



ANNUAL FINANCIAL STATEMENTS



**OUR KNOW-HOW
FOR YOUR SAFETY**

MANAGEMENT REPORT OF NABALTEC AG FOR THE FINANCIAL YEAR 2019

1. FOUNDATIONS OF THE COMPANY

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 and specialty alumina. The production capacity entails approximately 260,000 tons per annum (t.p.a.) with an export share of over 75%.

The range of applications of Nabaltec products is highly 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, e.g. as white pigments in paint or as an all-natural barrier layer in foil;
- 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. 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, production capacity for environmentally friendly, flame-retardant fillers was specifically expanded. Today, Nabaltec is one of the world's leading suppliers in this area.

In the "Specialty Alumina" product segment as well, Nabaltec products have excellent long-term growth potential thanks to a wide range of applications and relevant target markets, particularly for reactive aluminum oxides, due to stricter quality requirements in the refractory industry. The market for technical ceramics is also continuing to show solid growth.

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. 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 Open Market division of the Frankfurt stock exchange since November 2006 and has consistently been traded in high-quality segments of the exchange, including the Scale segment as of March 2017.

Nabaltec AG holds a 100% interest in Nashtec LLC (USA) and Naprotec LLC (USA) through Nabaltec USA Corporation, which was formed in 2018. In addition to administrative functions such as accounting for all US companies, sales activities for Nabaltec Group in North America will also be concentrated in Nabaltec USA Corporation.

Nabaltec AG acquired all shares in Nashtec LLC in March 2017; until then, Nabaltec AG had held 51% of shares in the company. The shares were acquired with the goal of continuing to operate Nashtec based on a stand-alone solution after Nashtec was forced to temporarily suspend production due to the insolvency of its supplier, Sherwin Alumina LLC. Nashtec resumed production at the end of 2018.

In addition, Naprotec LLC was formed as a production company in 2018 in Chattanooga, USA and its shares were contributed to Nabaltec USA Corporation, paving the way for construction of a production facility for refined hydroxides with an annual capacity of about 30,000 tons. Nabaltec will be significantly expanding its product portfolio in the US for non-halogenated flame retardant applications. The investment volume for the project is around USD 15 million. Plans call for the facility to go online in the second quarter of 2020. Nabaltec expects the project to have a positive impact on earnings one year after the facility goes online.

In order to strengthen its operations in the Southeast Asian market, Nabaltec established a wholly-owned subsidiary in 2016, Nabaltec Asia Pacific K.K, based in Tokyo, Japan, which will market and distribute Nabaltec AG's entire portfolio of products.

Nabaltec (Shanghai) Trading Co., Ltd., based in Shanghai, China, was formed in October 2018. This company is a wholly-owned subsidiary of Nabaltec AG and maintains an in-country warehouse, allowing it to offer shorter delivery times and invoicing in the national currency.

Nabaltec AG does not currently have any other participations or subsidiaries.

Reflecting the characteristics of the target and buyers' markets, Nabaltec AG's operations are divided into two product segments, each in turn comprised of market segments.

PRODUCT SEGMENTS: "FUNCTIONAL FILLERS" AND "SPECIALTY ALUMINA"

Market segments:

- Wire & Cable
- Resins & Dispersions
- Rubber & Elastomers
- Battery
- Adsorbents & Catalysis
- Refractory

- Technical Ceramics
- Polishing
- Others

1.2 OBJECTIVES AND STRATEGIES

For the further development of the company, Nabaltec AG has defined the following objectives and core strategic areas:

1. Global growth strategy in target markets with a focus on sustained double-digit EBIT margins

Fire safety concerns within the plastics and cable & wire industry will continue growing in the years to come, which is supported by recent market research results by among others Frost & Sullivan and Roskill. In order to benefit from this trend disproportionately high, we have specifically expanded our production capacity for aluminum hydroxide both at the Schwandorf site and in the US. Electric mobility is also gaining importance. With our boehmite, we can make an important contribution towards functional safety in the production of lithium ion batteries. As a result, we are significantly expanding production capacity in this area as well. Today, Nabaltec is already one of the world's leading suppliers in this area.

Stricter quality requirements in the refractory industry have resulted in steady growth in reactive aluminum oxides. Accordingly, we are continuing to expand our capacity in this product area. The Market for technical ceramics is also continuing to show solid growth. Nabaltec responds to this growth by expanding its marketing activities.

Nabaltec has for many years been a leading supplier of its own ready-to-press aluminum oxide-based ceramic bodies for highly specialized applications, due to amongst others the state-of-the-art production facility in Schwandorf.

2. Strategic alignment towards growth markets

Environmentally friendly products and processing solutions are globally advancing forward. This trend is supported in part by voluntary industry initiatives, as well as by the requirements of laws and standards. With an export share of over 75%, we already profit from these worldwide trends. By adopting a deliberate global growth strategy and expanding our capacity, we are pursuing the goal of posting double-digit EBIT margins on a sustained basis.

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

Through our constant exchange with our customers, the company's product and process development activities are continuously optimized and directed toward specific customer requirements. Product improvements and upscaling take place in close consultation with customers. Particularly customers in the electric mobility sector pose new challenges which require us to continually adapt our processes in order to keep pace with the dynamic changes in this market.

Nabaltec continuously invests in internal research and development departments, the analysis center, its own testing facility and a pilot plant. Nabaltec has also been collaborating with various research institutions for years, as well as taking part in research consortia.

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 reduce energy consumption, operate with virtually no waste water and minimize emissions.

4. Systematic expansion of our product range

Nabaltec develops its own product portfolio along three dimensions:

- through development of new products, often in close collaboration with key customers. Examples include boehmite for alternative energy storage and electric mobility;
- through focused development of existing products with a view towards improving performance, which is generally designed to meet specific customer requirements. The GRANALOX® product family is an example of this;
- through further development of existing products for entirely new applications, such as thermally conductive plastics.

Thanks to our own testing facility at the Schwandorf site, Nabaltec is optimally equipped to transition newly developed products from its laboratories and testing centers into sample production of up to several hundred tons. As a result, the pilot plant can serve as the basis for industrial product launches in addition to its role in process development.

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 are to remain profitable, since production processes in the specialty chemicals sector cannot be varied without inherent delays. Therefore, Nabaltec has developed a fast-acting and highly differentiated controlling system, so that it 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 financing base

In order to take full advantage of market potential relating to both product segments, further investments are necessary. This investment activity, along with possession of the necessary know-how, are at the same time a high market entry barrier for potential new suppliers. In order to ensure that the required investment capital will be available, Nabaltec relies on a financing base consisting of a balanced mix of equity and debt.

1.3 CONTROLLING

Nabaltec AG has implemented a companywide incentive scheme, assigning responsibilities and defining specific objectives for even for the smallest units of the company.

Comprehensive earnings, cost and performance forecasts facilitate analysis for achievement of the company's objectives. Comparisons of estimates against results are available online, indicating a need for action at an early stage and promoting the process of agreement on targets. Comparisons of estimates against results are conducted on a monthly basis for all cost centers and cost units.

"Navision" ERP software is used in all commercial departments. All cost accounting at Nabaltec, including earnings statements, are presented based on the "macs complete"

controlling software. Revenues and EBIT margin are the key control parameters which are used as a basis for business decisions. Performance indicators which are derived from these figures, such as ROCE, ROI, amortization terms, free cash flow and contribution margins, are also used.

1.4 BASICS OF THE REMUNERATION SYSTEM FOR CORPORATE OFFICERS

The Management Board

The Management Board agreements were revised on 19 June 2016 by resolution of the Supervisory Board. The remuneration of Management Board members includes fixed and variable components; the latter are based on annual business performance on a recurring basis and are capped relative to the member's fixed annual salary. This remuneration covers all activities of the individual Management Board members for the company and its subsidiaries and holdings.

The assessment basis for variable compensation is calculated as follows: the Management Board Chairman receives a profit share equal to 4%, and each other member receives 2%, of the amount by which pre-tax consolidated net income in accordance with IFRS, adjusted for non-controlling interests and subtracting losses carried forward from the year before, exceeds EUR 4.2 million. Variable compensation is capped at 100% of the fixed annual salary.

As a part of the fixed compensation component, the company provides Management Board members with ancillary benefits in addition to the fixed salary, such as use of a company car, accident insurance, health and long-term care insurance subsidies which conform to the statutory rules for employees and continued payment of wages for a limited time in case of illness and death. The Management Board Chairman also receives a pension upon retirement amounting to up to 67%, and all other Management Board members receive up to 50%, of their last fixed gross salary, and surviving spouses are entitled to up to 75% of the pension as a widow's pension. For the Management Board Chairman and up to 60% for all other Management Board members.

Management Board members are covered by a D&O insurance policy with an insured sum of EUR 25.0 million, with a deductible amounting to 10% of the claim, as required by law, up to one and half times the amount of their fixed annual compensation.

The Supervisory Board

Remuneration of Supervisory Board members was last revised by resolution of the shareholders at the general meeting of 27 June 2017. Remuneration is comprised of a fixed salary in the amount of EUR 10,000.00 a year and a fee of EUR 1,500.00 per meeting of the Supervisory Board, with the Chairman of the Supervisory Board receiving one and a half times the sums mentioned above. If the term of a Supervisory Board member begins or ends over the course of a financial year, the member is entitled to fixed remuneration for that year on a prorated basis.

In the interest of the company, the members of the Supervisory Board are covered by a company D&O insurance policy with an insured sum of up to EUR 25.0 million, and with no deductible for the insured Supervisory Board members. The insured sum was raised from

EUR 20.0 million to EUR 25.0 million effective 1 January 2020 by shareholder resolution of 27 June 2019. Insurance premiums are paid by the company.

1.5 RESEARCH AND DEVELOPMENT

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. A key element of the research and development strategy is close collaboration and joint development efforts with customers. In all product segments, the focus is on providing customers with an optimal product and helping them achieve a competitive advantage. As a leading supplier of highly specialized products, Nabaltec considers research and development to be one of its central core competencies. Research and development expenses accounted for 2.3% of revenues in 2019.

Close collaboration with customers is a common thread for all functional areas and processes. Application-oriented sales allows us to identify specific customer requirements at an early stage and incorporate them immediately into development work for application engineering, process development and production. This is true both for the optimization of established products and for the development of new products.

In order to ensure continued success in a global market, the optimization of production processes is also a high priority for R&D work. Efficient use of energy and resources are the key drivers in this regard.

Trend radar and megatrend calibration methods are used to identify developments extending beyond existing markets at an early date. These methods use the products offered by commercial vendors as well as inter-departmental internal workshops.

Nabaltec works intensively with universities and institutions to examine trends which are identified as relevant. A total of eleven public-funded industrial collective research projects were worked on by Nabaltec employees in 2019, working through project committees. Research partners include multiple Fraunhofer Institutes, RWTH Aachen University, the Freiberg University of Technology, the German Institute for Refractories and Ceramics (*Deutsches Institut für Feuerfest und Keramik GmbH*) and *Forschungsgemeinschaft Feuerfest*, a refractory products research association, both in Höhr-Grenzhausen, and the Federal Institute for Materials Research and Testing in Berlin.

An expression of Nabaltec's strong commitment to research and development is its receipt of various national and international awards and distinctions for innovativeness. For example, Nabaltec AG has been recognized as one of the 100 most innovative mid-sized German companies eleven times and has received awards for innovativeness in multiple areas.

