from EUR 39.9 million to EUR 43.6 million as of 31 December 2014. The equity ratio slightly increased from 27.9% to 30.4%. This capital base can continue to be considered as sound compared to the industry.

Liabilities decreased in the reporting period from EUR 87.3 million to EUR 79.4 million. This includes the promissory note bonds as well as the long-term bank loans. Payables to banks decreased by EUR 7.8 million. The retirement benefit obligation increased in 2014 by EUR 2.3 million to EUR 14.5 million. Trade payables increased from EUR 7.0 million to EUR 7.5 million.

Selected balance sheet positions in relation to total assets

	12/31/2014	12/31/2013
Equity	30.4%	27.9%
Provisions	14.2%	11.1%
Liabilities	55.4%	61.0%

Other off-balance sheet financing instruments

Nabaltec to a minor degree has entered leasing contracts with a duration of 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 8.4 million compared to prior year's EUR 5.7 million (net of offsetting the portion of the investment grant). Investments were in particular focused on the further optimization of processes in both business divisions 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 2014 from EUR 143.1 million to EUR 143.2 million.

Important balance sheet assets in relation to total assets

	12/31/2014	12/31/2013
Non current assets	58.0%	58.3%
thereof: property, plant & equipment	51.6%	52.6%
Current assets	42.0%	41.7%
Including: inventories	17.2%	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	2014	2013
Return on equity	9.6%	2.3%
Return on Capital Employed (ROCE)	9.8%	6.4%

Return on equity, consisting of the ratio of profit to equity, amounted to 9.6% in the reporting period and was therefore significantly above the prior year value of 2.3%. Reason for this is the increase in the annual result.

Return on Capital Employed (ROCE) compares EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 9.8% after 6.4% in prior year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

At the end of 2014, Nabaltec AG employed in total 422 employees (31 December 2013: 413). All employees were employed in Germany. This figure includes 50 apprentices (31 December 2013: 46). Nabaltec sets a high value on sound professional training. Therefore, also in 2014, the rate of apprentices of 11.8% traditionally represents a remarkably large portion of the workforce. This rate was higher in comparison to prior year and also exceeded the industry average significantly. Nabaltec's apprentices regularly count to the best of their class. The Company currently has vacancies relating to training positions for male or female 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 towards 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 it was a very reliable partner for long term and trusting collaboration. These attributes pose an important competitive advantage in the current market environment.

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

In order to secure a 360 degree access to markets and technologies, Nabaltec is engaged in several European associations. In addition to the two Cefic-professional groups pinfa and EPSA, Nabaltec is also involved with the Research Foundation Plastics e.V. In the USA, Nabaltec is involved in the pinfa North America and HDPUG (High Density Packaging User Group). Through these engagements, very early larger trends in the main sales markets “ceramics” and “flame retardants” become accessible on a global scale and enable Nabaltec to react early on.

Prerequisite for Nabaltec’s market success are products of the ongoing highest quality, developed, optimized and delivered in need-based numbers 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 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 also introduce a health and safety management system in compliance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series). In 2014, a recurring monitoring audit of the existing management systems based on ISO 9001 and ISO 14001 and OHSAS 18001 was performed in the Schwandorf and Kelheim locations. 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 2010. 2014, a recurring audit of ISO 50001 took place. Furthermore, Nabaltec received an award for the participation in a project promoted by the LfU (Bavarian Environmental Protection Agency) titled: “From environmental management to sustainable management.”

Environmental protection

Nabaltec requires its own products to significantly contribute to environmental protection and to 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 R&D, 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 its own sites. An example thereof is the reduction in water usage taken from the Naab river. Water usage increased by 16% compared to 2013; however, in total we remained below the 2011 level of water usage. The production expansion and the increased quality demands led to a higher water usage. Through many small improvements in the processes, we could maintain stable specific usages.

As in prior years, special emphasis was placed on optimizing energy processes in production, also as a means of cutting costs. Also in 2014, 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 CO₂ 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 2014.

