Nabaltec

OUR KNOW-HOW FOR YOUR SAFETY

ANNUAL REPORT 2018

NABALTEC GROUP

KEY FIGURES

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

in EUR million	2018 (IFRS)	2017 (IFRS)	Change
Revenues			
Total revenues	176.7	168.6	4.8%
thereof			
Functional Fillers	114.6	112.2	2.1%
Specialty Alumina	62.1	56.4	10.1%
Foreign share (%)	73.8	73.2	
Earnings			
EBITDA	30.6	30.0	2.0%
EBIT	18.5	18.3	1.1%
Consolidated result after taxes	10.3	11.5	−10.4%
Earnings per share (EUR)	1.17	1.39	−15.8%
Financial position			
Cash flow from operating activities	16.1	25.9	−37.8%
Cash flow from investing activities	−27.1	−23.9	13.4%
Assets, equity and liabilities			
Total assets	225.9	221.4	2.0%
Equity	95.8	84.6	13.2%
Non-current assets	149.0	132.9	12.1%
Current assets	76.9	88.5	−13.1%
Employees[1] (number of persons)	496	476	4.2%

[1] *on the reporting date 31 December, including trainees*

NABALTEC AG

A LEADER IN SPECIALTY CHEMICALS

Nabaltec AG, with registered office in Schwandorf, a chemicals business which has received multiple awards for innovativeness, manufactures, develops and distributes highly specialized products based on aluminum hydroxide and aluminum oxide on an industrial scale through its product segments “Functional Fillers” and “Specialty Alumina”.

SUSTAINABLE PRACTICES

A RELIABLE MANUFACTURER AND SUPPLIER OF SPECIALTY CHEMICALS

Nabaltec products have an extremely diverse range of applications and are the preferred choice whenever utmost quality, safety, eco-friendliness and durability are required.

The combination of these characteristics guarantees that Nabaltec's specialty chemical products will have outstanding prospects for growth and has given the company many years of steadily growing financial success.

Beyond economic aspects, however, Nabaltec AG also attaches particular importance to its ecological and social responsibility. Over the years a certified environmental management system as well as an occupational health and safety management system and an energy management system was introduced.

In addition, sustainable employee development is important to Nabaltec AG in order to be prepared for future personnel challenges and in order to position itself as an attractive employer. With a trainee ratio above average, Nabaltec is committed to promoting young talent, values work/life balance and strengthens the fitness and well-being of its employees through a company health management program.

OUR PRODUCT AND MARKET SEGMENTS

PRODUCT SEGMENTS "FUNCTIONAL FILLERS" AND "SPECIALTY ALUMINA"

MARKET SEGMENTS:

- Wire & Cable
- Resin & Dispersion
- Rubber & Elastomers
- Battery
- Adsorbens & Catalysts
- Refractory
- Technical Ceramics
- Polishing
- Others

SUSTAINABLE PRACTICES

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NABALTEC AG ON THE INTERNET

www.nabaltec.de

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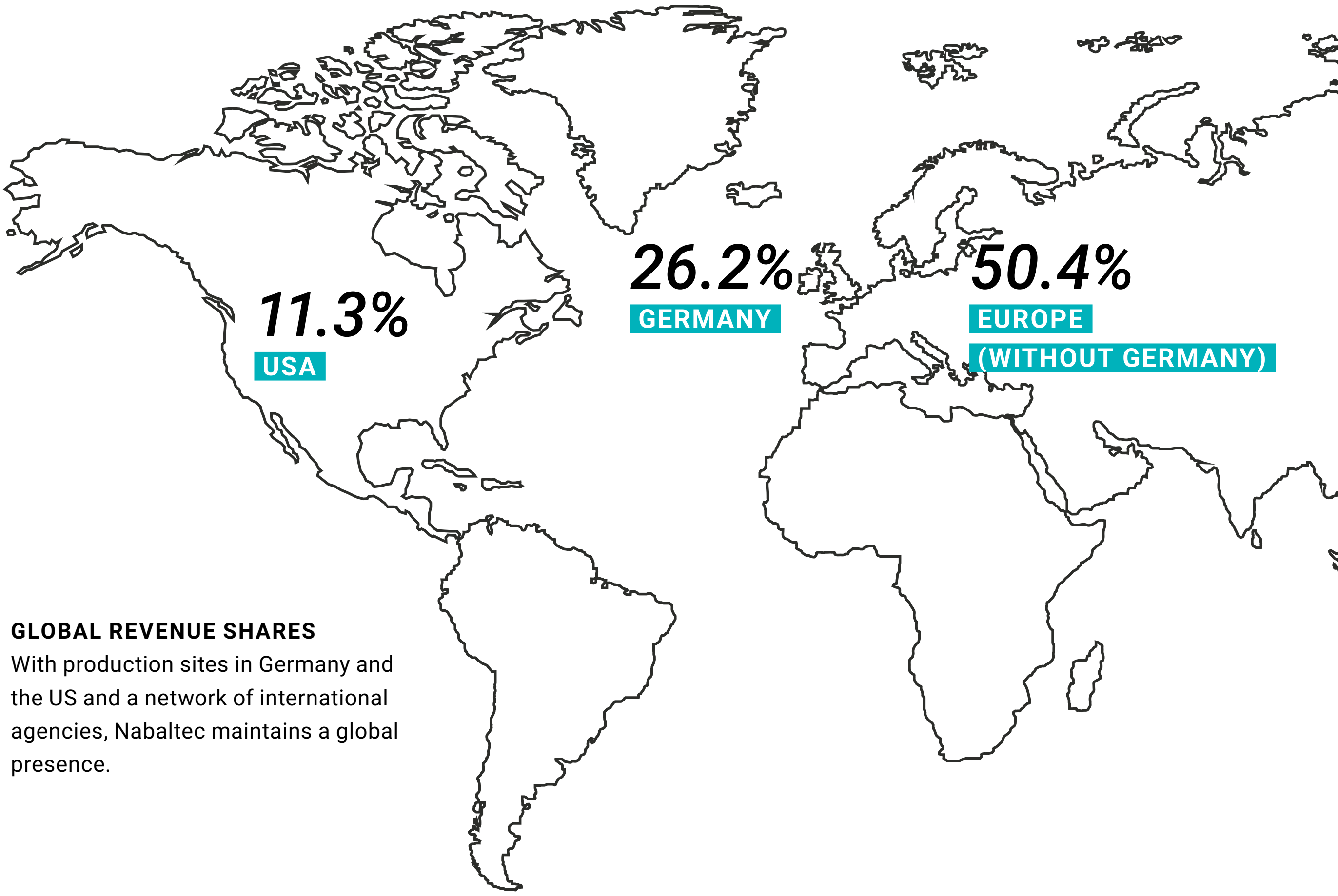
NABALTEC

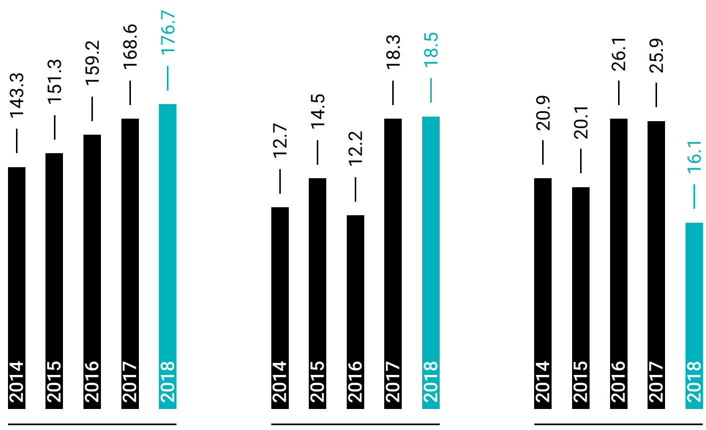
IN OVERVIEW



GLOBAL REVENUE SHARES
With production sites in Germany and the US and a network of international agencies, Nabaltec maintains a global presence.

NABALTEC AG

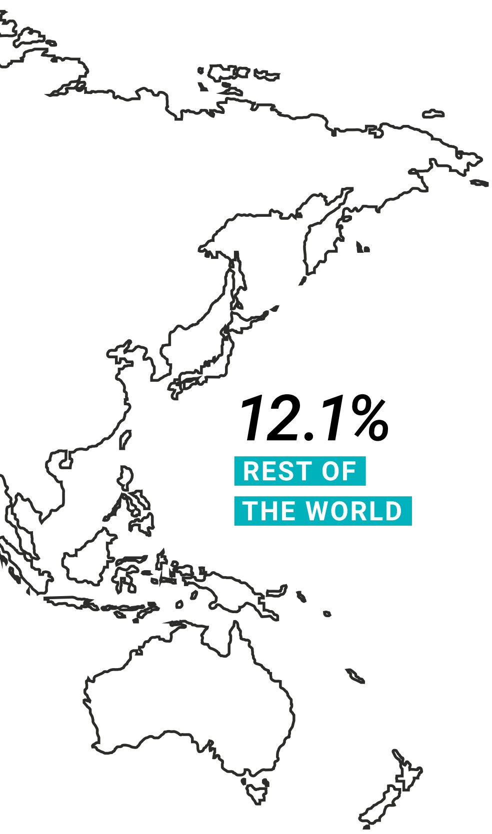
As a fast-growing company, Nabaltec AG was able to continue its very strong performance in the previous year in Financial Year 2018 as well. In particular, the company has posted revenue growth over a period of many years, which illustrates the growing global demand for Nabaltec products.



REVENUES IN EUR MILLION

EBIT IN EUR MILLION

OPERATING CASH FLOW IN EUR MILLION



11.3%
TRAINEE RATIO

EMPLOYEES

Nabaltec AG is regularly recognized as one of the 100 best employers among German mid-sized companies in the “TOP JOB” competition, which compares companies from all over the country and in a wide variety of sectors.

Nabaltec’s trainees count among the best of their peers on a regular basis.

11x
DISTINCTION FOR EXEMPLARY INNOVATION MANAGEMENT

INNOVATIONS

Nabaltec AG is regularly awarded national and international prizes and distinctions for innovation. In 2018, the company was named one of the 100 most innovative German mid-size companies for the eleventh time.

PRODUCT SEGMENTS

FUNCTIONAL FILLERS

In the product segment “Functional Fillers,” Nabaltec AG develops highly specialized aluminum hydroxide-based products for a wide variety of applications, and is among the leading manufacturers in the world in this area. In addition to current market trends, the development of eco-friendly flame retardants, additives and boehmites is driven above all by the specific requirements of the customers.

EUR 114.6 MILLION
REVENUES

EUR 19.1 MILLION
EBITDA

EUR 10.5 MILLION
EBIT

SPECIALTY ALUMINA

In the product segment “Specialty Alumina,” Nabaltec develops innovative materials for a wide variety of industries based on all-natural ingredients and occupies a leading position in the global market. The company is constantly investing in optimizing the own production facilities, in innovative technologies and in improving the production processes in order to enable the company to consistently supply tailormade qualities which meet the customers’ need.

EUR 62.1 MILLION
REVENUES

EUR 11.5 MILLION
EBITDA

EUR 8.0 MILLION
EBIT

FOREWORD

OF THE CEO

from left to right:
Dr. Michael Klimes,
Johannes Heckmann (CEO),
Günther Spitzer

Ladies and Gentlemen,
Dear Shareholders and Business Partners,

We have been able to bring another year of transition, one which held some challenges for us, to a successful conclusion, laying an outstanding foundation for our future development. Our outlook for 2018 had been cautious but at the same time ambitious, due in particular to the conversion of our US subsidiary Nashtec into a stand-alone solution, which was associated with a production freeze lasting more than two years, extensive investments, and the considerable logistical challenge of temporarily supplying all overseas customers from Germany. Revenues in 2018 met our expectations, amounting to EUR 176.7 million for a gain of 4.8%, while earnings slightly exceeded our forecast, with EBIT of EUR 18.5 million and an EBIT margin of 10.4%.

With revenues amounting to EUR 176.7 million for a gain of 4.8%, Nabaltec met the revenue expectations

The key factors behind our success in 2018 are of a lasting nature and therefore create a promising foundation for further growth in 2019. For example, we have been able to strategically extend our product mix in the direction of higher-margin products. Particular mention should be made of reactive alumina and our boehmite, where revenues grew by 52.5% in 2018, due above all to its use in separator films for lithium ion batteries, e.g. in electric cars. At the same time, we have been able to implement price increases over the course of the year. This process, which extends to all product segments, is not yet complete but was already responsible for generating noticeable revenue and earnings growth in 2018, particularly in the "Specialty Alumina" product segment.

Starting in the second quarter of 2019, Nashtec will assume full responsibility for supplying US customers

Nashtec resumed production at the end of 2018. Starting in the second quarter of 2019, Nashtec will assume full responsibility for supplying US customers with expanded capacity in the US, freeing up stocks of eco-friendly flame-retardant fillers at the Schwandorf site. In 2018, we operated near the limits of our capacity. This was a big challenge for our team and for our processes, one which we were able to master brilliantly. With Nashtec going back online, we are laying the foundation for the next phase of our growth, in which our second US plant, which is scheduled to begin production in the second half of 2019, will play a major role. In 2018, we made our first investments in our new subsidiary Naprotec as well as creating the corporate structures necessary to operate more successfully in the US, with the formation of Nabaltec USA Corporation. We also increased our presence in China in 2018 with our newly formed subsidiary Nabaltec (Shanghai) Trading Co., Ltd.

Forecast 2019 with revenues in a range from EUR 190 million to EUR 195 million

We expect to post continued growth in 2019, with revenues in a range from EUR 190 million to EUR 195 million and an EBIT margin of 10.0% to 12.0%. Investments in 2019 will be at a similar level to those of 2018, as construction of our second US production site in Chattanooga will go forward at full steam. At the same time, we will be expanding our capacity for boehmite and reactive alumina at the Schwandorf site.

We are in an excellent position for further profitable growth. Demand in our markets remains intact and we are addressing promising new areas such as battery cell production, a segment which is only beginning to emerge in Europe.

We look forward to tackling these opportunities and challenges together with our employees, customers and partners, as well as our shareholders.

Schwandorf, March 2019

Yours,

JOHANNES HECKMANN
CEO

REPORT
OF THE SUPERVISORY BOARD

from left to right:
Prof. Dr.-Ing. Jürgen G. Heinrich,
Gerhard Witzany (Chairman of the Supervisory Board),
Dr. Dieter J. Braun

*Ladies and Gentlemen,
Dear Shareholders,*

Once again, Nabaltec looks back on a successful year

Nabaltec AG can once again look back on a successful year, one which was largely shaped by Nashtec's implementation of a stand-alone solution in the US and the creation of new structures, particularly as the company has expanded operations in the US, with Nabaltec USA Corporation and Naprotec LLC. In light of this situation, factors arose during the year which had the effect of weighing down earnings, although Nabaltec was able to partially compensate for these effects at the Group level. It is evident, however, that long-term demand in Nabaltec AG's target markets is intact and that the company was able to implement price changes in some cases alongside improvements to its product mix. In addition, the formation last year of Nabaltec (Shanghai) Trading Co., Ltd. as a wholly-owned subsidiary of Nabaltec has laid the groundwork for increasing the supply of lithium ion batteries to the Chinese market in the future.