Aside from searching for new products, processes and applications, the focus of Nabaltec's research and development activities is above all on improving and refining existing products and processes. The rules are defined by customer and market requirements, which are constantly changing. These requirements must be met at all times, while at the same time supplementing and extending our product range in target markets.

As part of the strategy development process, interdisciplinary teams comprised of employees from development, sales, plant and process development, depending on the market segment and application, analyze market data in light of identified trends. This ensures that new

applications, processes and products are implemented in a timely manner, in conformance with the strategy.

Research and development in the 2019 reporting year was once again marked in particular by challenges relating to electric mobility. Separator film for lithium ion batteries with ceramic coating had very high growth rates in 2019. Nabaltec's boehmite products have been further optimized in order to meet the growing demand and stricter quality requirements, and key developments have been achieved in the course of production. At the same time, key fundamental developments have been launched in order to meet the requirements of the next generation of separator film.

Another key aspect of electric mobility is managing the heat generated by battery systems. Given the demand for significantly faster charging times and, in particular, plans for a dense network of rapid charging stations, the issue of thermally conductive materials is becoming increasingly important. Nabaltec has devoted itself to the issue of thermally conductive fillers for some years now, and was able to report substantial progress in 2019 in the development of products and applications. For example, a product solution which is optimized for the "gap filler" application was successfully placed on the market and is already being introduced by customers all over the world in their own development processes. This has resulted in the acquisition of small customers even outside Europe, particularly in the Far East. The first product of a new aluminum hydroxide product family for thermally conductive plastics is currently in the process of obtaining approval from end customers. We expect to begin commercial deliveries in this area in 2020.

Mineral-based flame retardants continue to ensure growth for Nabaltec's innovative and eco-friendly products. The issues of flue gas development, flue gas corrosiveness and flue gas toxicity have become more important with the adoption of the new EU Construction Products Regulation. Aluminum hydroxide and boehmite have ideal properties for reducing flue gas and have the potential to significantly reduce the volume of toxic gas which is released. This was demonstrated by "SmokeTox," a joint project completed in 2019, based on very extensive testing series. These tests allowed the project's coordinating partner, pinfa (the Phosphorous, Inorganic & Nitrogen Flame Retardant Association), and its member companies to generate scientifically sound data which will supply key arguments in favor of eco-friendly halogen-free flame retardants.

Nabaltec AG also played a key role in 2019 in organizing pinfa workshops on the subject of e-mobility. In addition to the new applications mentioned above in connection with separator film and heat management solutions for battery systems, flame retardants for electric cars and in charging infrastructure represent another potential growth driver for our products. Our developments in connection with our new synergist for flame retardants have met with a good response e.g. in these applications.

The pilot plant which was situated in Kelheim through 2017 has been moved to Schwandorf. The pilot production plant has been significantly expanded and went online in the third quarter of 2019. Expansion of the application engineering laboratories and testing facilities at the Schwandorf site was completed in 2019. Testing procedures for ceramic bodies and materials in particular have been significantly expanded. This shortens development times, since it means that all key processes can be run at the Schwandorf site.

Collaboration with customers in connection with the GRANALOX® product family, which has traditionally been highly individualized, was characterized by a geographical extension of the customer base to Asian users in 2019 as well. The successes in this area include the development of new ultra-pure materials and obtaining the first approvals. The newly developed products have been successfully placed in automotive applications in particular, in addition to applications in the electronics sector. E-mobility has also opened up new applications in engineering ceramics and ceramic components are being increasingly used in high-voltage electronics and sensors.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

Global economic growth became progressively slower over the course of 2019. The International Monetary Fund revised its estimate for 2019 global economic growth downward multiple times over the course of the year and its most recent study, from January 2020, estimates that global GDP grew by just 2.9% in 2019, which would represent the lowest rate of growth since the 2009 recession. The Kiel Institute for the World Economy (IfW) also projects a growth rate of just 3.0% in its December 2019 report, noting that growth is being held back above all by weak industrial production and global trade. Industrial production actually declined in the industrialized economies, but was up slightly in emerging markets.

GDP growth in the Euro zone slowed noticeably from the year before, from 1.9% to 1.2%. Differences between the industrialized economies which were significant just last year gradually lessened. Economic growth in the US lost momentum due to expiration of the fiscal stimulus from the tax reform and the slump in export activity; at the same time, GDP growth in the Euro zone stopped falling as the European economy was stabilized by private consumer spending and stronger export growth.

Germany's GDP grew by 0.5% in 2019. The continuing slowdown in the German economy, which began back in 2018, has been driven by a slump in industrial production as a result of high global uncertainty with regard to the direction of economic policy, resulting in a deterioration in the general economic environment.

2.1.2 INDUSTRY SITUATION

The downturn in the global economy in 2019 left its mark on the German chemical industry as well, as industry revenues were down 5.0% to EUR 193 billion. Chemicals production in Germany (not including pharmaceuticals) was down 2.5%. Nevertheless, the industry posted record-high employment in 2019, as the total workforce grew by 0.5% over the previous year, to 464,800.

The long-term trend of growing demand for non-halogenated flame retardant fillers, and aluminum hydroxide in particular, remains intact. Independent market forecasts call for annual global demand growth of 4.2% through 2025 (ATH-based, source: Frost & Sullivan, 2019). Market growth is stimulated above all by the growing public awareness as to the need for fire safety as well as the ongoing replacement of potentially hazardous flame retardants with eco-friendly, halogen-free aluminum hydroxide. This trend has had a particularly positive

effect on the fine precipitated aluminum hydroxide product segment. The long-term outlook for boehmite is also excellent, in the estimation of Nabaltec AG, with a wide variety of applications, above all in electric vehicles. We expect European production of lithium ion batteries to ramp up in the next two to three years. As a result, the total potential for boehmite will be realized only gradually.

In the Specialty Alumina product segment, the refractory market is shaped by demand within the steel industry. That sector is currently in a weak state, resulting in a significant downturn especially for manufacturers of refractory products in Europe, and therefore for Nabaltec as well. The trend towards high-quality refractory products and wear-resistant ceramics is continuing. Market experts estimate that the market for refractory products and technical ceramics will grow at a rate of 2.6% per year through 2025 (Source: Roskill, 2019).

2.2 COURSE OF BUSINESS

Nabaltec AG posted slight growth in Financial Year 2019 as its revenue growth slowed slightly. Revenues were up 1.5% over the previous year, to EUR 180.0 million (2018: EUR 177.4 million). After very strong performance in the first three quarters, with revenues up from the year before in each quarter, revenues in the fourth quarter were down sharply from the fourth quarter of 2018, by 8.9%. Especially in December, the very weak environment in some sectors of the economy combined with customers' expectations that prices will drop in 2020 resulted in an unexpected sales slump in both product segments, "Functional Fillers" and "Specialty Alumina."

Revenues in the "Functional Fillers" product segment amounted to EUR 122.6 million in 2019, up 7.0% from the previous year (2018: EUR 114.6 million). Revenues in the boehmite product area grew at an especially fast pace, climbing 60.0% from the previous year and accounting for around 6% of total revenues. Revenues in the "Specialty Alumina" product segment were down 8.5%, to EUR 56.8 million (2018: EUR 62.1 million), while revenues which are not attributable to either product segment amounted to EUR 0.6 million in 2019 (2018: EUR 0.6 million).

Operating profit (EBIT) was down 6.1%, to EUR 20.1 million (2018: EUR 21.4 million).

Assuming stable economic performance, Nabaltec initially expected revenues to fall in a range from EUR 190 million to EUR 195 million in 2019. The revenue estimate was revised in October 2019, to a range from EUR 181 million to EUR 184 million, and the result fell short of this forecast by 1.1%. The EBIT margin was at the lower edge of the company's expected range, from 10.0% to 12.0%.

2.3 OVERVIEW OVER THE COURSE OF BUSINESS

2.3.1 EARNINGS POSITION

Nabaltec AG earned EUR 180.0 million in revenues in Financial Year 2019, for a slight 1.5% gain from the year before (2018: EUR 177.4 million). The key revenue drivers in 2019 were the optimized product mix and price effects which the company was able to successfully implement.

The quarterly results show that revenues weakened significantly in the fourth quarter. Revenues in each of the first three quarters of 2019 were up substantially from the same quarter of the previous year. Revenues in the first quarter of 2019 were EUR 48.6 million, up 7.0% from the already very strong value of EUR 45.4 million posted in the same quarter of the previous year. Revenues in the second quarter amounted to EUR 49.1 million, up from the same quarter of the previous year (by 5.1%) and from the previous quarter as well. Revenues in the third quarter came to EUR 44.3 million, for a slight 1.4% gain over the same period of the previous year. But in the fourth quarter of 2019, revenues were down significantly from the same quarter of the previous year, falling by 8.9% to EUR 37.9 million.

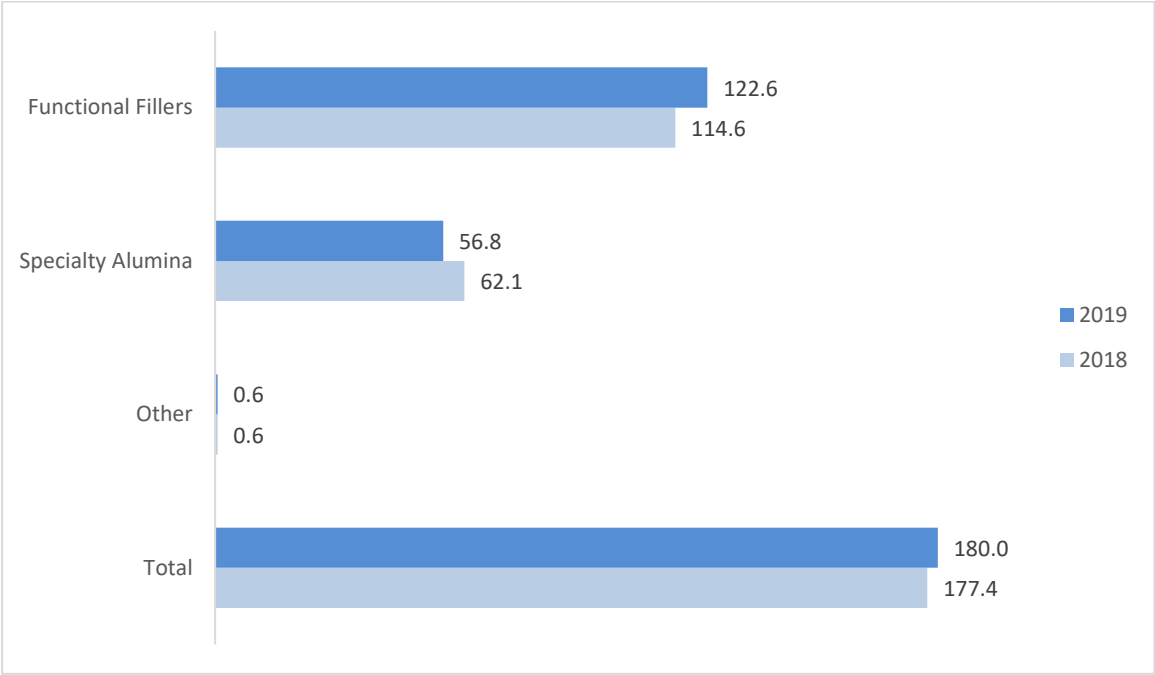
The export ratio was up on the year, climbing from 73.6% in the previous year to 76.2% in 2019. While growth in Germany weakened slightly, revenue growth was higher in the rest of Europe especially.