4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

4.1 OUTLOOK

Overall statement on the prospective development

For its own products, Nabaltec also foresees intact sales markets across the board in 2015, 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 its market position in 2014 and the reputation built up over a longer period, Nabaltec sees good future prospects for its own key products.

Economic and industry development

The Kiel Institute for the World Economy (IfW) expects the global GDP to grow by 3.7% in 2015. Growth in Asia (excluding Japan) is expected to be overproportional at 6.6%, while a plus of 3.2% is expected in the USA. As per the IfW, especially for the advanced economies a higher increase is foreseeable in the next two years. The expansive monetary policy and incentives provided by the oil prices bear fruit considering the continuing debt relief processes within the private sector.

For the EURO zone, after a decline of 0.8% in 2014, IfW anticipates an increase in economic performance of 1.2%. The EUROFRAME Group experts expect a somewhat improved GDP of 1.5% for 2015. A worsening of the crisis in Greece or the Ukraine conflict could thwart the economic recovery for a longer period.

IfW foresees the German economy to grow slightly by 1.7% in 2015. Deutsche Bank (DB) somewhat more discreetly anticipates a plus of 1.0%, while assuming that economic growth after a weak winter half year 2014/2015 will strengthen again in the rest of the year.

GDP Growth Forecast		
in % compared to prior year	2015	2016
World	3.7	3.9
USA	3.2	3.5
EURO zone	1.2	1.5
Germany	1.7	1.9
France	0.7	1.1
Italy	0.3	1.0
Great Britain	2.9	2.6
Japan	0.8	1.2
China	7.0	6.7
India	6.5	6.5

Source: IfW, "Weltkonjunktur im Winter 2014", 17 December 2014

After the chemical industry in 2014 significantly increased its domestic sales volume compared to last year, VCI (Verband der Chemischen Industrie e.V.) cautiously expects a moderate upward trend in looking ahead to 2015. For the current year, the German chemical industry association (VCI) expects a 1.5% increase in chemical production. Despite slightly lower manufacturing prices (-0.5%), industry sales could rise by 1.5% to EUR 196 billion. Thereby the chemical industry association assumes foreign demand (+1.5%) to grow stronger than domestically (+1.0%).

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 globally result in additional stimuli for environmentally friendly flame retardants. The German and European construction industry as well as the automotive industry continue to appear rather stable respectively present slightly growing volume numbers. In 2014, the consumer electronics sector has clearly remained behind expectations; the principle market drivers and triggers have remained intact and provide for constant impulses in 2015. 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 2015, Nabaltec sets its sight firmly on renewed growth. The start in 2015 set off positively. The increase in revenue shall primarily be achieved via growth in quantities in combination with a moderate price increase and growth in higher value-added products. Nevertheless, the economic development during the course of the year still has to be awaited.

Order back-log per 31 December 2014 amounted to EUR 22.5 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 in 2015, 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 2015, Nabaltec also expects triggers from the product ranges relating to boehmite and CAHC. Based on the opinion of the Company and on the basis of customer reaction, the prospects remain increasingly 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 2015 Nabaltec expects revenue growth in the mid-single-digit percentage range. The Company for 2015 expects an operating result (EBIT) with a margin in line with 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 2015 are expected to again increase compared to the prior year level. Investment priority lies in the expansion of capacities for fine hydroxites in the USA as well as the further optimization of processes and infrastructure.

The financial result in 2015 shall continue to improve compared to prior year. Nabaltec will redeem payables 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 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, such 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 Nabaltec's 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

Nabaltec monitors its suppliers' economic situation very closely and deliberately builds 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 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 US subsidiary have at their disposal a detailed financial and liquidity budget which is monitored periodically by a target-actual comparison. 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 2014 were not violated.

Factoring contributed towards financing a majority of the receivables.