The Supervisory Board was kept fully informed by the Management Board

The Supervisory Board duly performed its assigned tasks in Financial Year 2018 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 2018 were decided positively.

All transactions requiring approval in Financial Year 2018 were decided positively

The Supervisory Board of Nabaltec AG last revised the objectives for composition of the Supervisory Board in December 2018, adapting them to conform to the company's international development.

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.

In accordance with the German Corporate Governance Code, the Supervisory Board has reviewed the efficiency of its activities 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 2018

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 2018 reporting year.

Four regular ordinary meetings of the Supervisory Board were held in the reporting year, on 9 April 2018, on 26 June 2018, following the Annual General Meeting, on 11 September 2018 and on 11 December 2018. All members were present at all meetings in 2018. No additional meetings took place in 2019 prior to the Supervisory Board meeting on 9 April 2019, 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 seven occasions in 2018, 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.

The Supervisory Board had four meetings in 2018

FOCUS OF DELIBERATIONS

The following issues were the subject of particularly intensive consideration by the full Supervisory Board in Financial Year 2018:

- the 2017 annual financial statements and consolidated financial statements including the proposal for the appropriation of distributable profit;
- the formation of Nabaltec USA Corporation and Naprotec LLC and the integration of Naprotec LLC and Nashtec LLC into Nabaltec USA Corporation;
- the resumption of operations by Nashtec LLC;
- the formation of Nabaltec (Shanghai) Trading Co., Ltd.;
- planning for 2019 and mid-term planning through 2021;
- investment and financing planning for the period from 2019 through 2021.

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 2018.

The Supervisory Board was notified of market trends, the risk and competitive situation, as well as the development of sales, revenues and earnings

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 competitive 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.

The joint 2018 Declaration of Conformity was permanently made available for shareholders on the company's website

On 2 March 2018, the joint 2018 Declaration of Conformity with the German Corporate Governance Code was issued by the Supervisory Board and Management Board and has been permanently made available for shareholders on the company's website, www.nabaltec.de. Further information about corporate governance at Nabaltec AG can be found in the Corporate Governance Report on the company's website, www.nabaltec.de, in the Investor Relations/Corporate Governance section.

2018 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, and the consolidated management report, each for 31 December 2018, 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 26 June 2018. The auditor's independence declaration was obtained by the Supervisory Board in advance pursuant to Section 7.2.1 of the German Corporate Governance Code. No circumstances were evident which would have established doubts as to the auditor's independence. Moreover, the auditor was obligated to immediately notify the Supervisory Board of circumstances which could establish a bias on its part and to report any services it performed in addition to the audit. The focus of the audit for Financial Year 2018 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 the auditor's report were the subject of intensive consideration at the session of 9 April 2019. 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 2018. The annual financial statements of Nabaltec AG for 2018 are therefore adopted.

The annual and consolidated financial statements for 31 December 2018 have been reviewed and approved by the Supervisory Board

The Supervisory Board would like to thank the Management Board and all the employees for their commitment and for their successful work last year, and looks forward with confidence to the company's development in the future.

Schwandorf, 9 April 2019

GERHARD WITZANY
Chairman of the Supervisory Board

NABALTEC SHARE

THE STOCK MARKET 2018

ISIN/WKN: DE000A0KPPR7/A0K PPR
NABALTEC SHARE HAS BEEN LISTED IN THE FRANKFURT STOCK EXCHANGE SINCE 24 NOVEMBER 2006 AND HAS BEEN TRADED IN THE SCALE MARKET SEGMENT SINCE MARCH 2017.

SHARE PERFORMANCE

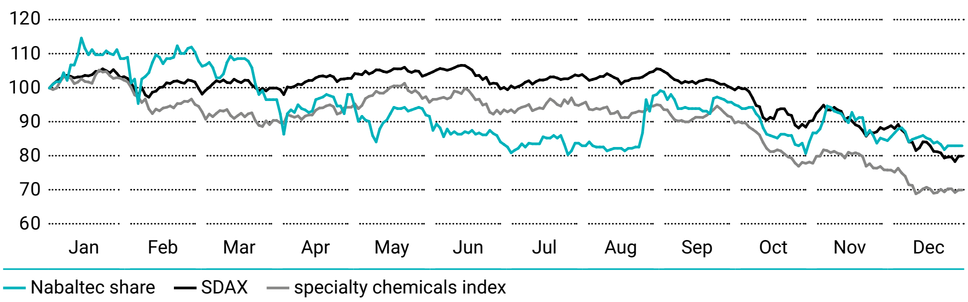
Over the course of 2018, Nabaltec share was unable to sustain the very high price levels from 2017 and was down 16.3% on the year, closing at EUR 21.70 on 31 December 2018. Nabaltec share came under particularly heavy pressure in the fourth quarter, when both the German stock market as a whole and the relevant indices posted significant losses. The SDAX was down 20.0% on the year and specialty chemicals index was down 30.4%.

Average share value for Nabaltec share in 2018 was EUR 24.42, compared to EUR 20.40 in the previous year

Nabaltec share bottomed out at EUR 21.00 on 25 July 2018 and posted its high for the year on 15 January 2018, when it traded at EUR 30.10. Average share value for 2018 was EUR 24.42, compared to EUR 20.40 in the previous year.

Nabaltec AG's market capitalization was EUR 190.96 million at the end of 2018, compared to EUR 228.27 million as of 31 December 2017.

PERFORMANCE OF NABALTEC SHARE 2018 (XETRA, INDEXED)



TRADING VOLUME

Nabaltec share's average XETRA daily trading volume was 3,105 shares in 2018, below last year's daily trading volume of 4,949 shares. A total of about 0.8 million shares were traded on XETRA in the reporting year, representing around one fifth of the free float shares.

Since it was first listed, the liquidity of Nabaltec share has been reinforced by a voluntary commitment through designated sponsoring. Since 2013, this function has been performed by Baader Bank Aktiengesellschaft and ODDO SEYDLER BANK AG.

Liquidity of Nabaltec share is reinforced by designated sponsoring

EARNINGS PER SHARE

Earnings per share (EPS) came to EUR 1.17 in 2018. The year before EPS came to EUR 1.39 (based on the weighted average number of common shares outstanding during the period).

Earnings per share of EUR 1.17 in 2018

KEY DATA FOR NABALTEC SHARE (XETRA)

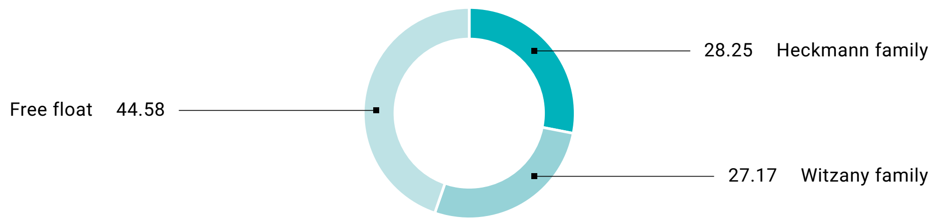
	2018	2017
Number of shares	8,800,000	8,234,521[1]
Market capitalization (cutoff date, in EUR million)	190.96	228.27[2]
Average price (in EUR)	24.42	20.40
High (in EUR)	30.10	28.31
Low (in EUR)	21.00	14.39
Closing price (cutoff date, in EUR)	21.70	25.94
Average daily turnover (in shares)	3,105	4,949
Earnings per share (in EUR)	1.17	1.39[1]

[1] *based on the weighted average number of common shares outstanding during the period*
[2] *based on 8.8 million shares*

SHAREHOLDER STRUCTURE

The majority of Nabaltec's 8,800,000 shares continue to be held by the Heckmann and Witzany families. As of the cutoff date, the Heckmann family held 28.25% of the company's capital stock and the Witzany family held 27.17%. The remaining shares are in free float.

SHAREHOLDER STRUCTURE (IN %)



ANALYST RECOMMENDATIONS

Hauck & Aufhäuser has been following Nabaltec share with research reports consistently since 2011, and published eight studies and updates on Nabaltec share last year. Hauck & Aufhäuser issued a "buy" recommendation in each of its analyses, and set a price target of EUR 39.00 in the study of 1 March 2018. This price target remained unchanged through the end of 2018.

All analyses from Hauck & Aufhäuser in 2018 with a "buy" recommendation

Baader Bank Aktiengesellschaft has been reporting on Nabaltec routinely since 2013 and published 14 studies on the stock in the reporting year. In its most recent study, of 27 November 2018, Baader Bank rated Nabaltec a "hold" with a price target of EUR 21.00.

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

CAPITAL MARKET COMMUNICATIONS

Nabaltec AG's reporting has continually exceeded the prescribed minimum standards since its IPO

Since its IPO in the Frankfurt Stock Exchange in 2006, the company has kept its investors constantly informed, exceeding the prescribed minimum standards. Examples include quarterly reporting in accordance with IFRS in German and in English, a voluntary commitment to observe a four-month period for publication of its annual report and coverage through routine analyst reports. In addition, Nabaltec AG voluntarily complies with the specifications of the German Corporate Governance Code.

Nabaltec AG continued its intensive investor relations activities in Financial Year 2018. It took part in several investor and analyst conferences, and was represented at roadshows in Germany and elsewhere in Europe, as well as at various investor conferences, such as the Spring Conference, held in May 2018 in Frankfurt am Main, and the Baader Investment Conference in Munich in September 2018.

Nabaltec's financial communications activities were supplemented by numerous discussions with members of the press, particularly in connection with the publication of annual and quarterly results.

On the company's website, www.nabaltec.de (in the Investor Relations section), investors can find all the information they need about Nabaltec share as well as additional information about the company.

BASIC DATA FOR NABALTEC SHARE

ISIN (International Security Identification Number)	DE000A0KPPR7
Stock symbol	NTG
Stock exchanges	Frankfurt (Open Market), over-the-counter in Berlin, Dusseldorf, Hamburg, Munich, Stuttgart
Sector	Industrial
Industry group	Products & Services
Index membership (31 December 2018)	Scale All Share, Scale All Share (price index), Scale 30, Scale 30 (price index), Value-Stars-Deutschland-Index, DAXsector All Industrial, DAXsubsector All Industrial Products & Services

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FIRE PREVENTION AND SAFETY FOR INTERNATIONAL HIGH-GROWTH MARKETS

Across the world, more than 14 billion Euros in assets were destroyed in fires and explosions in the years 2013 – 2018[1], making them by far the highest loss risk for companies, at around 25%. This figure does not take into account deaths and injuries.

PRODUCTS TO IMPROVE SAFETY IN MANY AREAS OF DAILY LIFE

It is only logical that the regulatory requirements for safe and efficient fire prevention are increasing, resulting in higher global demand for flame retardants. But fire prevention is only one area in which Nabaltec products play a key role in ensuring safety and efficiency. Our "Functional Fillers" and "Specialty Alumina" are used in nearly all areas of daily life, and our goal is to apply our know-how to improve safety while constantly optimizing our product range by developing innovative products.

[1] *Global Claims Review 2018 of Allianz Global Corporate and Specialty (AGCS)*

Production in Schwandorf, rotary kiln

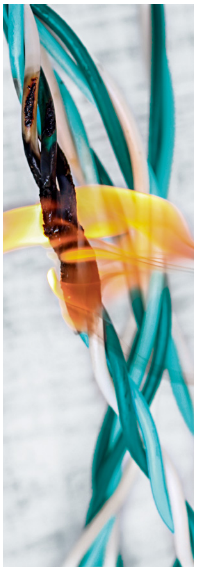
73.8%
EXPORT RATIO

CLOSE TO CUSTOMERS IN FAST-GROWING MARKETS: REPOSITIONING IN THE US AND ASIA

Nabaltec already has a leading position in its relevant markets. In order to maintain its global leadership, the company has undergone a strategic realignment over the past two years so as to increase its global focus on high-growth markets.

By forming Nabaltec USA Corporation in 2018, which will be responsible both for Nashtec LLC, which was acquired as a wholly-owned subsidiary in 2017, and for the newly formed Naprotec LLC, which is also based in the US, the company has taken an important step in focusing on the North American market for refined aluminum hydroxide, a market which will be supplied entirely from local production in the future.

Operations in the fast-growing Asian market were also expanded, as distribution activities in China were further strengthened with the formation of Nabaltec (Shanghai) Trading Co., Ltd. in 2018. This company, together with Nabaltec Asia Pacific K.K., provides a solid foundation for a further expansion of operations in Asia.

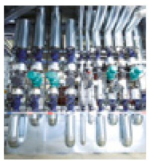


INNOVATION: “MADE IN SCHWANDORF” FOR THE GLOBAL MARKET

While fires cannot always be prevented, the fire’s impact can be reduced by innovative and state-of-the-art fire safety measures. Devastating high-rise fires such as the one in London in 2017 can be contained to a substantial extent with the right building materials, i.e. by using flame retardants. Nabaltec’s fillers not only act as flame retardants, but also have the effect of reducing smoke density. In case of fires in closed spaces, this aspect can save lives, due to the fact that smoke inhalation is the most common cause of death in the event of fires.

Our high-quality specialized white powder was developed specifically for these purposes, working closely with our customers. We improve the flame-retarding properties of components and work to contain fires before a big disaster occurs. This is an example of how Nabaltec uses internal know-how to create progress in flame retardants and grow into innovative markets, working together with customers.

The company has received the “TOP 100” innovation award eleven times for its development force and the process in which innovations are created at Nabaltec AG. The concentration of research and development activities at the Schwandorf site has provided an



Location: Schwandorf

PRODUCTION IN SCHWANDORF

With a total of 485 employees, the Schwandorf site is Nabaltec Group’s largest, as well as serving as Group headquarters. Development and application engineering activities are concentrated at this site, along with plant and process development.

additional boost to Nabaltec's innovative capacity. The flame retardants developed at our Schwandorf development site are used all over the world.

Through a clear focus on development and application engineering in Schwandorf, we have deliberately structured our development activities in both process engineering and product development so as to align with the requirements of our customers and their fields of application. This close alignment towards our customer is a key building block of our success.

We bring flame retardants into the world

NABALTEC USA CORPORATION – A DISCUSSION WITH KATHRYN DOUGLAS AND KERRY SMITH

Upon forming a second US production company in 2018, Naprotec, Nabaltec also created Nabaltec USA Corporation as an umbrella company for Nashtec and Naprotec. What was the strategic thinking behind that move?

Kathryn Douglas: With two production companies in the US, which will have a total capacity of 60,000 tons when fully utilized, Nabaltec has taken a big step forward. In forming Nabaltec USA Corporation, which will be responsible for both of our US subsidiaries, Nashtec and Naprotec, we have created a structure which will allow us to focus completely on growth. It is simply more efficient for key functions such as accounting and sales to be performed from a single source for both companies. This structure also has cost benefits, as well as allowing the production companies to focus on what's most important: production.