Incoming orders amounted to EUR 162.3 million for the year as a whole, compared to EUR 172.7 million in the previous year. Nabaltec ended the year 2019 with EUR 35.9 million in orders on hand, compared to EUR 52.6 million in the year before. This change reflected the fact that customers have been placing shorter-term orders as a result of economic uncertainty and in the expectation that prices will drop in 2020.

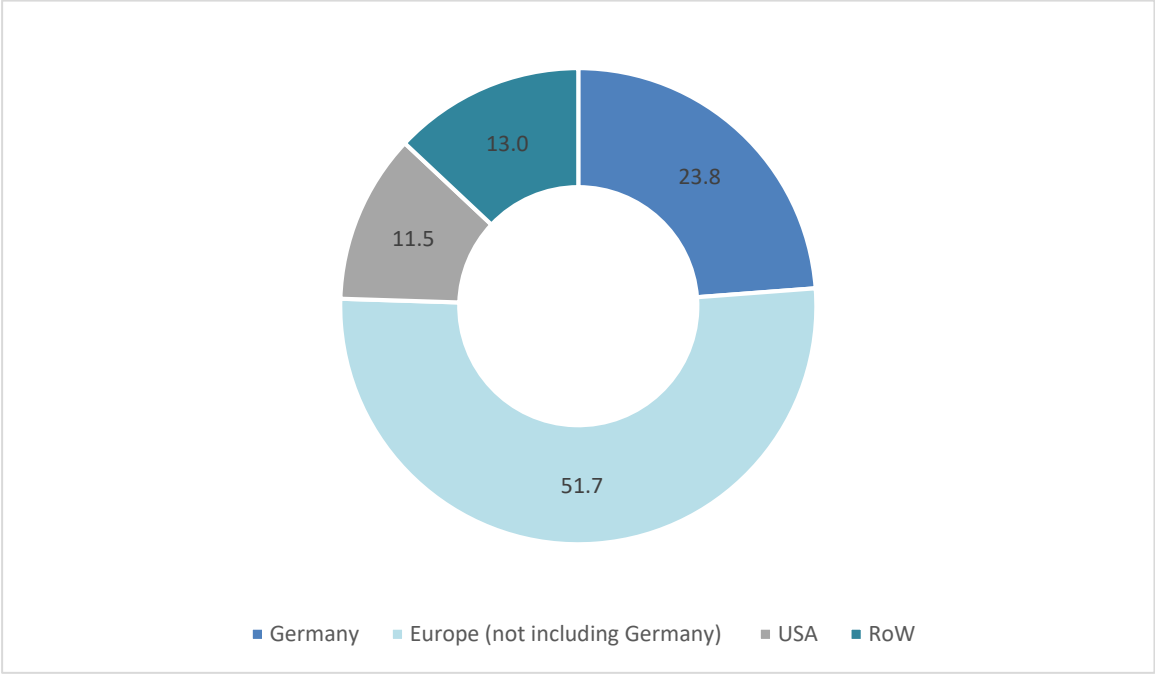
Revenues in the "Functional Fillers" product segment amounted to EUR 122.6 million in Financial Year 2019, up 7.0% from the previous year, when revenues came to EUR 114.6 million. This growth is largely attributable to an optimized product mix, as well as price increases. Revenues in the boehmite product area were up throughout the year, as revenues were up 60.0% over the previous year, an especially fast pace.

Revenues in the "Specialty Alumina" product segment have been down from the year before since the second quarter. Revenues for 2019 as a whole came to EUR 56.8 million, down 8.5% from the year before. The decrease in revenues is due primarily to the weakening in the refractory industry, which is largely attributable to a downturn in the European steel industry.

Revenues by product segment, 2019
(in EUR million)



Revenues by region, 2019
(in %)



Nabaltec AG's total performance was up 2.6% in 2019, from EUR 176.8 million to EUR 181.4 million. This growth is primarily attributable to revenue growth and increases in inventories.

Other operating income decreased from EUR 2.0 million in the previous year to EUR 1.1 million in 2019 and consisted primarily of gains from the EUR/USD exchange rate in the amount of EUR 0.6 million.

Operating expense ratios as a percentage of total performance		
	2019	2018
Cost of materials	47.8%	47.5%
Personnel expenses	20.1%	19.0%
Other operating expenses	15.5%	16.6%

The cost of materials ratio (cost of materials as a percentage of total performance) increased to 47.8% (2018: 47.5%), due primarily to the increase in merchandise. In absolute terms, gross earnings amounted to EUR 95.8 million, up EUR 0.8 million from last year's value of EUR 95.0 million.

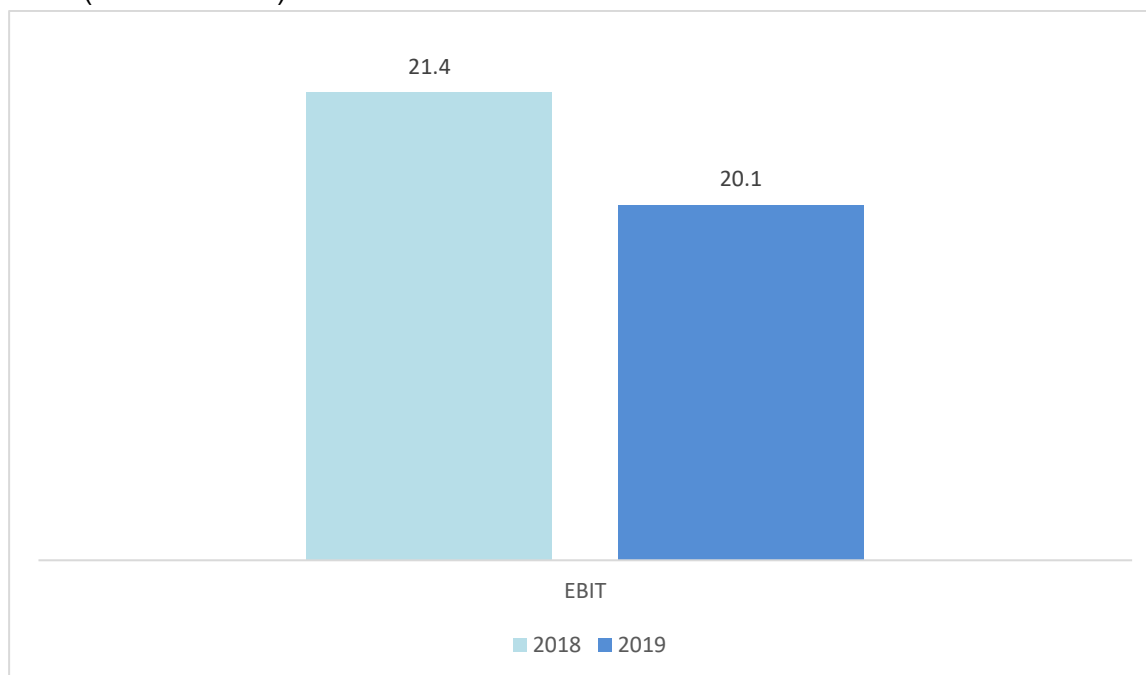
The personnel expense ratio (personnel expenses as a percentage of total performance) increased from 19.0% in the previous year to 20.1%. The number of employees increased from 485 on 31 December 2018 to 498 on 31 December 2019.

Other operating expenses decreased from EUR 29.3 million to EUR 28.1 million due to reductions in the cost of outside services and consulting expenses. The ratio of other operating expenses to total performance decreased from 16.6% in the previous year to 15.5%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were down 2.5%, from EUR 32.1 million to EUR 31.3 million.

Adjusting for EUR 11.3 million in depreciation and amortization in Financial Year 2019, Nabaltec's operating profit (EBIT) came to EUR 20.1 million, compared to EUR 21.4 million in the year before.

EBIT (in EUR million)



Earnings before taxes (EBT) amounted to EUR 17.8 million in the reporting year (2018: EUR 18.9 million). This includes net interest income of EUR -2.3 million in 2019. In the previous year, net interest income was EUR -2.5 million.

Tax expenses came to EUR 6.2 million in Financial Year 2019 (2018: EUR 6.1 million).

Net income came to EUR 11.5 million last year, compared to EUR 12.7 million the year before.

2.3.2 LIQUIDITY POSITION

Financial management is assigned to the Management Board directly and primarily includes managing the capital structure, managing liquidity, interest rate and currency hedging and obtaining funds. The subsidiaries are integrated into the Group's liquidity management system.

Nabaltec counters fluctuations in the USD/EUR exchange rate by using exchange rate hedging instruments when such a course is indicated due to the volatility of the markets or the scope of the foreign exchange transactions.

Liquid funds in the amount of EUR 55.1 million were made available to the subsidiaries through the reporting date (2018: EUR 42.9 million). The interest rates and contractual terms conform to the standards for mid-sized companies. Nabaltec also uses various interest rate hedging instruments with a mid- to long-term interest rate lock period (e.g. interest rate swaps) on a case-by-case basis in connection with variable-interest outside financing.

Funding to finance growth and investments is secured by means of existing loans against borrower's notes and through operating cash flow.

Nabaltec AG's loans against borrower's notes are subject to covenants tied to "leverage coverage ratios" and the equity ratio. None of the covenants in effect as of 31 December 2019 were breached in the 2019 reporting year.

The first tranche of the 2015 loan against borrower's note, in the amount of EUR 31.0 million, will be due for repayment in April 2020. Nabaltec secured its ability to pay back this loan by reaching an agreement in the fourth quarter of 2019 on a bilateral loan with a volume of EUR 20.0 million, to be paid out in April 2020, and by extending its overdraft lines by EUR 20.0 million.

2.3.2.1 CAPITAL STRUCTURE

Nabaltec AG's subscribed capital is EUR 8.8 million. Shareholders' equity increased to EUR 97.7 million as of 31 December 2019, up from EUR 88.0 million on 31 December 2018. The equity ratio was 44.5% on 31 December 2019. This represents a very strong capital base by industry standards.

Liabilities amounted to EUR 81.9 million on 31 December 2019, compared to EUR 81.6 million at the end of 2018.

Selected balance sheet items as a percentage of total assets:

	31 Dec. 2019	31 Dec. 2018
Shareholders' equity	44.5%	42.8%
Provisions	18.2%	17.5%
Liabilities	37.3%	39.7%

Other off-balance sheet financing instruments

Nabaltec has, to a minor extent, concluded lease agreements with terms of up to five years. Nabaltec also make uses of factoring on a continuous basis for trade receivables, in part as a way of minimizing default risks. Nabaltec Group does not use any other instruments which can be categorized as financial engineering.

2.3.2.2 INVESTMENTS

Nabaltec Group made EUR 24.7 million in investments last year, compared to EUR 40.2 million the year before. Around half of the investments were made in financial assets to finance investments in Naprotec LLC and to compensate for losses at Nashtec LLC due to operational difficulties. In the second half, investments were made in the Schwandorf site and particularly in technical equipment and machinery for capacity expansion, infrastructure, process optimization and replacement investments.

2.3.2.3 FINANCIAL POSITION

Total assets increased from EUR 205.4 million on 31 December 2018 to EUR 219.7 million.