Personnel

Particularly the fluctuation of employees in key positions gives rise to personnel risks. Nabaltec responds to these risks through various measures: intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, employee substitution arrangements that govern the temporary replacement of key employees, and 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 R&D 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 clear and 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 data protection directive which is 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, Nabaltec tries to minimize these risks by engaging in continuous and intensive research and development efforts, by maintaining pronounced customer proximity and by integrating marketing and R&D 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 intensive usage of electricity faces international competition and therefore according to current law is favored by the renewal energy surcharge. On 25 November 2014, by official notification the EU commission required the Federal Office for Economy and Export Control (BAFA) to claim funds for EUR 40 million from 450 companies for the years 2013 and 2014. Nabaltec was affected by the claims for EUR 0.1 million.

On 1 August 2014 the "EEG 2014" (Renewable Energy Law) became effective. Also in the year 2015, Nabaltec will be favored by the EEG 2014 regarding the EEG levy. However at Nabaltec, the provisions of the EEG 2014 will lead to an increase of the EEG-expenses by a low six-digit amount.

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. Nabaltec's 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 the managing directors and management and discussed by the management circle. 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 provisions and 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 reviewing the efficiency of applied hedging instruments and the reliability of controlling systems. There is insurance coverage for casualty and liability risks, thus limiting the financial consequences for the Company's liquidity, financial position and earnings as well as preventing situations that could jeopardize the continued existence of the Company.

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, 2 March 2015

Nabaltec AG

The Management Board

Johannes Heckmann

Gerhard Witzany

Balance Sheet as of December 31, 2014, Nabaltec AG, Schwandorf

ASSETS	12/31/2014	12/31/2013	EQUITY & LIABILITIES	
	EUR '000	EUR '000	12/31/2014	12/31/2013
			EUR '000	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	308	111		
2. Advance payments	65	88		
	373	199		
II. Property, Plant and Equipment				
1. Land, leasehold rights and buildings, including buildings on non-freehold land	15,641	14,885		
2. Technical equipment and machinery	51,606	55,060		
3. Other fixtures, fittings and equipment	2,599	2,763		
4. Advance payments as well as plant and machinery under construction	4,049	2,516		
	73,895	75,224		
III. Financial Assets				
1. Shares in affiliated companies	163	163		
2. Loans to affiliated companies	8,521	7,800		
	8,684	7,963		
	82,952	83,386		
B. CURRENT ASSETS				
I. Inventories				
1. Raw materials and supplies	13,217	11,668		
2. Finished goods and purchased products	11,345	12,069		
	24,562	23,737		
II. Accounts Receivable and other Assets				
1. Trade receivables	4,551	4,287		
2. Other assets	5,621	3,663		
	10,172	7,950		
III. Cash and cash equivalents				
	25,469	27,990		
	60,203	59,677		
C. PREPAID EXPENSES				
	94	41		
	143,249	143,104		
A. SHAREHOLDERS' EQUITY				
I. Subscribed capital			8,000	8,000
II. Capital reserve			30,824	30,824
III. Accumulated profits			4,775	1,068
			43,599	39,892
B. NON-CURRENT ASSETS INVESTMENT GRANTS				
			6	10
C. PROVISIONS				
1. Retirement benefit obligation and similar provisions			14,482	12,211
2. Accrued taxes			1,377	699
3. Other provisions and accrued liabilities			4,422	2,973
			20,281	15,883
D. ACCOUNTS PAYABLE				
1. Payables to banks			68,939	76,746
2. Trade payables			7,490	6,985
3. Payables to affiliated companies			595	385
4. Other payables			2,339	3,203
- thereof relating to taxes EUR 331 thousand (PY: EUR 218 thousand)				
- thereof relating to social securities: EUR 26 thousand (PY: EUR 24 thousand)				
			79,363	87,319
			143,249	143,104

Income Statement, Nabaltec AG, Schwandorf
for the period January 1 to December 31, 2014