Kerry Smith: In taking this step, we are also sending a clear message to the market: Nabaltec's operations in the US are of a long-term nature and, in the future, our customers can expect not only to be supplied from plants in the US but that their direct and personal contact persons will be located here in the US. In addition to building trust, this creates a whole new level of quality in customer relationships.

What are the next steps in the company's growth, specifically?

Kathryn Douglas: Consolidating our distribution activities in Nabaltec USA Corporation will be very beneficial for us in the long run. We already have a very strong market share in North America and we supply customers in the US, Canada and Mexico. But at the same time, the market still has considerable room for future growth. Later on, our long-term objectives will be to develop new markets such as Central and South America.

Kerry Smith: The first step will be primarily about showing our existing customers that we are in a position to supply products meeting specific requirements as well as before or better. In the transitional phase, when Nashtec's production was halted, we supplied our customers from Schwandorf: this process went well, but of course there are always customers who are made uneasy by such an arrangement. Our local sales people are deliberately approaching new and existing customers in order to build trust and hopefully improve both volume and margins in the medium term.

Kathryn Douglas, President & CFO and Kerry Smith, Vice President Sales

RETOOLING OF NASHTEC AND FORMATION OF NAPROTEC

With the retooling of Nashtec LLC into a stand-alone solution and the formation of Naprotec LLC, Nabaltec AG has created a broad-based presence in the North American market. Once it goes online, Naprotec LLC's production plant will be able to produce refined hydroxide with a total annual capacity of 30,000 tons. Nashtec also has an annual capacity of 30,000 tons for high-quality fine hydroxides. Nabaltec believes that the opportunities for further growth are particularly strong in the US market, where fire safety requirements are becoming stricter, as they are in the EU as well.

"Given the equipment and location of our plant, Naprotec will be an ideal additional component for further growth in North America, since we will be able to offer both high-quality products and proximity to our customers.

Dennis Wolf, President, Naprotec LLC

"With Nashtec as a stand-alone solution, we are now positioned independently in the US market. Despite the logistical challenges, we have managed to get through the transitional phase, with US customers supplied from Germany, in very good shape: now there is no obstacle to meeting market demand directly.

Robert E. Barnes, President, Nashtec LLC

NABALTEC ASIA PACIFIC K.K. IN JAPAN

Nabaltec AG has maintained a presence in Japan for some years now. Distribution activities, which are focused primarily on geographic regions outside China, are concentrated in Nabaltec Asia Pacific K.K. Cooperation with regional distribution partners through a common platform has proven to be a strong arrangement in recent years and will be continued in the future. This will allow Nabaltec to satisfy the gradually increasing demand in Asia in a faster and more efficient manner.

"Our distribution company in Japan will allow us to provide intensive customer service and our customers appreciate the level of service and quality which we will be able to provide them on-site.

Fumihiko Asami, Director Business Development, Nabaltec Asia Pacific K.K.

"Until now, we have only had a distribution office in Shanghai. By forming Nabaltec (Shanghai) Trading, we have taken a major step towards further growth in China.

Zhongming Xue, General Manager, Nabaltec (Shanghai) Trading Co., Ltd.

FORMATION OF NABALTEC (SHANGHAI) TRADING CO., LTD.

Nabaltec substantially strengthened its market position in China with the formation of Nabaltec (Shanghai) Trading Co., Ltd. in 2018. Demand for boehmite in particular promises strong growth. This functional filler is used e.g. in separator film coatings for lithium ion batteries. Boehmite, an eco-friendly alternative, minimizes the risk of short circuits, making it the ideal component for this new battery technology. China's ambitious plans to become the world leader in the production of batteries for electric vehicles have opened up outstanding development opportunities for Nabaltec. The new trading company will be responsible for marketing and distribution in Asia and will maintain enough warehouse space to rapidly fill orders.

Batteries for e-mobility offer excellent development opportunities

CONSOLIDATED MANAGEMENT REPORT 2018

NABALTEC AG

CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2018

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE GROUP'S BUSINESS MODEL

BUSINESS OPERATIONS

Environmentally friendly and highly specialized products

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide (ATH) and aluminum oxide. The company belongs to the world's leading suppliers of functional fillers and specialty alumina. The production capacity entails approximately 260,000 tons per annum (t.p.a.) with an export share of over 70%.

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.

Outstanding growth prospects for Nabaltec products

Whenever applications require a high degree of quality, safety, environmental friendliness and product duration, Nabaltec products are always preferred. It is the combination of these important characteristics that guarantee Nabaltec products outstanding growth prospects. 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.

Nabaltec has production sites in the two most important demand-driven markets in Europe and through its subsidiaries in USA. This permits Nabaltec to produce cost-efficiently in customer proximity and, therefore, to serve the most significant markets directly.

In the "Specialty Alumina" product segment as well, Nabaltec products have excellent growth potential thanks to a wide range of applications and relevant target markets. The market for reactive aluminum oxide is developing over proportionally well due to increasing refractory industry requirements. Markets for technical ceramics and the abrasive industry also continue showing solid growth.

Market for reactive aluminum oxide is developing over proportionally well

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. All sales team members have specialized technical and chemical expertise, so that expert advice is guaranteed at all times. This proximity to clients is fundamental for the concerted, client-specific design and development of the 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) through Nabaltec USA Corporation, which was formed in 2018. In the past, Nashtec LLC purchased key raw materials, particularly the aluminum hydroxide required for the production of APYRAL®, from Sherwin Alumina LLC, a wholly-owned subsidiary of Allied Alumina LLC and former minority shareholder of Nashtec LLC. On 11 January 2016, Sherwin Alumina LLC filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code ("Chapter 11 procedure") with the United States Federal Bankruptcy Court in Corpus Christi, Texas, USA. Sherwin Alumina has discontinued operations because of the Chapter 11 procedure and Nabaltec AG's US subsidiary Nashtec was forced to halt production at the end of August 2016. Since then, customers which had previously been supplied by Nashtec have been receiving their products from Germany. In March 2017, the remaining 49% of shares in Nashtec were acquired by Nabaltec with the goal of continuing to operate Nashtec based on a stand-alone solution. Nashtec resumed production at the end of 2018.

Land and buildings in Chattanooga, Tennessee were acquired in 2018, paving the way for the construction of a production facility for refined hydroxides with an annual capacity of about 30,000 tons. To this end, Naprotec LLC was formed as a production company and its shares were also contributed to the newly formed subsidiary, Nabaltec USA Corporation. Nabaltec will be significantly expanding its product portfolio in the US for non-halogenated flame retardant applications. The investment volume for the first stage of the project is expected to be around USD 12 million. Current plans call for the facility to go online in the second half of 2019. Nabaltec expects the project to have a positive impact on Group profit one year after the facility goes online.

In 2018, the way for the construction of a production facility for refined hydroxides with an annual capacity of about 30,000 tons was paved in the US

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.

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 Asia Pacific K.K. is not included in Nabaltec AG's consolidated financial statements, since it is not material for Nabaltec AG's financial, earnings and liquidity position.

Nabaltec AG did not have any other participations or subsidiaries as of 31 December 2018.

As of 2017, Nabaltec AG organizes its operations in two product segments

Reflecting the characteristics of the target and buyers' markets, Nabaltec AG's operations are divided as of 2017 into two product segments, each in turn comprised of market segments.

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

Market segments:

- Wire & Cable
- Resin & Dispersion
- Rubber & Elastomers
- Battery
- Adsorbens & Catalysts
- 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

Nabaltec is one of the leading suppliers of flame-retardant fillers

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 Roskill and Freedonia. In order to benefit from this trend disproportionately high, production capacity for aluminum hydroxide both at the Schwandorf site and in the US were specifically expanded. Electric mobility is also gaining importance. With our boehmite and fine-ground reactive alumina, 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 very strong growth in reactive aluminum oxides. Accordingly, we are continuing to expand our capacity in this product area. Markets for technical ceramics and the abrasives industry also continue showing solid growth. Nabaltec responds to this growth by expanding its marketing activities.

Nabaltec has for many years been a leading independent 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 and non-hazardous 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 around 70%, 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

Product and process development are continually optimized

Through constant exchange with the 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. This results in processing advantages for the customer, such as a simpler and faster fabrication.

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 include 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 THE 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 boehmites or reactive alumina 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 its 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

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 is 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

Target agreement process defines responsibilities

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 remuneration of the Management Board and Supervisory Board members is explained in greater detail in the Consolidated Notes.

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.

Variable remuneration system for members of the Management Board

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 20.0 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 D&O insurance policy, which has been taken out by the company, with an insured sum of up to EUR 20.0 million, and with no deductible for the insured Supervisory Board members. Insurance premiums are paid by the company.

1.5 RESEARCH AND DEVELOPMENT

R&D activities play a key role in the company

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 2.1% of revenues in 2018.

Close collaboration with customers is a common thread for all functional areas and processes. Application-oriented sales allows 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.

Optimizing production process to improve energy and resource efficiency

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 scouting 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. Relationships are cultivated with many different universities and institutions in order to examine trends which are identified as relevant for Nabaltec. A total of 13 public-funded industrial collective research projects were worked on by Nabaltec employees in 2018, working through project committees. Research partners include RWTH Aachen University (Institute for Textile Technology), the Freiberg University of Technology, the Fraunhofer Institute for Environmental, Safety and Energy Technology (UMSICHT) in Oberhausen, the Fraunhofer Institute for Structural Durability, Plastics Division, in Darmstadt, the Fraunhofer Institute for Ceramic Technologies and Systems in Dresden, the German Institute for Refractories and Ceramics (Deutsche 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.

International awards and distictions for innovation

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 the product range in target markets.

Research and development in the 2018 reporting year was marked in particular by challenges relating to electric mobility. Separator film for lithium ion batteries with ceramic coating had very high growth rates in 2018. 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. A core project involved product and process development for an aluminum hydroxide type which is optimized for use in lithium ion batteries, and which will enter production in 2019.

Another key aspect of e-mobility is managing the heat generated by battery systems. Due to the constant reduction in charging times and, in particular, to 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 2018 in the development of products and applications. For example, an aluminum hydroxide type which is optimized specifically for the “gap filler” application was successfully placed on the market. 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 as early as 2020.

Mineral-based flame retardants continue to ensure growth

Mineral-based flame retardants continue to ensure growth for Nabaltec’s innovative and eco-friendly products. Like 2017, 2018 was shaped by the final introduction of the CPR (Construction Products Regulation) within the EU on 1 July 2017. The issues of flue gas development, flue gas corrosiveness and flue gas toxicity have become more important with the adoption of this new Regulation. As a result, a product was launched in 2018 in conjunction with pinfa (the Phosphorous, Inorganic & Nitrogen Flame Retardant Association) in order to generate data on these measures. As expected, the French institution which was commissioned to perform the study has demonstrated that Nabaltec’s mineral-based flame retardants have the effect of reducing flue gas density and toxicity. 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.

Nabaltec will intensify these studies in 2019, focusing on showing the positive impact of the new synergists for flame retardants. These studies have been well-received all over the world, as the trend towards standardized products and applications has had the effect of inducing non-European markets (such as South America) to follow Europe’s example and adopt European standards.

Significantly expanded production plant in Schwandorf is scheduled to go online in the second quarter of 2019

The pilot plant which was situated in Kelheim through 2017 has been moved to Schwandorf. The pilot production plant has been significantly expanded and is scheduled to go online in the second quarter of 2019. The application engineering laboratories and testing facilities at the Schwandorf site were expanded once again in 2018. 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. Other highlights in this regard were the relocation and expansion of the fire safety lab and improvements to polishing and analysis processes.

The refractory industry experienced very dynamic growth in 2018. Reactive alumina already play a key role in the creation of high-performance monolithic and shaped products, and a newly developed viscosity-optimized quality was added in 2018. After receiving industrial approval, the patented binders in the NABACAST® product family have begun to generate revenues from key customers. Our close application engineering support in the development and modification of customer formulas has been a key factor in this regard.

GRANALOX® product family was characterized by a geographical extension of the customer base to Asian users in 2018

The field of engineering ceramics is also characterized by a highly dynamic market environment, and development projects in this area have also produced successes. 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 2018. 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.

The improvements in processing properties which were originally requested by our European customers were applied to all key products in 2018. These modified products allow our customers to save on the costs of further automating their production flows.

The newly developed GRANALOX® type, which enables final components with high sintered densities, hardness and break resistance. Both development priorities underscore Nabaltec's unique selling proposition as a highly valued system partner in engineering ceramics.

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

Global economy grew by 3.7% in 2018

Global economic growth was down slightly in 2018, falling to 3.7% from 3.8% the year before. This was reported by the International Monetary Fund (IMF) in January 2019, confirming its 2018 forecast from October. The slowdown in global economic growth was particularly noticeable in the second half of 2018. In the IMF's estimation, this slowdown was particularly attributable to a downturn in large economies such as Europe and Asia. The conflict between the US and China over market access and intellectual property rights has had a negative impact on global economic growth since the second half of 2018, while at the same time production in the Euro zone has weakened, due above all to negative effects from the automotive industry, and particularly the introduction of new exhaust standards in Germany. Although the slump in automotive production will presumably be only temporary, the performance of the job market is further indication that the European economy as a whole has cooled down. The IMF expects to see European GDP growth of 1.8% in 2018.

On the other hand, the US economy proved relatively robust in 2018. Private consumer spending increased significantly in the US, although the pace of investment growth decreased noticeably in the second half of the year.

German economy grew at a rate of 1.5% in 2018

The German economy grew at a rate of just 1.5% in 2018, below the forecast of 1.8% announced by the Federal Statistical Office in autumn of 2018. This significantly weaker performance is attributable to the weakening of the global economy, sales problems in the automotive industry and the extended drought in Germany, with low water levels, resulting in a loss of transport capacity. These problems were exacerbated by extraordinary effects such as the flu outbreak and strikes. As in the year before, growth in 2018 was driven by domestic consumer spending in both the private and government sectors, as well as by construction investments, particularly in public civil engineering projects.

2.1.2 INDUSTRY DEVELOPMENT

2018 was a good year for the German chemical industry. Production in the industry was up 2.5% and sales were up 4.5%, to EUR 204 billion. This was due in part to chemicals prices, which increased by 2%. Employment in the industry reached a record high of 462,000 in 2018.

Long-term trend of growing demand remains intact

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 4.4% through 2023 (ATH-based, source: Freedonia). 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.

In the specialty alumina product segment, the refractory market is shaped by demand within the steel industry. Nabaltec was able to record significant gains, especially with manufacturers of refractory products in Europe, and particularly for reactive aluminum oxides. In the technical ceramics segment, sales of ceramic bodies have increased significantly. Given the trend towards high-quality refractory products and wear-resistant ceramics, market experts expect solid market growth in the coming years, with an expected annual growth rate of 4% through 2021 in refractory products and technical ceramics (source: Roskill).