Key balance sheet assets as a percentage of total assets:

	31 Dec. 2019	31 Dec. 2018
Non-current assets	67.3%	65.8%
thereof: property, plant and equipment	37.4%	39.6%
Current assets	32.7%	34.2%
thereof: Inventories	14.9%	14.5%

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

The success of Nabaltec AG's operations is based on a long-term growth strategy. The company is managed in such a way as to ensure profitable and capital-efficient growth. Therefore, significant importance is ascribed to revenue growth and EBIT margin as performance indicators. Accordingly, the focus is on continually monitoring and optimizing these two major financial performance indicators. These major financial performance indicators represent the basis for operational decisions and for forecasting as well.

Nabaltec AG also uses the following financial performance indicators for long-term management purposes. This internal controlling and management system enables management to pursue value-based management.

Other ratios used by Nabaltec AG:

Return on sales and capital	2019	2018
Return on equity	11.8%	14.4%
Return on capital employed (ROCE)	11.7%	13.7%

Return on equity, consisting of the ratio of net income to equity, amounted to 11.8% in the reporting year, compared to 14.4% in the year before.

Return on capital employed (ROCE) is the ratio of EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 11.7%, compared to 13.7% in the previous year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

At the end of 2019, Nabaltec AG had a total of 498 employees (31 December 2018: 485). All employees work in Germany. This figure also includes 53 trainees (31 December 2018: 56). Nabaltec sets a high value on good training. In 2019 as well, the trainee rate represented a remarkably large share of the workforce, 10.6%. This rate again exceeded the industry average significantly in 2019. Nabaltec's trainees are regularly among the best of their class. Training positions are currently available for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists, as well as for chemicals production workers.

Nabaltec offers its employees prospects and opportunities for advancement within the company in order to promote identification with the company by these means as well, and to encourage hard work and commitment. A family-friendly company which has been recognized multiple times, Nabaltec AG has in the past been included as one of the 100 best employers among German mid-sized companies e.g. in the "TOP JOB" nationwide multi-sector survey. Nabaltec supports its employees in all life situations, offering individual arrangements to improve work/life balance. The company also offers numerous programs designed to maintain and improve employee health within the context of health management. In this context, Nabaltec AG has already received silver-standard "Healthy Company" certification from the health insurance provider AOK Bayern in recognition of its strong commitment to corporate health management.

Customer Relations

In recent years, Nabaltec has been able to continually strengthen its market position and develop it in certain areas. With the implementation of a stand-alone solution for Nashtec LLC in the US and the resumption of production, the construction of a production site in Chattanooga, USA, and the formation of a distribution subsidiary in Shanghai, China, Nabaltec has taken significant steps which set the course towards even closer collaboration with its customers all over the world.

Nabaltec's distribution subsidiary in Shanghai began to generate revenues in the reporting year. E-mobility customers in emerging markets in particular, both in China and throughout the Asia-Pacific region, have received timely and satisfactory service thanks to effective cooperation from the distribution subsidiaries in Shanghai and Tokyo. Reliable and comprehensive on-site service pays off, particularly for commercial and technical solutions and in connection with the successful launch of newly developed product solutions in thermal management applications for energy storage systems.

Nabaltec participates in various European associations in order to ensure full access to key markets and technologies. In addition to the two professional associations within Cefic, the European Chemical Industry Council, Pinfa, (the Phosphorus, Inorganic & Nitrogen Flame Retardants Association) and EPSA (European Producers of Specialty Alumina), Nabaltec is also involved in *Forschungsgesellschaft Kunststoffe e. V.*, a plastics research association, as well as the German Ceramics Society (DKG) and *Verband der Deutschen Feuerfest-Industrie e.V.*, the German Refractory Industry Association.

In the US, Nabaltec is involved in pinfa North America and is a member of the American Ceramics Society (ACerS). Through these activities, Nabaltec is able to identify major trends in the primary markets, "flame retardants" and "ceramics," at a very early stage and on a global scale, allowing Nabaltec to respond early on. Nabaltec is also a founding member of pinfa China, which was formed in 2018, with headquarters in Shanghai.

A basic prerequisite for Nabaltec's market success is products which are specifically developed and optimized to meet customers' requirements, and which are supplied in the needed quantities over long periods of time in stable to consistently optimal quality. Joint development projects often result in long-term supply contracts and lasting relationships. Particularly for new products, Nabaltec often undergoes long and intensive approval procedures with its customers. In most cases, the successful conclusion of these procedures results in long-term supply agreements. Nabaltec confronts customer requirements in the

fields of e-mobility and lithium ion battery applications with a high density of communications, e.g. in its subsidiaries, and through the quick deployment of working groups, which take on a variety of tasks in close cooperation with customers, such as quality management, ensuring reliable delivery and optimizing products. Process development and approval procedures continue to be expedited in order to promote the successful development of e-mobility operations in particular.

Management Systems

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and trade association requirements, Nabaltec decided as far back as 2007 to introduce a health and workplace safety management system in accordance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series) in addition to its existing quality and environmental management systems in accordance with ISO 9001 and ISO 14001. In 2019, successful recertification audits for the existing management systems based on ISO 9001 and ISO 14001 were performed at the Schwandorf site. In addition, a surveillance audit was performed for the existing workplace safety and health management system in accordance with BS OHSAS 18001.

In order to be able to effectively meet the requirements of a continuously changing energy market, Nabaltec introduced a certified energy management system as early as 2010. This system, which is certified in accordance with ISO 50001, was recertified in 2019 in the course of a successful recertification audit.

The accreditation of Nabaltec AG's analysis center in accordance with the ISO/IEC 17025 standard was confirmed in a 2019 surveillance audit.

US subsidiary Nashtec LLC's quality management system was successfully certified in November 2019 in accordance with ISO 9001.

Environmental Protection

Nabaltec requires its own products to significantly contribute toward environmental protection and toward the improvement of the eco balance of a multitude of products. The increasing significance of environmental protection is one of the most important drivers for the global market success of Nabaltec products. They are used in diesel particulate filters and catalyzers and play an important role in reducing particulate matter and soot. Other product families are used in plastics, where they are replacing bromine, a halogenated component in flame retardants. This makes products safer and easier to recycle, and it is no longer necessary to manufacture the environmentally critical chemical element bromine for this purpose. In this respect, it is of central importance that research and development, production as well as up- and downstream logistics to be as environmentally friendly as possible. The conservation of natural resources is a central concern for Nabaltec and a prerequisite for social acceptance of the company. Nabaltec AG actively accepts responsibility for the environment: a commitment that extends well beyond its own site.

Technical ceramics materials are recycled and reintroduced into the production process, a practice which contributes to the sustainable use of raw materials. In addition, a very substantial percentage of Nabaltec's energy requirements are met through renewable energy in collaboration with the Schwandorf special-purpose association for waste recycling. By

obtaining thermal energy from the neighboring waste-to-energy plant in the form of steam and electricity, Nabaltec AG is doing its part to reduce CO2 emissions.

In general, Nabaltec endeavors to develop production processes with a closed loop for all production facilities. Regarding the handling of chemicals, such as lye, which are used for the production of fine hydroxide, Nabaltec consistently seeks to keep them from being released into the environment and instead to ensure that they are reused in a closed-loop production cycle. In addition, new technologies are used in order to substantially reduce the need for washing water due to increased production and higher quality requirements.

The logistics of waste management have been partially reorganized: collecting individual categories of waste in compactors will significantly reduce shipments. This in turn will reduce traffic volume to and from Nabaltec AG and emissions of carbon dioxide, nitrous gases and particulate matter in the immediate vicinity of the company. Nabaltec will continue to pursue this goal. With regard to maintaining air purity, the focus is on future requirements. Nabaltec AG participates in the Sevilla Process, which defines the best available techniques for industrial equipment within the EU.

Capital Market

Since its initial public offering in 2006, Nabaltec has had intact access to the capital market. This is proven by the bond offering in 2010 as well as the loans against borrower's note in 2013 and 2015 and the capital increase in 2017. This market access, maintained by transparent and reliable communications at all times, secures Nabaltec a balanced and largely independent means of financing.

3. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

3.1 OUTLOOK

Overall statement on the prospective development

Nabaltec foresees largely intact sales markets for its products in 2020 as well, but with an uncertain market environment and increased volatility. The company has taken a leading international position within its markets. Based on the market position in 2019 and the reputation it has built up over many years, Nabaltec sees good future prospects for its key products.

Economic and sector conditions

Global economic conditions have weakened over the past two years but there is agreement among the economic research institutes that the global economy will gradually stabilize over the next two years. In its economic outlook, the Kiel Institute for the World Economy (IfW) projects a growth rate of 3.1% in 2020 and 3.4% in 2021. The International Monetary Fund's expectations are similar, with an estimated growth rate of 3.3% in 2020.

But production growth in the industrialized economies will continue to be modest. Although an expansive monetary policy and a rebound in global trade will have a positive economic impact, particularly in the Euro zone and Japan, production growth will be diminished somewhat when the fiscal stimulus in the United States expires. Conditions for international trade continue to pose a risk to economic performance: if these conditions continue to get noticeably worse, investments may be weighed down as a result. The International Monetary

Fund expects growth in the Euro zone to pick up slightly, with the growth rate climbing by 0.1 percent to 1.3%.

IfW expects the German economy to grow by 1.1% in 2020 and by 1.5% in 2021. The improvement in economic growth will be driven by industrial production, which is expected to rebound following a slump in incoming orders, particularly foreign orders. But a major recovery in the industrial sector is not expected until the second half of 2020.

GDP Growth Forecast over Prior Year (in %)		
	2020	2021
World	3.1	3.4
USA	1.5	1.7
Euro zone	1.2	1.5
Germany	0.7	1.5
France	1.4	1.4
Italy	0.6	0.8
United Kingdom	0.6	1.4
Japan	0.8	1.1
China	5.9	5.7
India	6.3	6.6

Source: IfW, Kieler Konjunkturberichte No. 61 "Weltkonjunktur im Winter 2019," 11 December 2019

The 2020 outlook from the chemicals industry association VCI (Verband der Chemischen Industrie e.V.) is bleak, with production expected to increase by just 0.5%, as it is generally assumed within the industry that the weak economic growth will continue well into 2020. With prices stagnant, total industry revenues are expected to climb by 0.5%, to around EUR 194 billion.

The long-term outlook in key target markets is largely positive, in Nabaltec's view. But we are expecting little growth in our target markets in the short term given the difficulty of the general economic environment.

Outlook on the course of business

2020 is off to a good start relative to the fourth quarter of 2019, with sales improving as prices drop. Orders from customers have tended to be short-term in nature, a circumstance which reflects the current uncertainty in the market. Nabaltec expects production at Nashtec to normalize by the end of the first quarter of 2020. In addition, Naprotec LLC will begin production of ground hydrates for the US market in the second quarter of 2020 with an annual capacity of 30,000 tons. Nabaltec expects Naprotec's plant to have a positive impact on earnings one year after it goes online.

Orders on hand amounted to EUR 35.9 million as of 31 December 2019.

In 2020 as well, fine hydroxides will continue to be the most important product range by far within the functional fillers product segment. Boehmite is also continuing to gain importance due to the positive trend in electric mobility. Products with high added value are increasingly gaining importance in the "Specialty Alumina" product segment.