	01/01 - 12/31/2014		01/01 - 12/31/2013	
	EUR '000	EUR '000	EUR '000	EUR '000
1. Revenue		143,335		132,934
2. Change in finished goods		-867		1,352
3. Other capitalized own services		364		223
Total performance		142,832		134,509
4. Other operating income		3,068		1,349
- thereof exchange rate differences: EUR 1,536 thousand (PY: EUR 138 thousand)				
		145,900		135,858
5. Cost of materials:				
a) Cost of raw materials and supplies and purchased goods	78,679		74,775	
b) Cost of purchased services	1,047	79,726	983	75,758
Gross profit		66,174		60,100
6. Personnel expenses:				
a) Wages and salaries	20,869		18,483	
b) Social security and other pension costs	5,433		3,840	
- thereof for pension costs: EUR 1,847 thousand (PY: EUR 623 thousand)				
7. Amortization/Depreciation of intangible assets and property, plant and equipment	8,961		8,610	
8. Other operating expenses	20,960	56,223	22,687	53,620
- thereof exchange rate differences: EUR 292 thousand (PY: EUR 300 thousand)				
		9,951		6,480
9. Income from securities and loans (financial assets)	182		183	
- thereof from affiliated companies: EUR 182 thousand (PY: EUR 183 thousand)				
10. Interest and similar income	30		160	
11. Amortization of financial assets and securities in current assets	0		296	
- thereof from affiliated companies: EUR 0 thousand (PY: EUR 296 thousand)				
12. Interest and similar expenses	3,808		4,756	
- thereof for compounding interest: EUR 715 thousand (PY: EUR 655 thousand)				
- thereof for profit participation rights capital: EUR 0 thousand (PY: EUR 26 thousand)				
Financial result		-3,596		-4,709
13. Result from ordinary operating activities		6,355		1,771
14. Exceptional expenditures	267		267	
15. Exceptional result		267		267
		6,088		1,504
16. Income taxes	1,851		583	
17. Other taxes	50	1,901	50	633
18. Net result for the year		4,187		871
19. Profit carried forward		588		197
20. Accumulated profit		4,775		1,068

Statement of changes in non-current assets, Nabaltec AG
for the period January 1 to December 31, 2014

	Historical Cost					Cumulative Depreciation/Amortization					Book Value	Book Value
	January 1, 2014	Additions	Transfers	Disposals	December 31, 2014	January 1, 2014	Additions	Appreciation	Disposals	December 31, 2014	December 31, 2014	December 31, 2013
	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	2,264,413.04	223,377.46	85,609.28	0.00	2,573,399.78	2,153,197.02	112,025.23	0.00	0.00	2,265,222.25	308,177.53	111,216.02
2. Advance payments	87,547.31	63,323.94	-85,609.28	0.00	65,261.97	0.00	0.00	0.00	0.00	0.00	65,261.97	87,547.31
	<u>2,351,960.35</u>	<u>286,701.40</u>	<u>0.00</u>	<u>0.00</u>	<u>2,638,661.75</u>	<u>2,153,197.02</u>	<u>112,025.23</u>	<u>0.00</u>	<u>0.00</u>	<u>2,265,222.25</u>	<u>373,439.50</u>	<u>198,763.33</u>
II. Property, plant and equipment												
1. Land, leasehold rights and buildings on non-freehold land	20,890,922.45	855,781.47	657,369.22	0.00	22,404,073.14	6,006,146.48	756,494.98	0.00	0.00	6,762,641.46	15,641,431.68	14,884,775.97
2. Technical equipment, plant and machinery	107,248,818.59	3,277,346.93	703,082.06	0.00	111,229,247.58	52,188,786.14	7,434,987.01	0.00	0.00	59,623,773.15	51,605,474.43	55,060,032.45
3. Other fixtures, fittings and equipment	7,503,006.22	488,573.76	18,121.98	86,677.53	7,923,024.43	4,740,042.38	657,858.90	0.00	73,641.24	5,324,260.04	2,598,764.39	2,762,963.84
4. Advance payments as well as plants and machinery under construction	2,515,884.09	2,911,672.61	-1,378,573.26	0.00	4,048,983.44	0.00	0.00	0.00	0.00	0.00	4,048,983.44	2,515,884.09
	<u>138,158,631.35</u>	<u>7,533,374.77</u>	<u>0.00</u>	<u>86,677.53</u>	<u>145,605,328.59</u>	<u>62,934,975.00</u>	<u>8,849,340.89</u>	<u>0.00</u>	<u>73,641.24</u>	<u>71,710,674.65</u>	<u>73,894,653.94</u>	<u>75,223,656.35</u>
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	8,318,510.66	622,795.34	0.00	406,075.56	8,535,230.44	518,722.98	0.00	504,280.55	0.00	14,442.43	8,520,788.01	7,799,787.68
	<u>8,481,441.39</u>	<u>622,795.34</u>	<u>0.00</u>	<u>406,075.56</u>	<u>8,698,161.17</u>	<u>518,722.98</u>	<u>0.00</u>	<u>504,280.55</u>	<u>0.00</u>	<u>14,442.43</u>	<u>8,683,718.74</u>	<u>7,962,718.41</u>
	<u>148,992,033.09</u>	<u>8,442,871.51</u>	<u>0.00</u>	<u>492,753.09</u>	<u>156,942,151.51</u>	<u>65,606,895.00</u>	<u>8,961,366.12</u>	<u>504,280.55</u>	<u>73,641.24</u>	<u>73,990,339.33</u>	<u>82,951,812.18</u>	<u>83,385,138.09</u>