2.2 COURSE OF BUSINESS

In 2018, Nabaltec was able to continue its very strong performance from the year before

Nabaltec AG's successful performance in prior years continued in the year 2018. Revenues were up 4.8% from the year before, to EUR 176.7 million (2017: EUR 168.6 million). Revenues in each quarter were up from the year before. This growth was recorded despite the fact that the US subsidiary Nashtec contributed no revenues in 2018.

Both product segments, “Functional Fillers” and “Specialty Alumina,” contributed to the positive revenue trend in 2018. Revenues in the “Functional Fillers” product segment amounted to EUR 114.6 million for the year, up 2.1% from the year before (EUR 112.2 million). Revenues in the “Specialty Alumina” product segment grew at a faster pace, climbing 10.1% to EUR 62.1 million (2017: EUR 56.4 million).

Operating profit (EBIT) was up 1.1%, to EUR 18.5 million (2017: EUR 18.3 million). Earnings per share came to EUR 1.17 (based on 8.8 million shares), compared to EUR 1.39 in 2017 (based on an average of 8.2 million shares).

The revenue forecast for 2018 was met. The EBIT margin of 10.4%, slightly exceeding the forecast, which called for a margin in the high single digits.

2.3 OVERVIEW OF THE COURSE OF BUSINESS

2.3.1 EARNINGS POSITION

Nabaltec Group earned EUR 176.7 million in revenues in Financial Year 2018, for a strong 4.8% gain over the year before (2017: EUR 168.6 million). The key revenue drivers were price increases and improvements in the product mix over both product segments, as well as volume effects in the "Specialty Alumina" product segment. Revenues in the boehmite product area increased at an especially fast pace over the year before, climbing 52.2%. Nabaltec AG's export ratio was 73.8% in 2018, compared to 73.2% in 2017.

All four quarters alike contributed to the strong revenue growth

All four quarters contributed equally to the strong revenue growth. Revenues in the first quarter of 2018 amounted to EUR 45.2 million, even higher than the excellent value posted in the same quarter of the previous year, EUR 43.6 million. Revenues in the second quarter were EUR 46.5 million, exceeding both the number posted in the same quarter of the previous year and the number for the previous quarter. In the second half of the year, revenues amounted to EUR 43.5 million in the third quarter and EUR 41.4 million in the fourth quarter, both up from 2017.

Incoming orders amounted to EUR 172.7 million for the year as a whole, compared to EUR 188.1 million in the previous year. Nabaltec ended the year 2018 with EUR 52.6 million in orders on hand, compared to EUR 56.6 million in the year before.

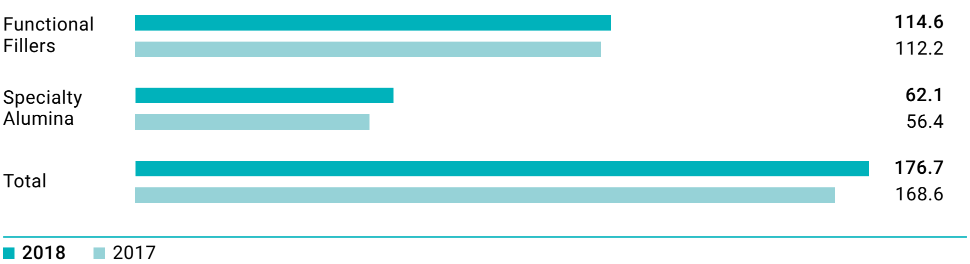
Revenues in the "Functional Fillers" product segment amounted to EUR 114.6 million for the year, up 2.1% from the year before, when revenues were EUR 112.2 million. This gain is attributable in particular to price increases and improvements in the product mix.

After almost complete implementation of both technical and construction aspects of the stand-alone solution, the US subsidiary Nashtec resumed production at the end of 2018.

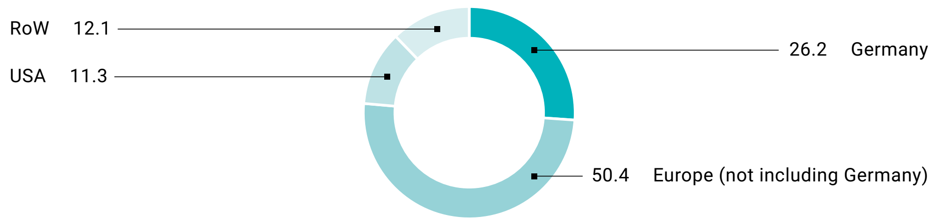
10.1% revenue growth in the "Specialty Alumina" product segment

With high demand, the "Specialty Alumina" product segment posted strong performance in all product areas in 2018, with revenues climbing to EUR 62.1 million from EUR 56.4 million in the previous year, for a gain of 10.1%.

REVENUES BY PRODUCT SEGMENT, 2018 (IN EUR MILLION)



REVENUES BY REGION, 2018 (IN %)



Total performance up 4.3% in 2018

Nabaltec AG's total performance was up 4.3% in 2018, from EUR 170.1 million to EUR 177.4 million. This growth is primarily attributable to the strong revenue growth, as inventories have remained stable.

Other operating income amounted to EUR 3.1 million and consisted primarily of exchange rate gains, other income from services and deliveries to third parties as well as the restructuring subsidy for Nashtec.

OPERATING EXPENSE RATIOS AS A PERCENTAGE OF TOTAL PERFORMANCE (IN %)

	2018	2017
Cost of materials	48.6	49.2
Personnel expenses	18.6	18.4
Other operating expenses	17.3	17.4

Gross earnings up EUR 3.4 million from the year before

The cost of materials ratio (cost of materials as a percentage of total performance) decreased to 48.6% (2017: 49.2%). The gross earnings ratio (gross earnings as a percentage of total performance) remained at 53.2% in 2018, near last year's figure of 53.4%. In absolute terms, gross earnings amounted to EUR 94.3 million, up EUR 3.4 million from last year's value of EUR 90.9 million.

The personnel expense ratio (personnel expenses as a percentage of total performance) increased slightly in 2018, from 18.4% in the previous year to 18.6%. The number of Group employees increased from 476 on 31 December 2017 to 496 on 31 December 2018.

Other operating expenses increased from EUR 29.6 million to EUR 30.7 million, due primarily to higher freight costs and repair costs. The ratio of other operating expenses to total performance decreased slightly, from 17.4% in the previous year to 17.3%.

The ratios for the key expense categories were largely even with the year before.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were up 2.0%, from EUR 30.0 million to EUR 30.6 million.

Adjusting for EUR 12.1 million in depreciation and amortization in Financial Year 2018, Nabaltec's operating profit (EBIT) came to EUR 18.5 million, compared to EUR 18.3 million in the year before.

EBIT (IN EUR MILLION)

EBT was EUR 15.8 million in 2018

Earnings before taxes (EBT) amounted to EUR 15.8 million in the reporting year (2017: EUR 15.7 million). This includes net interest income of EUR –2.7 million in 2017, with EUR 2.8 million in interest expenses and EUR 0.1 million in interest income. In the previous year, net interest income was EUR –2.6 million.

Tax expenses came to EUR 5.5 million in 2018 (2017: EUR 4.3 million) and include EUR –0.7 million in deferred taxes (2017: EUR –0.2 million).

Consolidated earnings came to EUR 10.3 million last year, compared to EUR 11.5 million the year before. Earnings per share decreased from EUR 1.39 in 2017 (based on an average of 8.2 million shares) to EUR 1.17 in the reporting year (based on an average of 8.8 million shares).

Segment report: developments in the product segments

FUNCTIONAL FILLERS (IN EUR MILLION)

	2018	2017
Revenues	114.6	112.2
EBITDA	19.1	21.5
EBIT	10.5	13.1
Investments	23.5	16.4

The fundamental market drivers for Nabaltec products were fully intact in 2018

Revenues in the “Functional Fillers” product segment were up 2.1% in 2018. The fundamental market drivers for Nabaltec products remained intact in 2018 and offer excellent prospects for the future. Non-halogenated flame-retardant fillers remain on the rise worldwide due to their eco-friendly nature.

REVENUES IN THE “FUNCTIONAL FILLERS” PRODUCT SEGMENT BY QUARTER (IN EUR MILLION)

EBITDA decreased by 11.2% in the reporting year, from EUR 21.5 million to EUR 19.1 million.

The “Functional Fillers” product segment was the focus of investments within Nabaltec Group in 2018, accounting for around 87% of total investments, which were made primarily for technical and structural implementation of the stand-alone solution at Nashtec, initial investments at Naprotec, optimizing production processes, improving infrastructure and replacement investments at the Schwandorf site.

The “Functional Fillers” product segment was the focus of investments in 2018

SPECIALTY ALUMINA (IN EUR MILLION)

	2018	2017
Revenues	62.1	56.4
EBITDA	11.5	8.5
EBIT	8.0	5.2
Investments	3.6	4.7

Revenues in the “Specialty Alumina” product segment increased by 10.1% in the reporting year, from EUR 56.4 million to EUR 62.1 million. This change was due above all to price and volume effects.

REVENUES OF THE “SPECIALTY ALUMINA” PRODUCT SEGMENT BY QUARTER (IN EUR MILLION)

EBITDA in the “Specialty Alumina” product segment was up significantly from the year before, by 35.3%, climbing from EUR 8.5 million to EUR 11.5 million.

Around 13% of total investments went into the “Specialty Alumina” product segment, primarily into expanding capacity for high value-added products and optimizing production processes.

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.

Fluctuations in exchange rates are neutralized in most cases

Liquid funds in the amount of EUR 42.9 million were made available to the subsidiaries through the reporting date (2017: EUR 22.6 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 loans against borrower's notes, the share capital increase in 2017 and through operating cash flow.

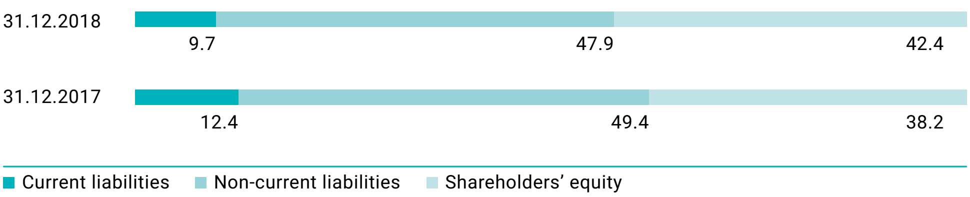
2.3.2.1 CAPITAL STRUCTURE

Equity ratio of 42.4%

Nabaltec AG's capital stock is EUR 8.8 million. Consolidated shareholders' equity increased to EUR 95.8 million as of 31 December 2018, up from EUR 84.6 million on 31 December 2017. The equity ratio improved from 38.2% on 31 December 2017 to 42.4% on 31 December 2018. This represents a very strong capital base by industry standards.

Non-current liabilities decreased from EUR 109.3 million on 31 December 2017 to EUR 108.3 million on 31 December 2018. Current liabilities decreased from EUR 27.5 million to EUR 21.8 million in the reporting year. This was due above all to decreases in trade payables and other accounts payable.

LIABILITIES STRUCTURE (IN %)



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 had EUR 27.1 million in investments in 2018

Nabaltec Group made EUR 27.1 million in investments last year, compared to EUR 21.1 million the year before. Investments were made primarily in implementing the stand-alone solution for Nashtec, with additional investments in building up production capacity at Naprotec, infrastructure projects and technical equipment and machinery for capacity expansion, process optimization and replacement investments at the Schwandorf site.

2.3.2.3 CASH FLOW

Nabaltec Group's operating cash flow dropped to EUR 16.1 million, down from EUR 25.9 million the year before. This was due in particular to changes in working capital. The increase in trade receivables and other assets, as well as the decrease in trade payables and other liabilities, both had the effect of reducing cash flow. In addition, inventories were up due to the resumption of production in the US.

Spending on investments increased from EUR 23.9 million in the year before to EUR 27.1 million. This increase was attributable in part to the retooling work at Nashtec, the build-up of production capacity at Naprotec and the associated spending on investments in property, plant and equipment.

Net cash flow from financing activity was EUR –4.6 million in 2018, coming after a positive net cash flow in 2017, EUR 8.8 million. Cash flow from financing activity was heavily influenced by a cash capital increase and the associated inflow of EUR 18.4 million. Amortization payments amounted to EUR 1.0 million in 2018, conforming to long-term estimates. A dividend payout in the amount of EUR 1.6 million took place in the year just closed. Interest paid in the reporting year was unchanged at EUR 2.1 million.

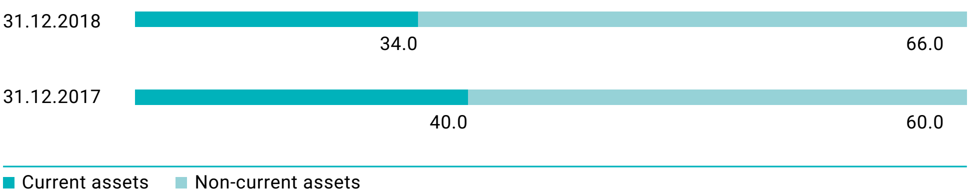
A dividend payout in the amount of EUR 1.6 million took place in the year just closed

Nabaltec Group's total funds, consisting of the sum of cash and cash equivalents, amounted to EUR 30.3 million on 31 December 2018, compared to EUR 45.9 million on the reporting date of the year before.

2.3.2.4 FINANCIAL POSITION

Total assets increased from EUR 221.4 million on 31 December 2017 to EUR 225.9 million.

ASSET STRUCTURE (IN %)



As part of assets, property, plant and equipment increased to EUR 148.4 million, up from EUR 131.7 million the year before. Total non-current assets amounted to EUR 149.0 million in 2018, accounting for 66.0% of total assets as of 31 December 2017, while current assets amounted to 34.0% of total assets.

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 Group 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.

In addition, Nabaltec AG uses the following return indicators for long-term management of the Group. This internal controlling and management system enables the Group to pursue value-based management.

Key ratios used by Nabaltec AG:

RETURN ON SALES AND CAPITAL (IN %)

	2018	2017
Return on equity	10.8	13.5
Return on capital employed (ROCE)	10.6	12.3

Return on equity, consisting of the ratio of Group profit to equity, amounted to 10.8% in the reporting year, down from 13.5% 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 10.6%, compared to 12.3% in the previous year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Trainee ratio of 11.3% in 2018, well above the industry average

At the end of 2018, Nabaltec Group had a total of 496 employees (31 December 2017: 476), of whom 485 are employed in Germany (31 December 2017: 470). This figure also includes 56 trainees (31 December 2017: 54). Nabaltec sets a high value on good training. In 2018 as well, the trainee rate represented a remarkably large share of the workforce, 11.3%. This rate again exceeded the industry average significantly in 2018. 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 regularly counts among the 100 best employers for German mid-sized companies

Nabaltec AG is regularly among the 100 best employers among German mid-sized companies, according to the "TOP JOB" nationwide multi-sector survey. Distinctions like these, which Nabaltec received for the fourth time in 2015, indicate how seriously the company takes its responsibility towards its employees. A central concern for Nabaltec is to offer its employees prospects and opportunities for advancement within the company in order to promote identification with the company by these means as well, and encourage hard work and commitment. A family-friendly company which has been recognized multiple times, Nabaltec AG 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. Nabaltec AG has 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 and develop its market standing. With the implementation of a stand-alone solution for Nashtec LLC in the US and the resumption of production, as well as the decision to build 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, especially those located outside Europe.