Expected earnings, net assets and financial position

Due to uncertainties in the economic and industry environment and mounting pressure on sale prices, Nabaltec is expecting modest revenue growth in 2020. On the earnings side, Nabaltec is expecting an EBIT margin in the high single digits. This forecast assumes modest economic and industry growth and includes the revenues which will be generated once production goes online at Naprotec in the US. At the time the forecast was prepared, in early March 2020, it was not yet clear how individual circumstances such as the spread of the coronavirus and the associated potential for work stoppages all over the world or the continuing uncertainty regarding Brexit will affect the course of business. If these problems escalate, a negative impact on earnings cannot be ruled out.

Macroeconomic risks are currently posed above all by the unpredictability of the situation as well as by measures to curb the spread of coronavirus, which continue to affect global economic growth. At the time this report was prepared, Nabaltec's supply chains were intact, with no disruptions in either procurement or sales. The exchange of goods with China, the region which is currently at risk, is of secondary importance.

Because the situation created by the coronavirus pandemic has been changing every day since the forecast was prepared, it is necessary to supplement the previous forecast report in order to ensure that the financial statements and management report are up-to-date.

The more aggressive measures taken by policyholders all over the world to contain the coronavirus pandemic, such as closing international borders, imposing curfews and requiring manufacturers to stop production of non-essential goods, will have an impact on Nabaltec's economic performance. As a result, the forecast issued in early March involves a high degree of uncertainty. If the consequences of the pandemic continue over several months, a significant decrease in revenues and earnings is to be expected. A more specific statement about the negative financial consequences cannot be made at the present time.

The Management Board is currently considering measures to reduce costs in order to counteract these effects if necessary.

Nabaltec expects investments in 2020 to be even with the year before. In addition to investments in financial assets for the subsidiary Naprotec LLC, the company plans to invest in process optimization and infrastructure at the Schwandorf site, as well as in measures to increase capacity at certain points.

Net financial income is expected to improve in 2020 relative to the year before.

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 are 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.

3.2 RISKS AND OPPORTUNITIES REPORT

Risk Management System

For Nabaltec AG, the relevance of risk management is derived from its business activities and its worldwide operations in an international competitive and regulatory environment, as well as the general complexity of the global economy. Nabaltec AG's success depends to a considerable extent on identifying associated risks and opportunities as well as dealing with them consciously and bringing risks under control. Effective risk management is a core element for securing the company long term, for its economic success in international markets and for its successful, sustainable further development.

Nabaltec is constantly working to develop the company's risk management system. The continuous optimization of risk prevention tools in all areas enables the early identification and elimination of business risks. Integral elements include risk management as an ongoing process, risk controlling, extensive communication and documentation processes, as well as an internal monitoring system. All discernable internal and external risks are identified, documented, assessed and included in a risk matrix as efficiently as possible. This risk matrix represents the basic framework 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 managed by the controlling department. Reports on business risks as well as continuous status reports are prepared for the Management Board and discussed at the management level. 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 laws and regulations 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 participation 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.

Sales Market

The 2008/2009 international economic crisis showed that a shock in demand such as was seen then can have far-reaching consequences in Nabaltec AG's target markets as well. In spite of greater flexibility and adjustments in cost structures and capacities, such high fluctuations in demand can implicate noticeable volume and margin risks. Additional sales

risks include the potential loss of significant key accounts, loss of market share due to technological innovation and new advances by competitors. Due to Nabaltec's strong position as an innovation leader and reliable supplier, as well as continuous monitoring of target markets, such risks can be confined and the relevant 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. Nabaltec AG uses mid- and long-term supply agreements for its supply of raw materials. Supply of the energy sources which are most important for the production process, such as electricity, gas and steam, is secured by long-term agreements. The certification of the energy management system in accordance with ISO 50001 supports these efforts. In addition, efforts are constantly being made to optimize production processes in order to reduce specific energy usage. An additional risk is an excessive increase in logistics costs. Nabaltec AG can counter this risk by passing on logistics costs to customers and by finding a balanced logistical mix. For example, Nabaltec AG has its own railway siding, which makes transport by rail very attractive.

Financial Market

When necessary, foreign exchange risks are strategically minimized using hedging instruments covering risks arising from US dollar exposure. In case of medium term financing, interest risks are hedged using swaps or loan agreements are concluded with fixed interest rates. Nabaltec AG has a detailed financial and liquidity forecast which is subjected to routine comparisons of estimates against results. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. The risk of changes in interest rates is countered in part through hedging. Nabaltec AG's loan agreements are subject to covenants which are tied e.g. to leverage coverage ratios as well as the equity ratio. If the covenants are not observed, the lender has the option to increase the interest margin or exercise its right of extraordinary termination. Covenants valid as of 31 December 2019 were not breached in the reporting year.

Factoring is used to a substantial extent for the financing of accounts receivable.

Personnel

Particularly the fluctuation of employees in key positions gives rise to personnel risks. Nabaltec minimizes these risks through 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 through early advance plans for successors. The company also offers good career opportunities and advancement possibilities. Nabaltec's market position, the reputation it has earned in the industry, its high reliability and its familiar strong focus on research and development make Nabaltec an attractive employer within its market segments and region.

Production, Processes and IT

Nabaltec has an integrated quality management system with ISO 9001 accreditation that is implemented companywide. Therefore, Nabaltec considers production-specific risks clear and manageable. For IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundantly designed high-quality hardware. Through regular

verification of the access structure, data protection is guaranteed; data security is therefore based on generally established procedures. Compliance with data protection policies based on the legal requirements is ensured at all times within the company and is additionally monitored by an external data protection officer.

Risks exist in connection with construction of the refined hydroxide production plant in Chattanooga, USA, with regard to investment volume and the date on which the plant will go online.

Environmental Protection

Environmental risks can arise from exceeding admissible thresholds for noise and dust pollution 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 uses closed-loop production processes, e.g. for water and lye.

Technological Development

Potential technological risks could result from customers replacing Nabaltec products due to a change in technology, from the failure to use new technologies and from not recognizing technological developments. As an innovation leader, Nabaltec tries to minimize these risks by engaging in continuous and intensive research and development efforts and by maintaining pronounced customer proximity. In fact, technological developments offer numerous opportunities for Nabaltec to generate a competitive edge in product quality, by occupying new markets through fast-paced product adjustments and by creating process, processing and quality advantages together with our customers so as to set the stage for economic success.

Legal Framework

Changes within the legal framework could lead to risks for Nabaltec. Currently, regulatory changes are creating additional market opportunities - and this trend is not expected to reverse in the medium and long term. Eco-friendly products such as Nabaltec's are being pushed forward on a global scale in an effort to eliminate materials which are harmful to the environment from the cycle.

As an intensive electricity user in international competition, Nabaltec will benefit from the renewable energy surcharge in 2020 as well. On the other hand, the provisions of the "2017 Renewable Energy Act" will lead to an increase in renewable energy expenses in the mid-six figures in 2020.

Coronavirus

Reference is made to the section on "expected earnings, net assets and financial position" for the procurement and sales risks posed by the coronavirus pandemic.

Overall Assessment

Based on our continuous surveillance of relevant markets, as described above, as well as the 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.

Schwandorf, 23 March 2020

Nabaltec AG
The Management Board



Johannes Heckmann



Günther Spitzer



Dr. Michael Klimes

Income Statement of Nabaltec AG, Schwandorf
for the period from 1 January - 31 December 2019

	1/1/2019 - 12/31/2019		1/1/2018 - 12/31/2018	
	TEUR	TEUR	TEUR	TEUR
1. Revenues		179,996		177,366
2. Change in finished goods		623		-958
3. Other capitalized own services		741		437
Total performance		181,360		176,845
4. Other operating income		1,066		1,979
- thereof exchange rate differences: EUR 601 thousand (PY: EUR 823 thousand)				
		182,426		178,824
5. Cost of materials:				
a) Cost of raw materials, supplies and purchased goods	85,473		81,312	
b) Cost of purchased services	1,183	86,656	2,555	83,867
Gross profit		95,770		94,957
6. Personnel expenses:				
a) Wages and salaries	27,982		26,624	
b) Social security and other pension costs	8,419		6,935	
- thereof for pension costs: EUR 3,720 thousand (PY: EUR 2,482 thousand)				
7. Amortisation/depreciation of intangible assets and property, plant and equipment	11,250		10,672	
8. Other operating expenses	28,058	75,709	29,318	73,549
- thereof exchange rate differences: EUR 351 thousand (PY: EUR 346 thousand)				
		20,061		21,408
9. Income from securities and loans (financial assets)	654		497	
- thereof from affiliated companies: EUR 654 thousand (PY: EUR 497 thousand)				
10. Interest and similar income	62		43	
11. Depreciation of financial assets and of securities held as current assets	77		6	
- thereof from affiliated companies: EUR 77 thousand (PY: EUR 6 thousand)				
12. Interest and similar expenses	2,928		3,010	
- thereof for compounding interest: EUR 881 thousand (PY: EUR 938 thousand)				
Financial result		-2,289		-2,476
		17,772		18,932
13. Income taxes		6,236		6,148
14. Net after-tax result		11,536		12,784
15. Other taxes		85		78
16. Net result for the year		11,451		12,706
17. Profit carried forward		28,994		18,048
18. Accumulated profit		40,445		30,754

Balance Sheet of Nabaltec AG, Schwandorf, for 31 December 2019

ASSETS	12/31/2019	12/31/2018	LIABILITIES	12/31/2019	12/31/2018
	TEUR	TEUR		TEUR	TEUR
A. Non-current assets			A. SHAREHOLDERS' EQUITY		
I. Intangible assets			I. Subscribed capital (conditional capital: EUR 4,000 thousand)	8,800	8,800
1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	318	318	II. Capital reserve	48,424	48,424
2. Advance payments	97	109	III. Accumulated profits	40,445	30,754
	415	427			
II. Property, plant and equipment				97,669	87,978
1. Land, leasehold rights and buildings, including buildings on non-freehold land	26,682	25,294	B. NON-CURRENT ASSETS INVESTMENTS GRANTS	2	3
2. Technical equipment and machinery	46,500	47,081	C. PROVISIONS		
3. Other fixtures, fittings and equipment	3,526	3,437	1. Retirement benefit obligation and similar provisions	30,564	26,716
4. Advance payments as well as plant and machinery under construction	5,386	5,499	2. Accrued taxes	3,122	2,183
			3. Other provisions and accrued liabilities	6,445	6,936
	82,094	81,311			
III. Financial assets				40,131	35,835
1. Shares in affiliated companies	10,367	10,367	D. ACCOUNTS PAYABLE		
2. Loans to affiliated companies	55,061	42,946	1. Payables to banks	70,931	71,029
			2. Trade payables	9,575	9,649
	65,428	53,313	3. Payables to affiliated companies	929	277
			4. Other payables	487	607
			- thereof relating to taxes: EUR 345 thousand (PY: EUR 351 thousand)		
			- thereof relating to social securities: EUR 40 thousand (PY: EUR 39 thousand)		
	147,937	135,051			
B. CURRENT ASSETS				81,922	81,562
I. Inventories					
1. Raw materials and supplies	18,459	16,818			
2. Finished goods and purchased products	14,325	12,973			
	32,784	29,791			
II. Accounts receivable and other assets					
1. Trade receivables	5,519	4,460			
2. Receivables from affiliated companies	749	101			
3. Other assets	5,177	6,682			
	11,445	11,243			
III. Cash and cash equivalents	27,429	29,124			
	71,658	70,158			
C. PREPAID EXPENSES	129	169			
	219,724	205,378		219,724	205,378

Statement of Fixed Assets of Nabaltec AG for the Period from 1 January 2019 to 31 December 2019