Nabaltec AG, Schwandorf

Notes for the financial year 2014

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 with. The total cost method was applied for the income statement.

Nabaltec AG, Schwandorf, is a large corporation as defined by 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. Scheduled amortization is recognized on a straight-line basis over their estimated useful lives and pro rata temporis 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 temporis in the year of acquisition. Long term construction costs contain interest on borrowed capital. Independently usable minor 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 (PUC) by applying actuarial principles with an interest rate of 4.55% 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 (Introductory Law to the German Commercial Code) and as in prior years, EUR 267 thousand was transferred to the retirement benefit obligation in the financial year (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 judgment. 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 according to section 254 HGB 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 108 thousand was included in the acquisition costs for construction.

Receivables and other assets

Other assets consist mainly of receivables from factoring (EUR 3.281 thousand), VAT-return claims (EUR 1.766 thousand), a petroleum tax-return claim (EUR 243 thousand), an electricity tax-return claim (EUR 285 thousand) as well as a tax-return claim for 2013 (EUR 26 thousand). Receivables and other assets have a term to maturity of less than one year.

Prepaid expenses

Prepaid expenses amounting to EUR 94 thousand consist of expenses paid in advance for the coming financial year.

Equity

a) Subscribed 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, 2014, 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 4,000,000 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 4,000,000.00

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 will be 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 December 31, 2014, the capital reserve amounts to EUR 30,824 thousand (PY: EUR 30,824).

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 to 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) Accumulated profits	EUR 4,774,474.41
1 January 2014	EUR 1,067,605.26
Dividend according to shareholder resolution	EUR -480,000.00
Net annual profit 2014	<u>EUR 4,186,869.15</u>
31 December 2014	<u>EUR 4,774,474.41</u> =====

Non-current Assets Investment Grants

The special balance sheet item non-current assets investment grants is amortized over 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. 4.55%, 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 2014, therefore amounts to EUR 2.673 thousand.

Pension plan reinsurances have been pledged, hence, direct 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 1,489 thousand has been netted with the repayable amount of the provision in the amount of EUR 15,971 thousand, resulting in a net amount in the balance sheet of EUR 14,482 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 120 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 2,411 thousand) and invoices not yet received (EUR 1,535 thousand).

Provisions for jubilee benefits are measured based on the PUC method applying an interest rate of 4.55% p.a. and a 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 EUR '000	Term to maturity			Collateralized amounts EUR '000	Type of collateralization
		< 1 year EUR '000	1 – 5 years EUR '000	> 5 years EUR '000		
Payables to banks	68,939 (76,746)	8,086 (8,208)	43,853 (51,538)	17,000 (17,000)	13,939 (21,746)	Land charges, security assignment
Trade payables	7,490 (6,985)	7,490 (6,985)	0 (0)	0 (0)	0 (0)	
Payables to affiliated companies	595 (385)	595 (385)	0 (0)	0 (0)	0 (0)	
Other payables	2,339 (3,203)	2,339 (3,203)	0 (0)	0 (0)	0 (0)	
	79,363 (87,319)	18,510 (18,781)	43,853 (51,538)	17,000 (17,000)	13,939 (21,746)	

Liabilities decreased during the business year mainly due to the redemption of long-term bank debt.