Important arguments in collaboration with customers include Nabaltec's extremely high reliability as a supplier and consistent quality. Nabaltec has demonstrated that it is a very reliable partner for long-term relationships built on trust.

Nabaltec also distinguishes itself as a competent and capable supplier through its consistent development of consulting expertise by investing personnel and resources in R & D.

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.

Nabaltec products are deliberately developed to meet customer needs

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. Nabaltec's products help make customers' products safer, eco-friendlier, more robust and more competitive while at the same time optimizing their production processes. For this reason, joint development projects 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. Megatrends such as electric mobility and lithium ion battery applications present new and even more demanding requirements for Nabaltec with regard to product quality.

Management Systems

In order to promote safety-consciousness among all of the 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 2018, surveillance audits of the existing management systems based on ISO 9001 and ISO 14001 were performed at the Schwandorf site. In addition, the existing certification of the workplace safety and health management system in accordance with BS OHSAS 18001 was renewed in a successful recertification audit.

Nabaltec introduced a certified energy management system in 2010

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. In 2018, Nabaltec AG's energy efficiency measures were successfully examined in the course of a surveillance audit in accordance with ISO 50001.

The accreditation of Nabaltec AG's analysis center in accordance with the ISO/IEC 17025 standard was confirmed in 2018 in the course of a reaccreditation audit.

Environmental Protection

Conservation of natural resources is a major concern for Nabaltec

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.

As in prior years, special emphasis was placed on optimizing energy processes in production as a means of cutting costs. In 2018 as well, a many projects were executed in this area. Together with external partners, Nabaltec has developed techniques requiring much less process energy, leading to a substantial reduction in CO_2 emissions. 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.

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

Nabaltec's access to the capital market is intact

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, which is also perceived positively in the sales markets.

3. REPORT ON SUBSEQUENT EVENTS

No further events of particular importance for the assessment of Nabaltec Group's financial, earnings and liquidity position took place after the reporting date, 31 December 2018.

4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

4.1 OUTLOOK

OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

In 2019 Nabaltec expects intact markets and stable demand

Nabaltec also foresees intact sales markets and stable demand for its products in 2019, if the market environment does not change fundamentally. The company has taken a leading international position within its markets. Based on the market position in 2018 and the reputation it has built up over many years, Nabaltec sees good future prospects for its key products.

ECONOMIC AND SECTOR CONDITIONS

In its economic outlook, the Kiel Institute for the World Economy (IfW) calls for a slowdown in global economic growth in the next two years, with estimated growth rates of 3.4% in 2019 and 2020. The IMF's estimates of global economic growth over the next two years are similar: 3.5% for 2019 and 3.6% for 2020, although here as well expectations have fallen below earlier assumptions.

The slight decrease in the pace of economic growth is attributed above all to a slower rate of economic expansion in the Euro zone, a slowdown in production growth in China relative to the levels seen in recent years, uncertainty with regard to the Brexit terms and slower economic growth in the US.

Forecast of 1.0% growth for the German economy

The Federal Ministry for Economic Affairs and Energy expects German GDP to grow at a rate of 1.0% in 2019. This figure was published in January 2019 and is 0.3 points lower than the IMF's projection. Although the extraordinary factors which arose in 2018 are of a temporary nature, such as problems with the new WLTP registration procedure in automotive production and the loss of production due to low water levels in the Rhine River, it is nevertheless clear that the upswing in Germany is hitting a wall. This is evident in particular from the very high capacity utilization ratio, making it difficult for companies to continue to expand production at a high pace. As a result, the rate of growth is slowing, and the situation has been exacerbated by the worsening global economic outlook relative to the previous year.

GDP GROWTH FORECAST OVER PRIOR YEAR (IN %)

	2019	2020
World	3.4	3.4
USA	2.5	1.9
Euro zone	1.7	1.5
Germany	1.7	1.5
France	1.4	1.5
Italy	0.7	0.8
United Kingdom	1.0	1.1
Japan	1.0	0.8
China	6.1	5.8
India	7.5	7.0

Source: IfW, Kieler Konjunkturberichte No. 49 "Weltkonjunktur im Winter 2018," 11 December 2018

The chemicals industry association VCI (Verband der Chemischen Industrie e.V.) expects industry revenues to grow by 2.5% next year, as prices for chemical products increase by around 1.0%. Aside from the weakening economy in Germany and the slowdown in economic growth, the largest risks and obstacles to growth for the industry are currently posed by political challenges such as the US's trade conflicts with the EU and China, as well as the looming threat of Brexit.

Outlook in key target markets largely positive

The outlook in key target markets is largely positive, in Nabaltec's view, as regulatory requirements continue to stimulate growth in eco-friendly flame retardants. The German construction sector and the automotive industry remain stable despite the extraordinary effects. Continuing growth in the construction sector has generated positive growth in the electrical industry, and this trend is expected to continue in 2019. The cable industry is benefiting from special conditions such as the expansion of power grids, particularly due to the connection of decentralized installations for the generation of renewable energy, such as wind and solar power. As a result, the cable industry will have higher demand in the future for high-quality non-halogenated flame-retardant formulas. The global trend towards higher-quality refractory products will continue to accelerate at a strong rate, reinforced above all by developments in China with regard to more efficient production plants. Demand for higher-performance ceramic components in mechanical and plant engineering will significantly accelerate demand for specialty alumina, particularly for reactive alumina and ceramic bodies, the core competencies of Nabaltec AG.

OUTLOOK ON THE COURSE OF BUSINESS

Nabaltec expects its revenue growth to continue at an accelerated pace in 2019

Nabaltec expects its revenue growth to continue at an accelerated pace in 2019. The year 2019 is off to a good start. Revenue growth is to be achieved through both volume growth and price increases. The US subsidiary Nashtec LLC resumed production at the end of 2018 and will take over full responsibility for supplying US customers as of the second quarter of 2019. Naprotec LLC is currently expected to begin production of refined hydroxide in the second half of 2019, with an annual capacity of about 30,000 tons.

Orders on hand amounted to EUR 52.6 million as of 31 December 2018.

In 2019 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. Nabaltec also expects to see additional revenue growth in the "Specialty Alumina" product segment in 2019.

EXPECTED EARNINGS, NET ASSETS AND FINANCIAL POSITION

Assuming stable economic performance, Nabaltec expects revenue growth in a range from EUR 190 million to EUR 195 million in 2019. The company expects an EBIT margin ranging from 10.0% to 12.0% in 2019.

Expected revenue growth in a range from EUR 190 million to EUR 195 million in 2019

Nabaltec expects investments in 2019 to be even with the year before. Investments will be directed primarily towards the completion of Naprotec, process optimization and infrastructure at the Schwandorf site, as well as measures to increase capacity at certain points.

Net financial income is expected to remain largely stable in 2019 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.

4.2 RISKS AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

For Nabaltec Group, the relevance of risk management is derived from its business activities and its worldwide operations, involving an international competitive and regulatory environment, as well as the general complexity of the global economy. Nabaltec Group'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.

Effective risk management is decisive to secure the company's prospects in the long term

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.

Nabaltec is constantly improving the company's risk management system

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 company 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

Supply of key energy sources is secured through long-term contracts

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

Swaps are used to hedge against changes in interest rates

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 Group 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 2018 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 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.

Intensive continuing education and management training programs

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.

Product-specific risks are clear and manageable

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 customers so as to set the stage for economic success.

LEGAL FRAMEWORK

Statutory conditions at the moment are creating additional market opportunities

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 2019 as well. On the other hand, the provisions of the "2017 Renewable Energy Act" will, in the medium term, lead to an increase in renewable energy expenses in the mid-six figures.

OVERALL ASSESSMENT

Group risks are well-managed

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 Group's risks are well-managed and their potential impact is therefore limited. The company's future existence is secured.

Schwandorf, 22 March 2019

Nabaltec AG
The Management Board

JOHANNES HECKMANN | GÜNTHER SPITZER | DR. MICHAEL KLIMES

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR 1 JANUARY 2018 TO 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2018	1/1/ – 12/31/2017
Revenues	5.1	176,743	168,601
Change in inventories of finished goods and work in progress		0	998
Own work capitalized	5.2	706	507
Total performance		**177,449**	**170,106**
Other operating income	5.3	3,072	4,537
Cost of materials	5.4	–86,267	–83,738
Gross earnings		**94,254**	**90,905**
Personnel expenses	5.5	–32,989	–31,297
Depreciation	5.7	–12,121	–11,711
Other operating expenses	5.8	–30,677	–29,580
Operating profit (EBIT)		**18,467**	**18,317**
Interest and similar income	5.10	111	111
Interest and similar expenses	5.11	–2,816	–2,693
Net income from ordinary activities (EBT)		**15,762**	**15,735**
Taxes on income	5.12	–5,476	–4,285
Net after-tax earnings		**10,286**	**11,450**
Thereof:			
Shareholders of the parent company		10,286	11,450
Non-controlling interests		0	0
Net after-tax earnings		**10,286**	**11,450**
Earnings per share (in EUR)*	7.5	**1.17**	**1.39**

* *also see 6.8*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2018	1/1/ – 12/31/2017
Net after-tax earnings		10,286	**11,450**
Items which may be reclassified to profit and loss			
Currency translation (after taxes)		1,334	–3,075
Net income from hedge accounting (after taxes)		198	731
Total		1,532	**–2,344**
Items which will not be reclassified to profit and loss			
Actuarial gains and losses (after taxes)		1,012	1,379
Total		1,012	**1,379**
Other comprehensive income		2,544	**–965**
Thereof:			
Shareholders of the parent company		2,544	–965
Non-controlling interests		0	0
Total comprehensive income		12,830	**10,485**
Thereof:			
Shareholders of the parent company		12,830	10,485
Non-controlling interests		0	0

CONSOLIDATED BALANCE SHEET

FOR 31 DECEMBER 2018

ASSETS

in TEUR	See Notes	12/31/2018	12/31/2017
Non-current assets		**148,964**	**132,892**
Intangible assets			
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments)	6	509	462
Property, plant and equipment		148,377	131,677
Land, leasehold rights and buildings, including buildings on unowned land	6.2	38,641	37,834
Technical equipment and machinery	6.2	71,158	76,125
Other fixtures, fittings and equipment	6.2	3,657	3,455
Advance payments and assets under construction	6.2	34,921	14,263
Financial assets		78	78
Shares in affiliated companies	6.3	78	78
Deferred tax assets	5.12	0	675
Current assets		**76,915**	**88,485**
Inventories		34,624	33,003
Raw materials and supplies	6.4	20,609	19,025
Work in process	6.4	880	28
Finished goods and merchandise	6.4	13,135	13,950
Other assets and accounts receivable		12,002	9,565
Trade receivables	6.5	4,459	4,089
Other assets	6.6	7,543	5,476
Cash and cash equivalents	6.7	30,289	45,917
TOTAL ASSETS		**225,879**	**221,377**

LIABILITIES

in TEUR	See Notes	12/31/2018	12/31/2017
Shareholders' equity		**95,787**	**84,563**
Subscribed capital	6.8	8,800	8,800
Capital reserve	6.8	47,029	47,029
Earnings reserve	6.8	9,699	9,721
Profit carry-forward		31,865	21,999
After-tax earnings		10,286	11,450
Other changes in equity with no effect on profit and loss	6.8	–11,892	–14,436
Non-controlling interests	6.8	0	0
Non-current liabilities		**108,326**	**109,288**
Pension reserves	6.9	36,052	36,804
Other provisions	6.9	1,153	1,056
Accounts payable to banks	6.10	70,417	70,381
Deferred tax liabilities	5.12	704	1,047
Current liabilities		**21,766**	**27,526**
Accounts payable from income taxes	6.10	2,183	1,995
Other provisions	6.9	185	173
Accounts payable to banks	6.10	529	1,423
Trade payables	6.10	12,643	15,639
Other accounts payable	6.10	6,226	8,296
TOTAL LIABILITIES		**225,879**	**221,377**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY 2018 TO 31 DECEMBER 2018

CONSOLIDATED CASH FLOW STATEMENT

	in TEUR	See Notes	1/1/ – 12/31/2018	1/1/ – 12/31/2017
	Cash flow from operating activity			
	Earnings before taxes		**15,762**	**15,735**
+	Depreciation of fixed assets	5.7	12,121	11,711
–/+	Other income / expenses with no effect on cash flow		–926	–2,656
–/+	Income / loss from the disposal of assets		1	474
–	Interest income	5.10	–111	–111
+	Interest expenses	5.11	2,816	2,693
	Net operating income before changes in working capital		**29,663**	**27,846**
+/–	Increase / decrease in provisions		147	107
–/+	Increase / decrease in trade receivables and other assets not attributable to investment of financing activity		–2,437	–945
+/–	Increase / decrease in inventories		–1,621	–2,121
+/–	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity		–3,749	4,668
	Cash flow from operating activity before taxes		**22,003**	**29,555**
–	Income taxes paid		–5,948	–3,644
	Net cash flow from operating activity		**16,055**	**25,911**

CONSOLIDATED CASH FLOW STATEMENT

	in TEUR	See Notes	1/1/ – 12/31/2018	1/1/ – 12/31/2017
Cash flow from investment activity				
+	Payments received from the disposal of property, plant and equipment		10	217
–	Payments made for investments in property, plant and equipment	6.2	–26,906	–23,501
–	Payments made for investments in intangible assets	6.1	–218	–111
–	Payments made for the acquisition of consolidated companies		0	–552
Net cash flow from investment activity			**–27,114**	**–23,947**
Cash flow from financing activity				
–	Payments made for dividends		–1,584	–1,200
+	Payments received from capital contributions	6.10	0	17,928
–	Payments made for the amortization of loans	6.10	–1,000	0
–	Payments made for the repayment of borrowings		0	–5,969
–	Interest paid		–2,080	–2,050
+	Interest received		43	49
Net cash flow from financing activity			**–4,621**	**8,758**
Net change in cash and cash equivalents			**–15,680**	**10,722**
Change in funds due to changes in exchange rates			**52**	**–988**
Funds at start of period		6.7	45,917	36,183
Funds at end of period		6.7	**30,289**	**45,917**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FINANCIAL YEAR 1 JANUARY 2018 TO 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholders' equity attributable to shareholders of Nabaltec AG		
in TEUR	Subscribed capital	Capital reserve	Earnings reserve
1 January 2017	**8,000**	**29,764**	**9,711**
Assumption of minority capital	–	–	10
Dividend payments	–	–	–
Issuance of new shares	800	17,265	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	**–**	**–**	**–**
31 December 2017	**8,800**	**47,029**	**9,721**
1 January 2018	**8,800**	**47,029**	**9,721**
Dividend payments	–	–	–
Issuance of new shares	–	–	–
Other changes in equity with no effect on profit and loss	–	–	−22
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	**–**	**–**	**–**
31 December 2018	**8,800**	**47,029**	**9,699**