	C O S T					D E P R E C I A T I O N					Book value	Book value
	1/1/2019	Additions	Disposals	Adjustments	12/31/2019	1/1/2019	Additions	Write-ups	Disposals	12/31/2019	12/31/2019	12/31/2018
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets												
1. Licenses, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	3,168,758.01	120,470.36	0.00	60,542.82	3,349,771.19	2,850,505.03	181,384.56	0.00	0.00	3,031,889.59	317,881.60	318,252.98
2. Advance payments made	109,152.40	48,138.32	0.00	-60,542.82	96,747.90	0.00	0.00	0.00	0.00	0.00	96,747.90	109,152.40
	3,277,910.41	168,608.68	0.00	0.00	3,446,519.09	2,850,505.03	181,384.56	0.00	0.00	3,031,889.59	414,629.50	427,405.38
II. Property, plant and equipment												
1. Land, leasehold rights and buildings, including buildings on unowned land	35,586,940.77	831,185.02	0.00	1,747,546.77	38,165,672.56	10,292,890.14	1,191,177.80	0.00	0.00	11,484,067.94	26,681,604.62	25,294,050.63
2. Technical equipment and machinery	138,497,259.68	5,310,251.14	0.00	3,052,672.57	146,860,183.39	91,415,878.63	8,944,449.15	0.00	0.00	100,360,327.78	46,499,855.61	47,081,381.05
3. Fixtures, fittings and equipment	10,928,647.31	948,484.04	12,781.39	74,005.47	11,938,355.43	7,491,500.56	933,276.34	0.00	12,780.88	8,411,996.02	3,526,359.41	3,437,146.75
4. Advance payments made and assets in process of construction	5,498,704.22	4,761,272.18	0.00	-4,874,224.81	5,385,751.59	0.00	0.00	0.00	0.00	0.00	5,385,751.59	5,498,704.22
	190,511,551.98	11,851,192.38	12,781.39	0.00	202,349,962.97	109,200,269.33	11,068,903.29	0.00	12,780.88	120,256,391.74	82,093,571.23	81,311,282.65
III. Financial assets												
1. Shares in affiliated companies	10,367,495.06	0.00	0.00	0.00	10,367,495.06	0.00	0.00	0.00	0.00	0.00	10,367,495.06	10,367,495.06
2. Loans to affiliated companies	43,331,263.24	12,698,979.89	654,123.33	0.00	55,376,119.80	385,683.18	76,706.01	146,894.58	0.00	315,494.61	55,060,625.19	42,945,580.06
	53,698,758.3	12,698,979.89	654,123.33	0.00	65,743,614.86	385,683.18	76,706.01	146,894.58	0.00	315,494.61	65,428,120.25	53,313,075.12
	247,488,220.69	24,718,780.95	666,904.72	0.00	271,540,096.92	112,436,457.54	11,326,993.86	146,894.58	12,780.88	123,603,775.94	147,936,320.98	135,051,763.15

Nabaltec AG, Schwandorf

Notes for Financial Year 2019

General Disclosures Concerning the Financial Statements

Nabaltec AG, with registered office in Schwandorf, Germany¹ (entered into the Commercial Register of the Local Court of Amberg under Commercial Register No. B 3920), was formed by Company Agreement of 14 December 1994 with the corporate name Nabaltec GmbH and registered office in Schwandorf. It acquired the specialty oxides business of VAW Vereinigte Aluminiumwerke AG in 1995 and was transformed into a joint-stock company in 2006. The annual financial statements were prepared in accordance with the accounting rules of the German Commercial Code. The provisions of the German Stock Corporation Act were also observed. The total cost method was applied for the income statement.

Nabaltec AG, Schwandorf, is a large corporation in terms of § 267(3) of the German Commercial Code.

Accounting Policies

The following recognition and measurement methods were applied to the items of the income statement:

Intangible assets are recognized at cost less straight-line depreciation. Depreciation in the year of addition is performed on a prorated basis.

Property, plant and equipment are recognized at cost less depreciation.

Depreciation is performed using the straight-line method based on the typical useful life for the asset, which is based on the maximum allowable rates under tax rules. Depreciation is prorated in the year of addition. Cost includes interest on debt.

Independently usable assets with a value of less than EUR 150.00 are written off as business expenses in the year of addition pursuant to § 6 (2a) of the Income Tax Act. A collective item is recognized for assets which exceed this value but whose value does not exceed EUR 1,000.00. These assets are depreciated at a rate of one fifth per year. The limit for immediate write-offs has been raised to EUR 800.00 as of 1 January 2018. Collective depreciation will no longer be used for new assets as of 2018. As of 1 January 2018, low-value assets with a cost of between EUR 250.00 and EUR 800.00 will be immediately written off in the year of addition.

Financial assets are recognized at their amortized cost. If necessary, they are written down to fair value (if lower than amortized cost). Such write-downs are performed even in cases

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

where a permanent impairment is not expected. If the reasons for using this lower measurement no longer apply, they are written up to the higher value.

Raw materials and supplies, as well as **merchandise**, are recognized at cost observing the strict lowest-value principle. Cost is determined using the average method. Items whose fair value is below cost as of the reporting date are written down to fair value.

Finished products are measured at cost, observing the strict lowest-value principle. Production cost includes reasonable percentages of material and production overhead costs in addition to direct material and production costs. Interest on debt and general administrative costs are not included in production costs. Finished products are combined into valuation units for group measurement pursuant to § 240(4) of the German Commercial Code. To this end, the production costs of products of the same type and nearly equivalent products are not assigned to individual items, but are instead measured using the weighted average value for their group.

Accounts receivable and other assets are recognized at face value. Individual allowances are performed to account for identified individual risks. A general allowance was not performed, as was the case in the previous year as well.

Liquid funds are recognized at face value.

Deferred expenses and accrued income consist of spending prior to the reporting date which relates to periods after the reporting date. This item is reversed in straight-line fashion over the course of time.

Deferred taxes are calculated for temporary differences between commercial and tax law in the measurement of assets, liabilities and accrual and deferral items. Deferred taxes are presently calculated based on a combined tax rate of 29.13%. This combined tax rate includes corporate income tax, trade tax and the solidarity mark-up. If the result is a net tax liability, this amount is recognized as a deferred tax liability. If the result is a net tax reduction, the associated capitalization option would not be exercised. There was a surplus of net deferred tax asset this year, which was not recognized in the financial statements.

Subscribed capital is recognized at nominal value.

The **special item for fixed-asset investment grants** was recognized in the amount of the grant and will be reversed over the depreciation of the subsidized investment.

Pension reserves are measured using the projected unit credit method, applying actuarial principles, with an actuarial interest rate of 2.71% per annum, based on the 2018 G benchmark tables of Prof. Dr. Klaus Heubeck. Based on the option pursuant to Article 67(1) Sentence 1 of the Introductory Act to the German Commercial Code, TEUR 267 was transferred to pension reserves in the Financial Year (1/15th of the difference calculated on 1 January 2010), as was done in previous years as well. Pension liability insurance policies exist which are pledged to the pension recipients. Accordingly, the assets and liabilities in connection

with the pension liability insurance policies are netted out in accordance with § 246(2) of the German Commercial Code.

Other provisions are formed for all identifiable risks and contingent liabilities in the amount which is necessary based on a reasonable commercial assessment. Measurement of the settlement amount is to take into account cost increases to the extent necessary. Other provisions with a term of more than one year are discounted at rates published by Deutsche Bundesbank commensurate with their term.

Accounts payable are recognized at their settlement amount.

Accounts payable denominated in foreign currency whose residual term is no longer than one year are measured using the average exchange rate on the reporting date. All other foreign-currency accounts payable are measured using the exchange rate as of invoicing or the average exchange rate on the reporting date, if the latter is higher.

Accounts receivable denominated in foreign currency whose residual term is no longer than one year are measured using the average exchange rate on the reporting date. All other foreign-currency accounts receivable are measured using the exchange rate as of invoicing or the average exchange rate on the reporting date, if the latter is lower.

Derivative financial instruments are measured individually at their market value as of the reporting date. If the requirements for the formation of valuation units pursuant to § 254 of the German Commercial Code are met, the derivatives and the underlying transactions are measured as a single unit. If a comparison of changes in value or cash flows arising from the hedges and the underlying transactions reveals a net loss from the ineffective portion due to changes in market value, this loss is recognized in profit and loss. The unrealized gains and losses from the effective portion of the hedge cancel each other out entirely and are not recognized on the balance sheet or in profit and loss (freezing method).

Disclosures Concerning the Balance Sheet

Fixed assets

The change in individual fixed-asset items is shown in the statement of changes in fixed assets (attachment to the notes).

Debt interest in the amount of TEUR 106 was included in production costs in the reporting year. The average financing cost rate used to determine capitalizable debt interest was 2.60%.

Debt interest was capitalized in the Financial Year for the following fixed-asset items:

Property, plant and equipment:

Land, leasehold rights and buildings, including buildings on unowned land	37,893.61 EUR
Technical equipment and machinery	48,174.59 EUR
Other assets, fixtures, fittings and equipment	0 EUR
Advance payments made and assets in process of construction	19,432.01 EUR

Accounts receivable and other assets

Other assets largely consist of accounts receivable from a factoring company for withheld purchase prices (TEUR 2,691), input tax refund claims (TEUR 1,825), an energy tax refund claim (TEUR 316) and an electricity tax refund claim (TEUR 315). All accounts receivable and other assets have – as in the previous financial year – a residual term of less than one year.

Accounts receivable from affiliated companies consist of trade receivables.

Deferred expenses and accrued income

TEUR 129 of deferred expenses and accrued income relates to prepaid expenses for the next Financial Year.

Shareholders' equity

a) Subscribed capital EUR 8,800,000.00

The capital stock is divided into 8,800,000 no-par-value shares, each representing EUR 1.00 of the capital stock.

b) Authorized capital

The authorized capital as of 31 December 2019 amounted to (through 31 May 2021) EUR 3,200,000.00

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to raise the capital stock through 31 May 2021 once or multiple times by up to EUR 4,000,000.00 by issuing up to 4,000,000 new no-par-value

bearer shares in exchange for cash and/or non-cash contributions, with the stipulation that the number of shares is to be increased in the same proportion as the capital stock. The Management Board may decide to exclude subscription rights with the approval of the Supervisory Board (Authorized Capital 2016/I).

Utilizing the authorized capital made available by resolution of the shareholders of 30 June 2016 (Authorized Capital 2016/I), the Management Board, with the Supervisory Board's approval, raised Nabaltec AG's capital stock by issuing 800,000 new bearer shares, each representing EUR 1.00 of the capital stock, in exchange for cash contributions, with preemption rights excluded. As a result, Nabaltec AG's subscribed capital (capital stock) was raised from TEUR 8,000 to TEUR 8,800. The capital increase was entered into the Commercial Register on 15 September 2017.

c) Conditional capital EUR 4,000,000.00

The capital stock was conditionally raised by up to EUR 4,000,000 by resolution of the shareholders of 30 June 2016 (Conditional Capital 2016/I). The conditional capital serves exclusively to provide shares to holders of warrants and convertible bonds issued by the company based on the authorization of the shareholders of 30 June 2016.

d) Capital reserve EUR 48,424,219.38

As of 31 December 2019, the capital reserve amounted to TEUR 48,424 (previous year: TEUR 48,424).