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 1,532 thousand as at December 31, 2014, were classified as other payables. These grants relate to an investment subsidy approved in September 2013 for EUR 4,150 thousand of which a partial amount of EUR 3,150 thousand was paid on December 3, 2013.

Notes to the income statement

Revenue

Revenue by geographical location is specified below:

	2014		2013	
	EUR '000	%	EUR '000	%
Germany	40,744	28.4	40,915	30.8
Rest of Europe	68,541	47.8	63,606	47.8
USA	18,016	12.6	14,431	10.9
RoW	16,034	11.2	13,982	10.5
	143,335	100.0	132,934	100.0

Revenue by business division:

	2014		2013	
	EUR '000	%	EUR '000	%
Functional Fillers	98,850	69.0	90,596	68.2
Technical Ceramics	44,485	31.0	42,338	31.8
	143,335	100.0	132,934	100.0

Other operating income

Other operating income includes the gains arising from exchange rate differences in the amount of EUR 1,536 thousand.

Extraordinary expenses

Due to the first-time adoption of BilMoG, and as in prior years, extraordinary expenses 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 125 thousand and sold receivables to a factor in the amount of EUR 15,793 thousand. In 2014, 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 230 thousand.

Other financial obligations

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

	31 December 2014	31 December 2013
	EUR '000	EUR '000
a) Obligations arising from rental, lease, service and consulting agreements	1,162	1,672
Thereof		
- maturing within 1 year	431	575
- maturing within 1 – 5 years	560	692
- maturing in more than 5 years	171	405
b) Obligations arising from capital expenditures contracts (order obligations) thereof	549	2,782
- maturing within 1 year	549	2,782
Total	1,711	4,454
- 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 2014 financial statements amounts to EUR 87 thousand (including the consolidated financial statements 2014). For other assurance services, the auditor received a fee of EUR 16 thousand. The fee for tax advisory services amounts to EUR 51 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		Last Year's Earnings *) Nashtec	
	in %	in USD	in USD	in EUR	in USD	in EUR
Direct Participation						
Nashtec LLC, Texas (USA)	51.0	210,266.00	-424,604.00	-349,324.56	1,568,522.00	1,180,227.24

*) 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 2014, the subsidiary, Nashtec LLC, was provided funds of TUSD 500.

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 2014, 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 -186 thousand as at 31 December 2014 (PY: EUR -164 thousand). In the financial year, EUR 22 thousand were added to 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 follows 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 2014. Both the variable as well as the fixed amounts are 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 -22 (PY: EUR -37 thousand) thousand as at 31 December 2014.

In addition, in connection with the promissory note bonds raised in the previous year, the following interest rate derivatives to hedge interest risks arising from the promissory notes with variable interest rate were entered into based on a 6-months Euribor.

Nominal amount EUR thousand	Duration period	Fair Value EUR thousand
27,000	10/23/2013 – 10/23/2018	-1,271
16,500	10/23/2013 – 10/23/2020	-1,425

Pursuant to Section 254 HGB, this hedge and the underlying 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 2014, the fair value of the transaction is EUR 1,211 thousand. In accordance with the imparity principle applicable under HGB the amount was not recorded in the balance sheet.

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	-15,971	-11,398	-4,573	1,284	
Other provisions	-4,422	-3,913	-509	143	
Financial assets (Loan Nashtec)	8,521	9,183	-662	186	
	-11,872	-6,128	-5,744	1,613	
Deferred tax liability					
Trade and other receivables	4,551	4,413	138		38
Trade payables	-7,490	-7,492	2		1
	-2,939	-3,079	140		39
Balance				1,574	

Employees

The average number of employees during the business year:

	2014 Number
Blue-collar employees	218
White-collar employees	144
Part-time employees	9
	371

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 as chairman.