Profit carry-forward	Other changes in equity with no effect on profit and loss	Total	Non-controlling interests	Consolidated shareholders' equity
23,199	**–13,471**	**57,203**	**562**	**57,765**
–	–	10	–562	–552
–1,200	–	–1,200	–	–1,200
–	–	18,065	–	18,065
–	1,379	1,379	–	1,379
–	–3,075	–3,075	–	–3,075
–	731	731	–	731
–	–965	–965	0	–965
11,450	–	11,450	–	11,450
11,450	**–965**	**10,485**	**0**	**10,485**
33,449	**–14,436**	**84,563**	**0**	**84,563**
33,449	**–14,436**	**84,563**	**0**	**84,563**
–1,584	–	–1,584	–	–1,584
–	–	–	–	–
–	–	–22	–	–22
–	1,012	1,012	–	1,012
–	1,334	1,334	–	1,334
–	198	198	–	198
–	2,544	2,544	0	2,544
10,286	–	10,286	–	10,286
10,286	**2,544**	**12,830**	**0**	**12,830**
42,151	**–11,892**	**95,787**	**0**	**95,787**

STATEMENT OF CONSOLIDATED FIXED ASSETS

FOR THE FINANCIAL YEAR 1 JANUARY 2018 TO 31 DECEMBER 2018

FOR THE FINANCIAL YEAR 1 JANUARY 2018 TO 31 DECEMBER 2018

in TEUR	Cost of acquisition/production					
	1/1/2018	Additions	Disposals	Reclassification	Currency differences	12/31/2018
Intangible assets	3,024	**218**	**0**	**0**	**0**	3,242
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	2,946	119	0	68	0	3,133
Advance payments	78	99	0	–68	0	109
Property, plant and equipment	236,292	**26,905**	**47**	**0**	**2,537**	265,687
Land, leasehold rights and buildings, including buildings on unowned land	51,291	1,795	0	504	440	54,030
Technical equipment and machinery	160,054	3,442	1	437	981	164,913
Other fixtures, fittings and equipment	10,684	820	46	323	42	11,823
Advance payments and assets under construction	14,263	20,848	0	–1,264	1,074	34,921
Financial assets	78	**0**	**0**	**0**	**0**	78
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	239,394	**27,123**	**47**	**0**	**2,537**	269,007

FOR THE FINANCIAL YEAR 1 JANUARY 2017 TO 31 DECEMBER 2017

in TEUR	Cost of acquisition/production					
	1/1/2017	Additions	Disposals	Reclassification	Currency differences	12/31/2017
Intangible assets	2,926	**146**	**48**	**0**	**0**	3,024
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	2,891	68	13	0	0	2,946
Advance payments	35	78	35	0	0	78
Property, plant and equipment	221,217	**20,936**	**1,530**	**0**	**–4,331**	236,292
Land, leasehold rights and building, including buildings on unowned land	45,593	3,089	0	3,715	–1,106	51,291
Technical equipment and machinery	150,922	5,794	792	6,826	–2,696	160,054
Other fixtures, fittings and equipment	10,206	1,140	738	192	–116	10,684
Advance payments and assets under construction	14,496	10,913	0	–10,733	–413	14,263
Financial assets	78	**0**	**0**	**0**	**0**	78
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	224,221	**21,082**	**1,578**	**0**	**–4,331**	239,394

Depreciation					Book value	
1/1/2018	Additions	Disposals	Currency differences	12/31/2018	12/31/2018	12/31/2017
2,562	**171**	**0**	**0**	**2,733**	**509**	**462**
2,562	171	0	0	2,733	400	384
0	0	0	0	0	109	78
104,615	**11,950**	**36**	**781**	**117,310**	**148,377**	**131,677**
13,457	1.751	0	181	15,389	38,641	37,834
83,929	9,268	1	559	93,755	71,158	76,125
7,229	931	35	41	8,166	3,657	3,455
0	0	0	0	0	34,921	14,263
0	**0**	**0**	**0**	**0**	**78**	**78**
0	0	0	0	0	78	78
107,177	**12,121**	**36**	**781**	**120,043**	**148,964**	**132,217**

Depreciation					Book value	
1/1/2017	Additions	Disposals	Currency differences	12/31/2017	12/31/2017	12/31/2016
2,420	**149**	**7**	**0**	**2,562**	**462**	**506**
2,420	149	7	0	2,562	384	471
0	0	0	0	0	78	35
95,914	**11,562**	**845**	**–2,016**	**104,615**	**131,677**	**125,303**
12,305	1,616	0	–464	13,457	37,834	33,288
76,493	9,206	335	–1,435	83,929	76,125	74,429
7,116	740	510	–117	7,229	3,455	3,090
0	0	0	0	0	14,263	14,496
0	**0**	**0**	**0**	**0**	**78**	**78**
0	0	0	0	0	78	78
98,334	**11,711**	**852**	**–2,016**	**107,177**	**132,217**	**125,887**

NABALTEC AG

CONSOLIDATED NOTES

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

1. GENERAL

Nabaltec AG, with registered office in Schwandorf, Germany[1], was formed by Company Agreement of 14 December 1994 with the corporate name Nabaltec GmbH and registered office in Schwandorf (entered into the Commercial Register of the Local Court of Amberg under Commercial Register No. B 3920). It acquired the specialty oxides business of VAW aluminium AG in 1995 and was transformed into a joint-stock company in 2006.

The corporate purpose pursuant to § 2 of the Articles of Association of Nabaltec AG is the manufacture of products based on mineral raw materials, particularly aluminum hydroxide and aluminum oxide, and the distribution of those products.

The shares of Nabaltec AG have been listed in the open market division of the Frankfurt Stock Exchange since 24 November 2006. They have been listed in the new “Scale” segment since 1 March 2017.

The present consolidated financial statements were approved by the Management Board on 22 March 2019.

2. ACCOUNTING POLICIES

The recognition and measurement methods presented below are consistently applied in all of the reporting periods presented here.

2.1 PRINCIPLES OF ACCOUNTING

The consolidated financial statements for 31 December 2018 (including disclosures for the year before as of 31 December 2017) were prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU, as well as the provisions of the German Commercial Code which are to be observed additionally in accordance with § 315e (1) of the German Commercial Code. The IFRS include the International Financial Reporting Standards and International Accounting Standards (IAS) published by the International Accounting Standards Board, as well as the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All valid standards adopted by the EU were applied for Financial Year 2018.

[1] *Nabaltec AG, Alustraße 50 – 52, 92421 Schwandorf, Germany*

The consolidated financial statements convey a true and fair view of the financial, earnings and liquidity position of Nabaltec AG.

Nabaltec AG's financial year runs from 1 January to 31 December of each year.

The consolidated financial statements are presented in euros (EUR). Unless otherwise indicated, all values are rounded up or down to the nearest thousand euros (TEUR) using commercial rounding. It should be noted that differences may arise when using rounded numbers and percentages.

Disclosures distinguish between current and non-current assets and liabilities, which in some cases are detailed in the Notes according to their time to maturity.

The consolidated statement of comprehensive income is prepared in accordance with the total cost method.

2.2 ACCOUNTING STANDARDS APPLIED

All accounting standards whose application is mandatory for annual periods beginning on 1 January 2018 were applied for Financial Year 2018. This particularly includes the following standards and interpretations, which were to be applied for the first time:

- IFRS 9 "Financial instruments" was adopted by the European Union on 29 November 2016 and applied by Nabaltec for the first time on 1 January 2018. First-time application of IFRS 9 took place in accordance with the retrospective method, with adjustments to comparable data in prior periods IFRS 9 contains rules for recognition, measurement and derecognition, as well as rules for hedge accounting. Accordingly, the accounting rules for financial instruments previously established by IAS 39, "Financial instruments: recognition and measurement," have now been completely replaced by the accounting rules in IFRS 9. The key requirements of IFRS 9 can be summarized as follows:

  - The rules in IFRS 9 with regard to scope of application, recognition and derecognition are largely unchanged from the previous standard (IAS 39: "Financial instruments: recognition and measurement").
  - The rules in IFRS 9 provide for a new classification model for financial assets, unlike IAS 39. Subsequent measurement of financial assets is performed based on three categories, with different standards of measurement and different procedures for recognizing changes in value. The classification is made based on the contractual cash flows arising from the instrument, as well as the business model under which the instrument is held. Depending on these conditions, financial assets are measured at amortized cost using the effective interest method (AC), at fair value with changes recognized in other comprehensive income (FVOCI), or at fair value with changes recognized through profit and loss (FVTPL). These categories are generally mandatory. However, options are available in isolated cases.
  - The former rules for financial liabilities were largely adopted by IFRS 9. The only major change relates to financial liabilities with the fair value option, for which changes in fair value due to changes in the entity's default risk are to be recognized in other comprehensive income.
  - The impairment model in IFRS 9 includes three levels, which determine the amount of losses and interest revenue which are to be recognized in the future. Under this model, expected losses upon initial recognition are recognized in the amount of the present value of expected losses over a 12-month period (Level 1). If there is a significant

increase in the credit risk, the loss allowance is to be increased up to the amount of expected losses over the entire remaining term (Level 2). If there is objective evidence of impairment, interest revenue is recognized based on the net carrying amount (the carrying amount minus the loss allowance; Level 3).

- The revised accounting rules for general hedging transactions include three types of hedge accounting, which are also available in IAS 39. However, the rules in IFRS 9 offer more options for hedge accounting and allow entities to better reflect their activities in the field of risk management in their financial statements. Major changes include the extended scope of eligible hedging instruments and hedged items and new rules for the classification of effective hedges, including elimination of the previous 80-125% corridor.

Nabaltec AG's financial assets consist primarily of trade receivables and other financial assets in connection with a factoring arrangement which is used by Nabaltec as a means of managing receivables. The recognized financial assets meet the criteria of the "hold" business model and are therefore to be measured at amortized cost, as was the case for the former "loan and receivables" measurement category in accordance with IAS 39.

Financial liabilities are comprised primarily of trade payables and a loan against borrower's note. Financial liabilities are also recognized at amortized cost.

The rules of the new impairment model in IFRS 9 are not expected to have an impact due to the fact that a substantial percentage of accounts receivable are sold to the factor (so that the accounts receivable retained by Nabaltec AG are correspondingly low), and due to the short maturities of Nabaltec's financial assets.

The derivative financial instruments in use consist only of interest rate swaps entered into in connection with the loan against borrower's note. These swaps serve to hedge the interest rate risk in connection with the loan against borrower's note, which includes variable-interest tranches. All existing hedge accounting relationships will also meet the requirements for hedge accounting in accordance with IFRS 9.

Adoption of the new Standard did not result in any changes to the statement of comprehensive income or the balance sheet.

- IFRS 15 "Revenue from contracts with customers" was adopted into European law by the European Union on 22 September 2016. Nabaltec applied IFRS 15 as of 1 January 2018 using the modified retrospective method. In accordance with IFRS 15.C7A(b), the new rules were only applied to contracts which had yet to be settled upon first-time application of the Standard.

In accordance with IFRS 15, revenues are to be recognized in the amount of the consideration which the entity expects to receive and earn once the customer obtains control over the agreed-upon goods and services and can derive benefits from them. The transfer of control may take place at a designated time or over a period of time. The performance obligations arising from contracts with Nabaltec's customers are fulfilled at a single point in time, without exception.

The new standard is based on a principle-based five-step model which is to be applied to all contracts with customers. The first step in the five-step model is to identify the contract with the customer (Step 1). Step 2 is to identify the independent performance obligations in the contract. The next step (Step 3) is to determine the transaction price, for which the Standard defines explicit rules for the treatment of variable consideration, financing components, payments to customers and exchanges. Once the transaction price is determined, Step 4 is to allocate the transaction price to the individual performance obligations in the contract based on the stand-alone selling prices of the individual performance obligations. Finally (Step 5), revenue is recognized insofar as the performance obligation is satisfied by the entity. This is contingent upon the transfer of control over the object or service to the customer. When entering into a contract, IFRS 15 requires the entity to ascertain whether the revenues arising from the contract are to be recognized over time or at a specific point in time. To do so, it is first necessary to clarify based on certain criteria whether control over the performance obligation is transferred over time. If that is not the case, the revenue is to be recognized at the point in time at which control passes to the customer. Indications that this is the case include e.g. the transfer of legal title, transfer of significant risks and rewards associated with the asset, the existence of present right to payment, the transfer of physical possession of the asset and formal acceptance. However, if control is transferred over time, revenue may only be recognized over time insofar as progress towards satisfying the performance obligation can be reliably determined using input- or output-based methods. In addition to general principles for recognition of revenues, the standard also contains detailed implementation guidance for subjects such as sales with a right of return, customer options for additional goods or services, principal versus agent considerations and bill-and-hold arrangements. The standard also includes new guidance concerning the cost of fulfilling and obtaining a contract, as well as the question of when such costs are to be capitalized. Costs which fail to meet the specified criteria are to be recognized as expenses when they accrue.

There have been no changes with respect to Steps 1 and 2 of IFRS 15. Nabaltec's main business consists of supplying customers with aluminum hydroxide- and aluminum oxide-based products. No other services are provided to customers. Contracts as defined in the standard typically come about through individual customer orders. In other words, the contracts consist exclusively of a single performance obligation, i.e. the delivery of goods. A combination of contracts or contractual modifications would not be relevant.

With regard to determination of the transaction price (Step 3), consideration for Nabaltec AG is comprised of fixed and variable components. The fixed consideration is the fixed amount specified in the individual order. Variable consideration includes discounts and bonuses, which have been subtracted from revenues in the period in which they accrue. Because the terms of the contracts are short (individual orders), there are no significant financing components. Non-cash consideration is not paid.

As described above, Nabaltec has no contracts with multiple performance obligations. Accordingly, there is no need to allocate the transaction price based on stand-alone selling prices. As a result, Step 4 (allocation of the transaction price to the separate performance obligations) has no impact.

Given the fact that revenue is realized at a specific point in time (Step 5), the criteria in IFRS 15 for realization of revenue over time are not met in view of Nabaltec's business model. In particular, no products exist which have no alternative use for the company due to practical or contractual limitations. The point in time at which control over the delivered goods is transferred typically conforms to the time of delivery and/or the contractual date for passage of risk.

In view of the above statements, application of the rules of IFRS 15 will not affect the present method of recognizing revenues. Adoption of the new Standard did not result in any changes to the statement of overall income and the balance sheet.

- Amendments to IFRS 15, "Clarifications to IFRS 15": The amendments include clarifications concerning various rules of IFRS 15 and simplifications with regard to transition to the new Standard. In addition to the clarifications, the amended Standard contains two additional simplifications in order to reduce complexity and diminish the cost of transitioning to the new Standard. These simplifications relate to options for the disclosure of contracts which either closed at the start of the earliest period presented in the financial statements or which were modified prior to the start of the earliest period presented. Having been implemented into EU law, the amendments are to be applied for the first time on 1 January 2018. The clarifications to IFRS 15 had no impact on the consolidated financial statements.