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to issue convertible bonds and/or warrants made out to the bearer with a total value of up to EUR 150,000,000.00 and with a term of no more than 15 years ("Convertible Bonds and/or Warrants") through 31 May 2021 once or multiple times and to provide holders of convertible bonds with conversion rights for up to 4,000,000 bearer shares in the company as specified in the Terms of Warrants and Convertible Bonds (Terms of Bonds) which are to be defined by the Management Board with the approval of the Supervisory Board.

e) Retained earnings	EUR 40,445,285.19
As of 1 January 2019	EUR 30,753,912.26
Dividend payment pursuant to shareholder resolution	<u>EUR -1,760,000.00</u>
= Profit brought forward as of 31 December 2019	EUR 28,993,912.26
Net income in Financial Year 2019	<u>EUR 11,451,372.93</u>
As of 31 December 2019	EUR 40,445,285.19 =====

Special item for fixed-asset investment grants

The special item for fixed-asset investment grants is reversed in accordance with the useful life of the subsidized investment.

Pension reserves

Pension liabilities were measured in accordance with generally accepted actuarial principles using the projected unit credit (PUC) method. The biometric calculation was based on the 2018 G benchmark tables of Prof. Dr. Klaus Heubeck. The measurement was performed based on the following additional assumptions: an actuarial interest rate of 2.71% per annum (previous year: 3.20%), fluctuation per annum 1.00% (previous year: 1.00%), a salary trend of 2.75% per annum (previous year: 2.75%) and a pension trend of 2.00% per annum (previous year: 2.00%). Liabilities were discounted at the average market interest rate for the past ten years according to Deutsche Bundesbank generally assuming a residual term of 15 years.

The remeasurement of pension reserves on 1 January 2010 resulted in a difference in the amount of TEUR 4,009; as in previous years, TEUR 267 of this difference (1/15th of the total, in accordance with Article 67(1) Sentence 1 of the Introductory Act to the German Commercial Code) was transferred to pension reserves in the reporting year, so that the remaining deficit as of 31 December 2019 was TEUR 1,336. This transfer was recognized under other operating expenses in 2019.

Pension liability insurance policies are pledged and therefore protected from attachment by all other creditors so as to secure direct pension commitments. Accordingly, the liabilities are offset by the corresponding assets, and the associated income and expenses must be netted out. The asset value of pension liability insurance as of the reporting date, TEUR 1,839, is netted out with the settlement value, in the amount of TEUR 32,403, for a net disclosure of TEUR 30,564. Net income from pension liability insurance in the amount of TEUR 92 was recognized under interest and similar expenses. The fair value of the pension liability insurance policies is equal to the asset value.

Discounting pension reserves at the average market interest rate for the past ten years results in a difference of TEUR 4,747 relative to discounting pension reserves at the average market interest rate for the past seven years. This difference is not available for distribution pursuant to § 253(6) Sentence 2 of the German Commercial Code.

Other provisions

Other provisions largely consist of personnel obligations (TEUR 3,964) and outstanding invoices (TEUR 2,180).

The anniversary provision is measured in the PUC method using an actuarial interest rate of 1.95% (average market interest rate of the last seven years with a flat-rate assumed remaining term to maturity of 15 years), a salary trend of 2.75% and a fluctuation rate of 1.00%.

Accounts payable

The breakdown of accounts payable, with residual terms and securities provided, is evident from the statement below:

(amounts from the previous year are indicated in parentheses)

	Total amount	Residual terms			Secured amount	Type of security
		Less than 1 year	1-5 years	Over 5 years		
	TEUR	TEUR	TEUR	TEUR	TEUR	
Accounts payable to banks	70,931 (71,029)	31,931 (529)	39,000 (70,500)	0 (0)	0 (0)	
Trade payables	9,575 (9,649)	9,575 (9,649)	0 (0)	0 (0)	0 (0)	
Accounts payable to affiliated companies	929 (277)	929 (277)	0 (0)	0 (0)	0 (0)	
Other accounts payable	487 (607)	487 (607)	0 (0)	0 (0)	0 (0)	
	81,922 (81,562)	42,922 (11,062)	39,000 (70,500)	0 (0)	0 (0)	

Accounts payable to banks consist of loans against borrower's notes obtained at typical market interest rates and for which certain covenants were agreed.

Accounts payable to affiliated companies consist entirely of trade payables.

Disclosures Concerning the Income Statement

Revenues

Breakdown of revenues by geographical region:

	2019		2018	
	TEUR	%	TEUR	%
Germany	42,813	23.8	46,854	26.4
Rest of Europe	92,992	51.7	89,060	50.2
USA	20,809	11.5	20,022	11.3
Rest of world	23,382	13.0	21,430	12.1
	179,996	100.0	177,366	100.0

Breakdown of revenues by product segments:

	2019		2018	
	TEUR	%	TEUR	%
Functional Fillers	122,554	68.1	114,615	64.6
Specialty Alumina	56,847	31.6	62,128	35.0
Other	595	0.3	623	0.4
	179,996	100.0	177,366	100.0

Other operating income

Other operating income includes income from currency translation in the amount of TEUR 601.

Other operating income also includes income from insurance indemnities in the amount of TEUR 46, income from payments in kind in the amount of TEUR 227, income from receivables written off in the amount of TEUR 23, as well as the write-ups of the Nashtec financial assets in the amount of TEUR 147.

Other operating expenses

Other operating expenses include expenses for outgoing freight in the amount of TEUR 12,624, sales commissions in the amount of TEUR 3,803, expenses for third-party repairs in the amount of TEUR 3,017 and consulting expenses in the amount of TEUR 320.

Other operating expenses also include expenses in the amount of TEUR 267 from the pro rata allocation of the difference from the revaluation of pension reserves in the course of first-time application of the Accounting Law Modernization Act.

Other Disclosures

Disclosures concerning transactions not reported in the balance sheet

In order to improve its liquidity, Nabaltec AG concluded lease agreements with a total expense of TEUR 297 for the year and assigned a total of TEUR 22,187 in accounts receivable to a factor. The transfer of the default risk to the factor as a result of the factoring agreement was offset in 2019 by expenses in the amount of TEUR 339 for execution and advance financing of the factoring arrangement.

Contingent Liabilities and Guarantees

The following guarantees are to be noted in accordance with § 251 and § 268(7) of the Commercial Code:

	31 Dec. 2019 TEUR	31 Dec. 2018 TEUR
Liabilities arising from performance bonds thereof in favor of affiliated companies:	1,949 0	2,088 0

This performance bond consists entirely of TEUR 1,949 in amounts owed for separate gas system fees. The amount of the bond will be reduced by EUR 139,200.00 each year until it expires on 31 December 2032.

Nabaltec AG has made a written commitment to continue to support Nashtec LLC and Naprotec LLC with financial resources until 31 December 2020, if necessary.

Nabaltec AG has issued a payment guarantee of TUSD 1,300 to secure raw material deliveries to Nashtec.

The Management Board considers the risks of claims under the guarantee and the obligations to Nashtec LLC and Naprotec LLC to be low, as the Management Board expects a positive development of the two companies in 2020.

Other financial liabilities

The following other financial liabilities exist which are of significance for assessment of the financial position:

	31 Dec. 2019 TEUR	31 Dec. 2018 TEUR
a) Liabilities arising from rental, lease, service and consulting agreements thereof	908	1,131
- maturing in less than 1 year	631	601
- maturing in 1-5 years	273	530
- maturing in more than 5 years	4	0
b) Liabilities arising from investment orders	3,897	2,354
- maturing in less than 1 year	3,897	2,354
Total	4,805	3,485
- thereof to affiliated companies	0	0

Declaration concerning the German Corporate Governance Code

The company has issued the prescribed declaration in accordance with § 161 of the German Stock Corporation Act on a voluntary basis. The declaration is posted on the company's website, "nabaltec.de," under "Investor Relations/Corporate Governance."

Auditor's fee

The auditor's fee for the 2019 financial statements (including the 2019 consolidated financial statements) amounts to TEUR 104. The auditor received a fee in the amount of TEUR 10 for other assurance services and a fee of TEUR 24 for tax advisory services.

Transactions with related companies and persons in terms of § 285 No. 21 of the German Commercial Code

There were no material transactions with related companies and persons which were not executed at typical market conditions.

Share ownership pursuant to § 285 No. 11 of the German Commercial Code

	Share of capital stock			Shareholders' equity in previous year *)		Earnings in previous year *)	
	in %	in USD	in EUR	in USD	in EUR	in USD	in EUR
Direct holdings							
Nabaltec USA Corp.	100.0	11,555,362.43	9,930,572.62	15,109,007.61	13,456,544.01	1,133,686.13	1,012,490.95
Indirect holdings through Nabaltec USA Corp.							
Nashtec LLC, Corpus Christi (USA)	100.0			-3,482,542.15	-3,101,658.50	-4,414,216.38	-3,942,320.61
Naprotec LLC, Chattanooga (USA)	100.0			1,775,660.10	1,581,457.14	-1,373,749.78	-1,226,890.93
Direct holdings							
Nabaltec Shanghai Trading Co. Ltd., Shanghai (China)	100.0	2,755,685.15	359,385.03	1,021,450.04	130,406.74	-1,535,253.30	-198,882.47
Direct holdings							
Nabaltec Asia Pacific K.K., Tokyo (Japan)	100.0	10,000,000.00	77,537.41	13,533,028.00	110,990.14	1,245,704.00	10,273.89

*) Shareholders' equity in the previous year denominated in foreign currency is translated at the average exchange rate on the reporting date. Earnings for the previous year denominated in foreign currency are translated at the average exchange rate for the year.

An additional TUSD 4,500 in total funding was made available to the subsidiary Nashtec LLC in Financial Year 2019, as well as TUSD 9,000 for the subsidiary Naprotec LLC.

Derivative financial instruments

The following interest rate derivatives have been entered into in connection with the loans against borrower's note obtained in previous years in order to hedge against interest risks in connection with variable interest rates based on the 6-month EURIBOR.

Face value in TEUR	Term	Market value in TEUR
31,000	23 April 2015 – 23 April 2020	-223
39,000	23 April 2015 – 23 April 2022	-1,225

These derivatives form valuation units with the underlying loans in terms of § 254 of the German Commercial Code. Accordingly, provisions for losses are not to be formed.

The market values of derivatives are determined through mark-to-market valuation by the participating credit institutions.

Deferred taxes

Deferred taxes are measured at a tax rate of 29.13%, comprising the corporate income tax rate, the solidarity mark-up and the trade tax rate.

Item	Book value		Difference TEUR	Deferred tax	
	Book value in commercial balance sheet TEUR	Book value in tax bal- ance sheet TEUR		Asset TEUR	Liability TEUR
Deferred tax assets					
Pension reserve	-32,403*	-16,197	-16,206	4,721	
Other provisions	-6,445	-5,854	-591	172	
Financial assets	55,061	55,376	-315	92	
Trade receivables	5,519	5,588	-69	20	
	21,732	38,913	-17,181	5,005	
Deferred tax liabilities					
Trade payables	-9,575	-9,597	22		6
	-9,575	-9,597	22		6
Net total				4,999	

* Before adjusting for pension liability insurance

Employees

The average number of workers employed over the year as a whole was as follows:

	2019
	Number
Industrial workers	257
Employees	181
Minimally employed workers	4
	442

In addition, an average of 51 trainees were employed in the Financial Year.