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 2014.

Schwandorf, 2 March 2015

Nabaltec AG

The Management Board

Johannes Heckmann

Gerhard Witzany

Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Nabaltec AG, Schwandorf, for the business year from 1 January to 31 December 2014. The maintenance of the books and records 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. 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 § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. 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 annual financial statements in accordance with German principles of proper accounting 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements of the Nabaltec AG, Schwandorf, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Nuremberg, 6 March 2015

Deloitte & Touche GmbH

Wirtschaftsprüfungsgesellschaft

(Poneleit)

Wirtschaftsprüfer

[German Public Auditor]

(Thiermann)

Wirtschaftsprüfer

[German Public Auditor]

Appropriation of distributable profit

The management board proposes that the distributable profit of the 2014 financial year, amounting to EUR 4,774,474.41, will be used as follows:

An amount of EUR 960,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.12 per share on the 8,000,000 non par value shares entitled to dividend payments for the 2014 financial year. The remainder in the amount of EUR 3,814,474.41 will be carried forward.

Schwandorf, April 2015

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 2014, a year in which revenues as well as earnings set new record highs. Despite a very unsettled economic environment, Nabaltec AG was able to demonstrate once again that the company's market and competitive position is well-established and that the drivers in our sales 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 2014 reporting year, the Supervisory Board convened for four regular sessions: on 10 April 2014, on 26 June 2014, after the Annual General Meeting, on 1 October 2014 and on 15 December 2014. No meetings were held in 2015 prior to the Supervisory Board meeting of 16 April, which votes on adoption of the financial statements. All members were present at each session in 2014. 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 resolution was approved in writing on one occasion in 2014. It was resolved that the Supervisory Board, when assessing the fairness of management board compensation in accordance with the German Corporate Governance Code, is to take into account the ratio between management board compensation and the compensation of upper management, as well as that of all employees, and a definition of upper management was adopted as well.

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 2014 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. The agreement between Nabaltec AG and Professor Heinrich with respect to the performance of research and development work regarding aspects of ceramic process engineering was terminated on 30 September 2014. 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 2014:

- the 2013 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- corporate governance, particularly the fairness of management board compensation;
- opportunities and risks in human resources;
- strategic technology management;
- expanding Nashtec's capacity;
- planning for 2015 and mid-term planning through 2017;
- investment and financing planning for 2015-2017.

Another focus of the deliberations in 2014, as well as the supervisory and monitoring activity, included the goals and status of realization of innovation projects and, especially in the session 2015 slated for adoption of the 2014 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 7 March 2014, the Management and Supervisory Boards issued their joint Declaration of Compliance for 2014, 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 24 June 2014, particularly at the meeting of 15 December 2014, preparing issuance of the 2015 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.

2014 annual financial statements and consolidated financial statements

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, which were prepared in accordance with the German Commercial Code, 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 26 June 2014. 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. A focus of the 2014 audit will be the "financing" unit.

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 16 April 2015. 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 "financing" 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 2014 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks go out to all employees of Nabaltec AG, who continued their successful work in 2014 with a great deal of commitment and innovative ideas, while maintaining the focus on customer satisfaction at all times.

Schwandorf, 16 April 2015

Dr. Leopold von Heimendahl
Chairman of the Supervisory Board

FINANCIAL CALENDAR 2015	
Interim Report 1/2015	26 May 2015
Annual General Meeting	30 June 2015
Interim Report 2/2015	25 August 2015
Interim Report 3/2015	24 November 2015

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Text

Nabaltec, Schwandorf
 Better Orange, Munich

Concept and realization

CAT Consultants, Hamburg

Photos

Herbert Bürger, Andre Forner, Stefan Hanke

Statements relating to the future

This annual report contains statements relating to the future which are based on the Management Board's current estimations and prognosis as well as on information currently available. These statements relating to the future are not to be understood as guarantees of the predicted future developments and results. The future developments and results are rather dependent on a number of risks and uncertainties and are based on assumptions which possibly may prove to be false. We do not accept any obligation to update these statements relating to the future.

Rounding

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