- Various: Improvements to the International Financial Reporting Standards (2014 – 2016): IFRS 1 and IAS 28: In IAS 28, it was clarified that the option for measurement of an investment in an associated company or joint venture held by a venture capital firm or another qualifying entity may be exercised differently depending on the investment. In addition, the short-term exceptions for first-time IFRS users in Appendix E of IFRS 1 (IFRS 1. E3-E7) were stricken. The amendments to IFRS 1 and IAS 28 are first to be applied in the first reporting period of financial years beginning or after 1 January 2018. Given the scope of application, these amendments had no impact on the consolidated financial statements.

- Amendments to IFRS 2, "Classification and measurement of share-based payment transactions": The amendments relate to accounting for performance conditions in relation to the measurement of cash-settled share-based payments, the classification of share-based payment transactions with net settlement features for withholding taxes and accounting for changes in classification of share-based payment transactions from "cash-settled" to "equity-settled." Subject to adoption into EU law, the amendments are applicable to payments which are made or modified in annual periods beginning on or after 1 January 2018. Given the scope of application, these amendments had no impact on the consolidated financial statements.

- **Amendments to IAS 40, "Transfers of investment property":** The amendment of IAS 40 serves to clarify in which cases classification of a property as an "investment property" begins or ends, if the property is still under construction or development. Because of the formerly exhaustive list of examples in IAS 40.57, the classification of uncompleted properties was previously unclear. The list is now expressly identified as non-exhaustive, so that uncompleted properties can also be included. Subject to adoption into EU law, the amendment is first applicable in annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. Given the scope of application, these amendments had no impact on the consolidated financial statements.

- **IFRIC 22 "Foreign currency transactions and advance consideration":** IFRIC 22 addresses a question concerning the application of IAS 21, "The effects of changes in foreign exchange rates." It clarifies the point in time for which the exchange rate is to be determined for the translation of foreign-currency transactions that include the receipt or payment of advance consideration. It states that the exchange rate for the underlying asset, income or expense depends on the date on which the asset or liability resulting from the advance payment is first recognized. The Interpretation is to be applied for the first time in the first reporting period beginning on or after 1 January 2018. This Interpretation had no impact on the consolidated financial statements.

The following standards and interpretations, which have been published but are not yet mandatory, have not been applied early:

- **Amendments to IFRS 9, "Prepayment features with negative compensation":** The amendments relate to a limited adjustment in the relevant criteria for the classification of financial assets. In certain cases, financial assets containing a prepayment feature with negative compensation may be recognized at amortized cost or at fair value through other comprehensive income rather than at fair value through profit and loss. Subject to adoption into EU law, the amendments are first to be applied on 1 January 2019. Due to their narrow scope of application, the amendments to this Standard have no impact on the consolidated financial statements.

- **Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture":** The amendments address a conflict between the rules of IAS 28 ("Investments in associates and joint ventures") and IFRS 10 ("Consolidated financial statements"). They clarify that, in the event of transactions with an associate or joint venture, the degree to which income is recognized depends on whether the assets which are sold or contributed represent a business in accordance with IFRS 3. The IASB resolved on 17 December 2015 to postpone the first-time application of this amended standard indefinitely. The amendments have yet to be adopted by the EU. As of now, the Group's transactions with associates or joint ventures do not involve a business in terms of IFRS 3, but only individual assets. As things stand, first-time application of the amendments to IFRS 10 and IAS 28 will have no impact on the consolidated financial statements.

- **IFRS 16, "Leases":** IFRS 16 contains a complete model for the classification and recognition of leases for the lessor and the lessee. IFRS 16 is generally applicable to all leases. Under the Standard, a lease exists if the lessor grants the lessee the right to control an identified asset over a defined period of time in exchange for the payment of consideration by the lessee. For lessees, the former classification of leases as operating and finance leases no longer applies. Instead, lessees will be required in the future to recognize a "right-of-use" (or RoU) asset for all leases, along with a corresponding lease liability. Exceptions to this rule only apply for short-term leases and leases involving low-value assets. The RoU asset is initially recognized in the amount of the lease liability minus lease incentives plus any initial direct costs incurred by the lessee, as well as the cost of disassembling and removing the asset. In subsequent periods, the RoU asset is measured at amortized cost. The lease liability is measured as the present value of lease payments made over the term of the lease. Subsequently, the carrying amount of the lease liability is compounded using the discount rate and lease payments made by the lessee are subtracted. Changes in lease payments result in remeasurement of the lease liability.

  For the lessors, the familiar rules in accordance with IAS 17, "Leases," generally remain in effect, with leases classified as finance or operating leases. The criteria for the classification of finance leases were adopted unchanged from IAS 17.

  The new Standard applies to annual periods beginning on or after 1 January 2019. Earlier application is generally permitted. The Group made a detailed assessment of the impact of IFRS 16 in Financial Year 2018. First-time application is not expected to have a material impact on the consolidated financial statements in view of the limited number of leases.

- **IFRIC 23, "Uncertainty over income tax treatments":** The tax treatment of certain matters and transactions may depend on future recognition by tax courts and authorities. IAS 12 ("income taxes") defines rules for the recognition of actual and deferred taxes. IFRIC 23 supplements the rules in IAS 12 with regard to taking into account uncertainties concerning the income tax treatment of matters and transactions. The Interpretation is first to be applied in annual reporting periods beginning on or after 1 January 2019. The Group does not currently expect this Interpretation to have a material impact on the consolidated financial statements.

- **Various: Improvements to the International Financial Reporting Standards (2015 – 2017):** The Annual Improvements to IFRSs (2015 – 2017) amended four IFRSs. In IFRS 3, it is clarified that an entity which obtains control over a business in which it had previously held an interest as part of a joint operation is required to apply the principles for successive business combinations. Previously held interests in the business are remeasured. In IFRS 11, it is stated that, if a party obtains joint control over a business in which it previously held an interest as part of a joint operation, the previously held interest is not remeasured. IAS 12 is amended in order to clarify that the income tax consequences of dividends are to be recognized in the same way as the income on which the dividends are based. Finally, in IAS 23, it is clarified that, if an entity borrows generally for the acquisition of qualifying assets, the cost of borrowings which were undertaken specifically for the acquisition of qualifying assets is not taken into account in calculation of the capitalization rate until their completion. Subject to adoption in EU law, these amendments are to be applied in annual reporting periods beginning on or after 1 January 2019. The company does not expect these amendments to have an impact on the consolidated financial statements. The amendments to IFRS 3 may have an impact on future business combinations.

- Amendments to IAS 19: The amendments to IAS 19 state that, if a defined-benefit pension plan is amended, curtailed or settled in the future, the current service cost and the interest for the remainder of the year must be remeasured using the actuarial assumptions which were used for remeasurement of the net liability. The IASB has further clarified the impact of a plan amendment, curtailment or settlement on the asset ceiling. Subject to incorporation in EU law, the amendments are first to be applied in annual reporting periods beginning on or after 1 January 2019. The amendments will have an impact if the Group's pension plan is amended, curtailed or settled in the future.

- Amendments to references to the IFRS Conceptual Framework: The extensively revised IASB Conceptual Framework was published in March 2018 and took effect immediately upon publication. The Conceptual Framework is not subject to the endorsement process. References to the Conceptual Framework in the IFRSs and citations of the Conceptual Framework were also revised in this context. The amendments may have an impact e.g. on the accounting policies currently applied by the Group which have been developed within the framework of IAS 8. However, the amendments are subject to the endorsement process. The amendments are to be applied for the first time on 1 January 2020. Earlier application is permitted if all amendments are applied. The amendments will not have an impact on the consolidated financial statements.

- Amendments to IFRS 3, "Definition of a business": The amendments to IFRS 3 regarding the definition of a business were published in October 2018. They are meant to help the entity ascertain whether a transaction should be recognized as a business combination or as the acquisition of assets. They specify the minimum requirements for an entity to be considered a "business" (presence of input factors and a substantive process that significantly contributes to the ability to create outputs). The former requirement for an assessment as to whether market participants are capable of replacing any missing elements in this process has been removed. Additional guidance is to be added in order to help entities determine whether a substantive process has been acquired. In addition, the definitions of business and output have been narrowed by focusing on services to customers. The amendments also introduce an optional concentration test which is to permit a simplified assessment. In addition, illustrative examples have been added in order to demonstrate how the amendments are to be applied. The amendments are to be applied for the first time on 1 January 2020. Earlier application is permitted. The amendments will have an impact on the Group's future business combinations.

- **Amendments to IAS 1 and IAS 8, "Definition of materiality":** The amendments to IAS 1 and IAS 8 regarding the definition of materiality were published in October 2018. They clarify that information is deemed "material" if omitting, misstating or obscuring it could reasonably be expected to influence decisions by the primary users of the financial statements. This new definition of materiality includes the concept of "obscuring" information for the first time as a standard for determining whether disclosures are material. It relates to the primary users of the financial statements, as defined in the Conceptual Framework since 2010. It also states that, to be material, information must be reasonably expected to influence decisions. These changes were made so as to adjust the definition of materiality in order to conform with the statements regarding materiality in the 2018 Conceptual Framework and make them generally easier to apply. The amendments are to be applied for annual periods beginning on or after 1 January 2020. The Group does not expect any impact on the consolidated financial statements.

The following standards and amendments were/are not applied due to lack of relevance for Nabaltec AG:

- IFRS 2 "Share-based payment"
- IFRS 4 "Insurance contracts"
- IFRS 6 "Exploration for and evaluation of mineral resources"
- IFRS 11 "Joint arrangements"
- IFRS 17 "Insurance contracts"
- IAS 26 "Accounting and reporting by retirement benefit plans"
- IAS 28 "Investments in associates and joint ventures"
- IAS 29 "Financial reporting in hyperinflationary economies"
- IAS 41 "Agriculture"

2.3 SUBSIDIARIES AND CONSOLIDATED COMPANIES

The consolidated financial statements include the financial statements of the parent company and the company is controls (its subsidiaries), insofar as they are material for presentation of the financial, earnings and liquidity position. The company obtains control when it

- can exercise power over the investee;
- is exposed to variable returns from its investment; and
- has the ability to affect those returns through its power over the investee.

The composition of the Group is evident from the table below:

NUMBER OF COMPANIES

	2018	2017
Nabaltec AG and fully consolidated subsidiaries		
Domestic	1	1
Foreign	4	1
Unconsolidated subsidiaries		
Foreign	1	1

The following subsidiaries were included in the consolidated financial statements of Nabaltec AG as fully consolidated companies:

SUBSIDIARIES

			Share of capital and voting rights	
Name of subsidiary	Main business	Registered office	12/31/2018 in %	12/31/2017 in %
Nashtec LLC	Production of aluminum hydroxides	Corpus Christi, USA	100.00	100.00
Nabaltec USA Corporation	Administration and distribution	Corpus Christi, USA	100.00	–
Naprotec LLC	Production	Chattanooga, USA	100.00	–
Nabaltec (Shanghai) Trading Co. Ltd.	Marketing and distribution	Shanghai, China	100.00	–

Three additional companies have been consolidated since the consolidated financial statements for 31 December 2017.

After a successful site review, Nabaltec AG acquired land and buildings in Chattanooga, Tennessee for the construction of a production plant for refined hydroxide which is expected to go online in the second half of 2019. Naprotec LLC was formed as a production company for this purpose. The shares in Naprotec LLC were contribution into the newly formed subsidiary Nabaltec USA Corporation. The shares in Nashtec LLC were also contributed into Nabaltec USA Corporation.

Nabaltec AG also formed Nabaltec (Shanghai) Trading Co., Ltd. in October 2018, which will be based in Shanghai, China. The formation of this trading company represents the logical continuation of Nabaltec's expansion of operations in Asia.

Other than the acquisition of property, plant and equipment by Naprotec LLC, additions to the consolidation base in the reporting year had no material impact on the Group's financial, earnings and liquidity position.

The following subsidiary was not included in the consolidated financial statements of Nabaltec AG since it is not material for presentation of the financial, liquidity and earnings position.

SUBSIDIARIES

Name of subsidiary	Main business	Registered office	Share of capital and voting rights 12/31/2018 in %	12/31/2017 in %
Nabaltec Asia Pacific K.K.	Marketing and sales	Tokio, Japan	100.00	100.00

All individual financial statements of the consolidated companies, which are prepared in accordance with national law, were reconciled to IFRS and adapted to the Group's accounting policies.

The reporting dates of all companies included in the consolidated financial statements are 31 December.

2.4 CONSOLIDATION METHODS

Capital consolidation for the subsidiaries was performed by netting out the book value of each investment with each subsidiary's remeasured capital at the time of the acquisition (remeasurement method). The cost of acquisition is equal to the fair value of the assets paid, the equity instruments issued and the liabilities incurred and assumed on the transaction date (the date of exchange), plus the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities in connection with a business combination are measured upon initial consolidation at their fair value as of the acquisition date, regardless of the amount of non-controlling interests. The amount by which the cost of acquisition exceeds the Group's share in the net assets of the subsidiary, measured at fair value, is recognized as goodwill. If the cost of acquisition is lower than the net assets of the acquired subsidiary, measured at fair value, the difference is recognized immediately in the consolidated statement of comprehensive income, following additional review.

The impact of all material intra-Group transactions is eliminated by netting out income and expenses and accounts receivable and payable between Group companies. Interim results from intra-Group sales of assets which have yet to be resold to third parties are eliminated. The tax deferrals required in accordance with IAS 12 are performed on temporary differences arising from consolidation measures.

The results of subsidiaries which are acquired or sold over the course of the year are included in the consolidated statement of comprehensive income from the time the Group begins to exercise control until the time that such control ceases.

The share of consolidated shareholders' equity and consolidated net income which is attributable to non-controlling interests is disclosed separately from the shares attributable to the parent company. Insofar as the capital accounts of non-controlling interests show a negative balance, they are recognized as a negative item in shareholders' equity and consolidated profit and loss. No shares are held by non-controlling shareholders following acquisition of the remaining shares in Nashtec LLC in Financial Year 2017.

2.5 CURRENCY TRANSLATION

The consolidated financial statements are prepared in euros.

Foreign-currency monetary items (liquid funds, accounts receivable, accounts payable) in the individual financial statements of consolidated companies which are prepared in the local currency are measured at the closing rate. Exchange differences are recognized in profit and loss. Non-monetary items denominated in foreign currency are recognized at the historical rates.

The translation of the financial statements of the consolidated companies, which are prepared in a foreign currency, is performed based on the functional currency concept in accordance with IAS 21, "The effects of changes in foreign exchange rates," using the modified closing rate method. Since the subsidiaries essentially operate independently in financial, economic and organizational terms, the functional currency is identical to each company's national currency.

Accordingly, assets and liabilities are translated at the closing rate, shareholders' equity at the historical rate and income and expenses at the average rate for the year. Differences arising from currency translation are not recognized in profit and loss and are instead recognized separately in shareholders' equity under "other changes in shareholders' equity with no effect on profit and loss."