Obligation to notify

The JOSTKA GmbH & Co. KG, Hirschau, notified Nabaltec AG on 17 February 2012 pursuant to § 20 paragraph 1 AktG that it holds more than one quarter of the share capital. The exceeding of this participation threshold is due to the attribution of the shares held by NAHE GmbH & Co. KG based on a voting trust agreement.

NAWI Beteiligungs GmbH, Regensburg, notified Nabaltec AG on 25 May 2012 pursuant to § 20 paragraph 1, paragraph 3 AktG that it holds more than one quarter of the share capital.

Management Board and Supervisory Board

In accordance with the company's Articles of Association, the Management Board is to consist of at least one person. The number of Management Board members is determined by the Supervisory Board. The Supervisory Board may appoint a Management Board member to serve as Chairman.

The members of the **Management Board** are:

Mr. Johannes Heckmann

CEO

Mr. Günther Spitzer

CFO

Dr. Michael Klimes

COO

The total remuneration of the Management Board in the 2019 financial year amounted to TEUR 2,170 (previous year: TEUR 2,153).

Supervisory Board

In accordance with the Articles of Association, the Supervisory Board consists of three members. As of the time the financial statements were prepared, the Supervisory Board had the following members:

Mr. Gerhard Witzany, Diplom-Kaufmann (Chairman)

Former member of the Management Board of the company

Dr. Dieter J. Braun (Vice Chairman)

Graduate Chemist, retired

Prof. Dr.-Ing. Jürgen G. Heinrich

Professor of Engineering Ceramics, retired

The members of the Supervisory Board received total remuneration in the amount of TEUR 56 for Financial Year 2019.

Major events occurring after the reporting date

The outbreak of coronavirus in China and the subsequent spread of the disease are beginning to have a global impact. Macroeconomic risks are currently posed by the unpredictability of the situation as well as by measures to curb the spread of coronavirus. This could have a negative impact on global economic growth and therefore on Nabaltec's course of business. We refer in this respect to our comments in the management report.

Proposal for appropriation of retained earnings

The Management Board proposes that the retained earnings as of 31 December 2019 in the amount of EUR 40,445,285.19 be appropriated as follows: a sum in the amount of EUR 1,760,000.00 will be distributed to shareholders by paying a dividend of EUR 0.20 per share on the 8,800,000 shares with dividend rights for Financial Year 2019. The remainder, in the amount of EUR 38,685,285.19, will be carried forward to new account.

Schwandorf, 23 March 2020

Nabaltec AG

The Management Board

Johannes Heckmann

Günther Spitzer

Dr. Michael Klimes

INDEPENDENT AUDITOR'S REPORT

To the Nabaltec AG, Schwandorf

Audit Opinions

We have audited the annual financial statements of Nabaltec AG, Schwandorf, which comprise the balance sheet as at December 31, 2019, and the statement of profit and loss for the financial year from 1 January to 31 December 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In accordance with the German legal requirements, we have not audited the content of the "Voluntary Declaration Pursuant to §161 of the German Stock Corporation Act on the German Corporate Governance Code", which is referenced to in the notes to the consolidated financial statements. In addition, we have audited the management report of Nabaltec AG, Schwandorf for the financial year from 1 January to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from 1 January to 31 December 2019. Our audit opinion does not cover the content of the abovementioned "Voluntary Declaration Pursuant to §161 of the German Stock Corporation Act on the German Corporate Governance Code".
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Other Information

The executive directors are responsible for the other information. The other information comprises

- the „Voluntary Declaration Pursuant to §161 of the German Stock Corporation Act on the German Corporate Governance Code“, which is referenced to in the notes to the consolidated financial statements,
- the Annual Report, with the exception of the audited annual financial statements and management report and our auditor’s report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement - whether due to fraud or error - and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Nuremberg, 27 March 2020

Deloitte GmbH

Wirtschaftsprüfungsgesellschaft

(Andreas Kiefer)
German Public Auditor

(Christian Fischer)
German Public Auditor

Appropriation of distributable profit

The Management Board proposes that the distributable profit of the Financial Year 2019, amounting to EUR 40,445,285.19, will be used as follows:

An amount of EUR 1,760,000.00 will be distributed to the shareholders by payment of a dividend of EUR 0.20 per share on the 8,800,000 non par value shares entitled to dividend payments for the Financial Year 2019. The remainder in the amount of EUR 38,685,285.19 will be carried forward.

Schwandorf, April 2020

The Management Board

Johannes Heckmann

Günther Spitzer

Dr. Michael Klimes

Report of the Supervisory Board

Ladies and Gentlemen,
Dear Shareholders,

Nabaltec AG has completed a volatile but largely successful year. The revenue forecast had to be revised in October 2019 due to modest global economic growth. The slump in sales intensified significantly in the fourth quarter. As a result, Nabaltec AG posted only moderate revenue growth in 2019, with revenues up 1.3% to EUR 179.0 million. In addition to the effects of the sales trend, earnings in the fourth quarter were also weighed down by additional technical optimization costs at the US subsidiary Nashtec. This resulted in consolidated earnings before interest and taxes (EBIT) of EUR 18.6 million and an EBIT margin of 10.2% (EBIT as a percentage of total performance), at the lower edge of the forecasted range (10% to 12%).

The Supervisory Board duly performed its assigned tasks in Financial Year 2019 in accordance with the law, the Articles of Association and the Rules of Procedure and was routinely informed by the Management Board in detail as to the performance and position of the company. The Supervisory Board advised the Management Board in accordance with the underlying information and exercised utmost care in monitoring and supervising the Management Board. The Supervisory Board was involved at an early stage in all decisions of fundamental importance for the company, and was kept fully and directly informed by the Management Board.

Major events, as well as questions relating to strategy, planning, business development, the risk position, risk management and compliance, were considered by the Supervisory Board both internally and in conjunction with the Management Board. The Supervisory Board voted on the reports and draft resolutions submitted by the Management Board after careful deliberation and review. All transactions requiring approval in Financial Year 2019 were decided positively.

In the Supervisory Board's estimation, all three of its current members should be considered independent. However, the Supervisory Board reserves the right to approve consulting and employment agreements between individual members of the body and the company if the Management Board and Supervisory Board concur that the conclusion of such an agreement is in the company's interest in that particular case.

The Supervisory Board has reviewed the efficiency of its activities in the past year and has reached a positive conclusion. The focuses of its review were above all on procedures and the timely and adequate provision of information.

Financial Year 2019

The Supervisory Board once again opted not to form committees in the past financial year. The Supervisory Board of Nabaltec AG consists of three members, and is therefore of suitable size for all matters to be considered and decided by the full Supervisory Board. No conflicts of interest for individual Supervisory Board members arose in the course of deliberations or voting by the Supervisory Board, or in the Board's exercise of its supervisory mandate in the 2019 reporting year.

Four regular ordinary meetings of the Supervisory Board were held in the reporting year, on 9 April 2019, on 27 June 2019, following the Annual General Meeting, on

26 September 2019 and on 12 December 2019. All members were present at all meetings in 2019. No additional meetings took place in 2020 prior to the Supervisory Board meeting on 21 April 2020, in which the Board votes on adoption of the financial statements. The members of the Supervisory Board also deliberated in writing and by telephone. On four occasions in 2019, resolutions were adopted by the Supervisory Board outside of Supervisory Board meetings. Each of these resolutions was duly recorded in writing by the Supervisory Board Chairman and approved.

Focus of Deliberations

The following issues were the subject of particularly intensive consideration by the full Supervisory Board in Financial Year 2019:

- the 2018 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- planning for 2020 and mid-term planning through 2022;
- investment and financing planning for the period from 2020 through 2022, including interim financing for the years 2020 to 2022 to refinance the first tranche of the 2015 loan against borrower's note;
- corporate governance: cessation of voluntary reporting under the German Corporate Governance Code while retaining the company's own corporate governance structures.

The goals and realization status of innovative projects, the effectiveness of the risk management system, the accounting process in Nabaltec AG and Nabaltec Group, as well as the monitoring of the internal controlling system were also focuses of the Supervisory Board's work in Financial Year 2019.

Even outside the Supervisory Board meetings, the Supervisory Board was routinely notified of important events of essential importance for assessing the position, performance and management of the company. The company's current situation, the development of the business position, important transactions and key decisions by the Management Board were also the subject of discussions between the Management Board and the Supervisory Board and were addressed in written reports as well. In particular, the Supervisory Board was notified of market trends, the risk and competition situation, the development of sales, revenues and earnings and the degree to which projections were met in monthly and quarterly reports. To this end, the Chairman of the Supervisory Board maintained a close and routine exchange of information and thoughts with the Management Board.

After extensive discussion, the Management Board and Supervisory Board have decided to discontinue their former practice and will no longer issue a voluntary Declaration of Conformity in accordance with § 161 of the Stock Corporation Act or a Corporate Governance Report starting in Financial Year 2020. Nabaltec AG is not required to do so by law. The Corporate Governance Code has been revised significantly nearly every year since its introduction in 2002 and will be completely rewritten in 2020. Although some of the revisions to the Code have contributed to improvements in corporate governance, the work and consulting expenses which have been associated with these changes are out of reasonable proportion to the benefits for the company's shareholders. Moreover, the Code's focus has shifted considerably towards large publicly traded companies, so that many of the Code's recommendations now have very limited connection to the reality of small and mid-sized companies. Nabaltec AG will, of course, continue to adhere to the high standards of corporate governance which it has maintained in the past and will continue to base its conduct on the Corporate Governance Code whenever possible and expedient in the

company's viewpoint and in the interest of the shareholders, but it will no longer explain this conduct in a formal Declaration of Conformity.

2019 Annual Financial Statements and Consolidated Financial Statements

Deloitte 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 § 315e of the German Commercial Code, as well as the consolidated management report, each for 31 December 2019, and has issued an unqualified auditor's opinion.

The Supervisory Board engaged the auditor in accordance with the resolution of the Annual General Meeting of 27 June 2019. The focus of the audit for Financial Year 2019 was set on accounting questions arising in connection with realization of the stand-alone solution for Nashtec LLC and with its further development.

All documents relating to the financial statements, as well as the auditor's audit reports, were made available to the Supervisory Board in a timely manner for independent review. These documents and reports were the subject of intensive consideration at the session on 21 April 2020. The auditor was present at this meeting, reported on the key findings of the audit and was available for further questions. Based on its independent review of the annual financial statements, the consolidated financial statements, the management report and the consolidated management report, the Supervisory Board has raised no objections and adopts the findings of the auditor Deloitte GmbH. The Supervisory Board therefore approved the annual financial statements prepared by the Management Board for Nabaltec AG and Nabaltec Group for 31 December 2019. The annual financial statements of Nabaltec AG for 2019 are therefore adopted.

Covid-19 pandemic

The tightening of political measures worldwide to contain the corona pandemic is affecting the economic development of Nabaltec AG. Management and employees are additionally challenged by the effects of global attempts to contain the Covid-19 pandemic. In this situation, the Supervisory Board and Management Board are working together in close coordination to minimize the impact of the crisis on the company.

The Supervisory Board would like to thank the Management Board and all the employees for their commitment and for their successful work in the past year.

Schwandorf, 21 April 2020

Gerhard Witzany
Chairman of the Supervisory Board

FINANCIAL CALENDAR 2020

Interim Report 1/2020	28 May
Annual General Meeting	30 June
Interim Report 2/2020	27 August
Interim Report 3/2020	26 November

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Statements relating to the future

These annual financial statements contain 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.



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