Currency differences relative to currency translation in the year before are recognized in shareholders' equity under "other changes in equity with no effect on profit and loss."

Initial historical costs and depreciation of fixed assets are translated at the exchange rate in effect on the last reporting date, while depreciation and all other transactions during the year are translated at the average exchange rate for the year. The translation of the foreign subsidiaries' fixed assets results in translation differences which are presented in separate columns in the statement of fixed assets.

3. USE OF ASSUMPTIONS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions which affect the measurement of assets and liabilities, the disclosure of contingent assets and liabilities as of the reporting date and the recognition of income and expenses.

These assumptions and estimates relate primarily to the following:

- Determining the **useful lives** of property, plant and equipment and intangible assets: the useful lives of fixed assets are based on management's estimates. The Group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each year. However, there were no changes to estimated useful lives during the current year.

- The option in accordance with IFRS 1.16, in conjunction with IFRS 1.18, for measurement of **land and buildings** at fair value in the IFRS opening balance sheet was exercised. The remeasurement of land and buildings on 1 January 2007 was performed with due regard for outside expert opinions.

- **Pensions** and other **post-employment employee benefits:** pension plans are measured based on actuarial calculations. Actuarial measurement is performed based on assumptions with regard to discount rates, expected income from plan assets, future increases in wages and salaries, mortality and future pension increases. Such estimates are subject to considerable uncertainty in view of the long-term nature of these plans. Provisions for pensions and similar obligations amounted to TEUR 36,052 on 31 December 2018 (year before: TEUR 36,804). Further details are presented in Section 6.9, "Other current and non-current provisions."

- Measurement of **other provisions:** provisions are measured using management's best estimate of the amount necessary to settle the current obligation as of the reporting date. As of 31 December 2018, the book value of recognized other provisions was TEUR 185 (year before: TEUR 173). We refer to the explanations in Section 6.9, "Other current and non-current provisions," for further statements and information.

- Recognition of deferred tax assets: in assessing the realizability of deferred taxes, the Management Board ascertains the likelihood that all deferred tax assets will be realized. The ability to realize deferred tax assets is ultimately contingent upon whether sufficient taxable income is earned in the periods in which temporary differences are deductible. If that is not the case, the deferred tax assets are not used and are therefore not recognized. Deferred tax assets as of 31 December 2018 (prior to netting out with deferred tax liabilities) amounted to TEUR 7,899 (year before: TEUR 7,808).

- Impairment of non-financial assets: impairment tests of other intangible assets and property, plant and equipment are generally based on the estimated future discounted net cash flows which are to be expected from continued use of the asset and from disposal of the asset at the end of its useful life. Factors such as diminished revenues, resulting in lower net cash flows, as well as changes in discounting factors, may result in impairment or a write-up, if permissible.

Actual results in future periods may deviate from estimates. If better information becomes available, changes are made with effect on profit and loss.

4. MAJOR ACCOUNTING POLICIES

4.1 REVENUE REALIZATION

Revenues from the sale of goods are recognized in accordance with the criteria established in IFRS 15 in the amount of the expected consideration once the customer obtains control over the goods and can derive benefits from them.

The point in time at which control over the delivered goods is transferred typically confirms to the time of delivery or the contractual date for the passage of risk. Nabaltec's revenues are realized exclusively at specific points in time. Accordingly, the timing of revenue realization at Nabaltec does not involve significant discretionary decisions. Customers' payment targets are set within narrow periods and no financing components exist.

Revenues are diminished by variable consideration (cost of sales and discounts).

4.2 REALIZATION OF EXPENSES

Expenses are recognized on an accrual basis. Operating expenses are recognized in profit and loss at the time of their accrual, or at the time the service is utilized.

4.3 RESEARCH AND DEVELOPMENT COSTS

Nabaltec AG invests part of its financial resources in research and development performances. In addition to internal development activities relating to the individual optimization of purchased software, this particularly includes research and development activities for the improvement of existing products and processes and the development of new products and processes.

Research costs are recognized as expenses in the period in which they accrued. The Group only recognizes development costs in connection with individual projects as intangible assets if it can demonstrate the technical feasibility that the asset will be completed so that it will be available for internal use or sale, as well as its intention to complete the asset and use or sell it. The Group must also show that the asset will generate a future economic benefit, the availability of resources to complete the asset and the ability to reliably determine the expenses attributable to the asset during its development.

Following the first-time recognition of development costs, the cost model is applied, i.e. the asset is recognized at cost less accrued depreciation and impairment costs. Costs include directly attributable personnel expenses and other direct costs, as well as a reasonable share of overhead costs. The capitalized amounts are depreciated over the useful life of the asset once it is commissioned.

Capitalized development costs are tested for impairment once a year if the asset has yet to be used or if there are indications of impairment over the course of the year.

Nabaltec AG generally capitalizes all material development costs which accrue in the development phase of internally developed software. These costs are depreciated over the expected useful life of the software beginning with initial use.

Since the Group's development projects are often subject to official approval procedures and other unpredictable events, the requirements for the capitalization of costs accruing prior to approval are generally not met, or the amount of such costs in the brief period between the research/approval and market launch is immaterial.

No development costs were capitalized as of 31 December 2018 (year before: TEUR 0).

4.4 INTANGIBLE ASSETS

Purchased intangible assets are recognized at cost less straight-line depreciation. Depreciation of intangible assets is generally performed in straight-line fashion over the useful life of the asset.

The depreciation term is as follows:

- IT software 4 – 5 years

The residual values of assets, useful lives and depreciation methods are examined at the end of each year and adapted if necessary.

Intangible assets with an indefinite useful life do not exist.

Reference is made to Section 4.3, "Research and development costs," for the capitalization of development costs as self-created intangible assets.

4.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at cost less depreciation, in accordance with the expected useful life of the asset. The cost includes a reasonable share of attributable overhead costs in addition to direct costs.

Depreciation on property, plant and equipment is performed using the straight-line method.

The depreciation terms are as follows:

- Production and office buildings 20 – 50 years
- Technical equipment and machinery 5 – 22 years
- Fixtures, fittings and equipment 3 – 20 years

The residual values of assets, useful lives and depreciation methods are examined at the end of each year and adapted if necessary.

4.6 BORROWING COSTS

Borrowing costs directly associated with the acquisition, construction or production of qualified assets (i.e. assets which take a substantial period of time to get ready for use or sale) are included in the cost of the asset until such time as the asset is ready for its intended use or sale. See Section 6.2, “Property, plant and equipment.”

Income earned from the temporary investment of specifically borrowed funds is subtracted from capitalizable borrowing costs until those funds are spent on qualified assets.

All other borrowing costs are recognized with effect on profit and loss in the period in which they accrue.

4.7 GOVERNMENT GRANTS

Government grants are deducted from the cost of the relevant asset (IAS 20.24). They are reversed over the useful life of the asset in the form of reduced depreciation.

4.8 LEASES WITH THE GROUP AS LESSEE

The determination as to whether an agreement is or contains a lease is made based on the economic content of the agreement and requires an assessment as to whether performance of the contractual agreement is contingent upon the use of a specific asset or assets and whether the agreement grants a right to use the asset.

Finance leases in which all risks and opportunities associated with ownership of the transferred essentially pass to the Group at the start of the lease are recognized at the fair value of the leased object or the present value of minimum lease payments, whichever is lower. Lease payments are broken down into two components, the finance charge and amortization of the outstanding liability, so that the residual book value of the lease liability accrues interest at a constant rate. The finance charge is immediately recognized as an expense. If it is not adequately certain that ownership will pass to the Group once the term of the lease expires, capitalized lease objects are fully depreciated over the term of the lease or their useful life, whichever is shorter. No finance lease liabilities existed as of 31 December 2018 and 31 December 2017.

Leases in which beneficial ownership cannot be attributed to the Group are classified as operating leases. Operating lease expenses are recognized in the consolidated income statement in straight-line fashion over the term of the lease. Future expenses of this nature are reported in Section 7.1, under “Other financial obligations.”

In sale-and-leaseback transactions which establish an operating lease, the realization of income from the sale depends on the relationship of the sale price to fair value. If the sale price is equal to the fair value of the asset, the income is recognized immediately. In case of sale-and-leaseback transactions which result in a finance lease, the entire income is deferred and amortized over the term of the lease.

4.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The capitalized book value of intangible assets with a limited useful life and property, plant and equipment is checked for impairment based on the expected future cash flows arising from use of the asset (discounted at a rate commensurate with the risk) and based on the net sale price of the asset (impairment test) if certain events or market developments indicate an adjustment of the estimated useful life of the asset, or that the value of the asset has decreased. In addition, intangible assets which are not yet ready for use are tested for impairment annually. If the net book value of the asset is higher than the recoverable amount (the higher of the asset's value in use and net realizable value), a write-down is performed. The determination of expected future cash flows takes into account current and expected future income as well as technological, economic and general developments and developments in the specific field of business. If the reason for an earlier write-down no longer applies, a write-up to the amortized cost of the asset is performed, to the extent permissible.

4.10 FINANCIAL ASSETS

Upon initial recognition, financial assets are classified and measured as follows in accordance with IFRS 9:

- financial assets at amortized cost (AC);
- debt instruments at fair value through other comprehensive income (FVOCI): investments in debt instruments recognized at fair value with changes recognized in other comprehensive income (FVOCI – debt);
- equity instruments at fair value through other comprehensive income (FVOCI): equity investments recognized at fair value with changes recognized in other comprehensive income (FVOCI – equity);
- financial assets at fair value through profit and loss (FVTPL): investments at fair value with changes in value in profit and loss.

Financial assets are not reclassified after initial recognition unless the Group changes its business model for the management of financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period which follows the change in the business model.

Financial assets are recognized at amortized cost if two of the following conditions are met and if the asset is not designated as a financial asset at fair value through profit and loss (FVTPL):

- the asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated as a financial asset held at fair value through other comprehensive income (FVOCI) if one of the following two conditions are met and if the instrument is not designated as a financial asset at fair value through profit and loss (FVTPL):

- the debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of an equity investment not held for trading, the Group may irrevocably elect to recognize subsequent changes in the fair value of the investment in other comprehensive income. This election is made individually for each investment.

All financial assets hot held at amortized cost or at fair value through other comprehensive income (FVOCI) are recognized at fair value through profit and loss (FVTPL). This includes all derivative financial assets as well as financial instruments held for trading which are voluntarily designated as financial assets at fair value through profit and loss (FVTPL).

INITIAL MEASUREMENT

Upon initial recognition, financial assets are measured at fair value. For financial assets which are not measured at fair value through profit and loss, the measurement includes transaction costs which are directly attributable to acquisition of the asset.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the Group entered into an obligation to buy or sell the asset or liability. Regular way purchases and sales are purchases or sales of financial assets which call for the assets to be delivered within a period defined by market rules or conventions.

SUBSEQUENT MEASUREMENT

Financial assets at amortized cost (AC)

Assets at amortized cost are measured using the effective interest method in subsequent measurement. Impairment costs are subtracted from the amortized cost of the asset. Interest income, exchange rate gains and losses and impairments are recognized in profit and loss. Gains or losses from derecognition are also recognized in profit or loss.

Debt instruments at fair value through other comprehensive income (FVOCI)

These assets are recognized at fair value in subsequent measurement. Interest income calculated using the effective interest rate method, exchange rate gains and losses and impairments are recognized in profit or loss. Other net gains or losses are recognized in other comprehensive income. Upon derecognition, cumulative other comprehensive income is reclassified as profit or loss.

Equity investments at fair value through other comprehensive income (FVOCI)

These assets are recognized at fair value in subsequent measurement. Dividends are recognized as income in profit and loss unless the dividends are clearly being paid in order to cover part of the cost of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified as profit or loss.

Financial assets at fair value through profit and loss (FVTPL)

These assets are recognized at fair value in subsequent measurement. Net gains and losses, including any interest or dividend income, are recognized in profit and loss.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized when the company loses its ability to dispose over contractual rights to the cash flows comprising the financial asset.

If the Group transfers its contractual rights to the cash flows generated by an asset but neither transfers nor retains substantially all of the risks and rewards associated with ownership of the asset, so that the Group retains its ability to dispose over the transferred asset, the Group continues to recognize the transferred asset to the extent that it has a continuing involvement in the asset.

4.11 IMPAIRMENT OF FINANCIAL ASSETS

On each reporting date, a test is performed to determine whether financial assets or groups of financial assets are impaired. An impairment loss is recognized immediately in profit and loss.

Financial assets are subject to a standardized expected loss impairment model, which is broken down into a simplified approach for trade receivables and the three-stage general approach for all other financial assets. In the three-stage approach, expected losses upon acquisition of the asset are recognized in the amount of the present value of the expected losses over 12 months (Level 1). If there is a significant increase in credit risk, the loss allowance is to be increased up to the amount of the expected losses over the lifetime of the credit risk (Stage 2). If there is objective evidence of impairment, interest is calculated based on the net carrying amount (the carrying amount minus the loss allowance; Stage 3).

Trade receivables are recognized at amortized cost less reasonable allowances. Allowances on accounts receivable are performed based on the expected loss.

Allowances are performed on a case-by-case basis if doubts exist as to the recoverability of other assets recognized at amortized cost or financial instruments at fair value through other comprehensive income (FVOCI).

4.12 INVENTORIES

Inventories are measured at cost or at net realizable value, whichever is lower.

Raw materials and supplies are recognized upon addition at cost plus ancillary costs less price reductions. Costs are determined by applying the weighted average method.

Finished goods and work in process are capitalized at their production cost. Production costs include directly attributable production costs as well as a share of attributable fixed and variable overhead production costs. The share of overhead costs is determined based on normal employment. Cost of sales, cost of general administration and borrowing costs are not capitalized.

Finished goods are combined into measurement units as part of a group valuation.

On the reporting date, inventories are written down to account for risks arising from extended storage or diminished realizability, taking into account their net realizable value.

4.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet include cash on hand, bank balances and short-term deposits within original terms to maturity of less than three months. The same definition is used for the purposes of consolidated cash flow statement. Measurement is performed at amortized cost.

4.14 TAXES

Actual taxes on income

Actual tax liabilities and refund claims for the current and all earlier periods are recognized in the amount of the expected payment to or refund from the tax authority. This amount is calculated based on the tax rates and laws in effect as of the reporting date.

Deferred taxes

Deferred tax assets and liabilities are recognized for all temporary differences between tax and IFRS measurement and for consolidation measures with effect on profit and loss using the balance sheet method in accordance with IAS 12, “Income taxes.” Pursuant to IAS 12.34, deferred tax assets for loss carry-forwards or temporary differences may only be recognized to the degree that it is likely that future taxable income will be earned so as to enable deduction of these loss carry-forwards.

Deferred taxes are calculated based on the tax rates in effect at the time of realization, based on the current legal situation. Changes in tax rates are taken into account insofar as they can be expected with adequate certainty.

Deferred tax assets and liabilities were netted out where possible.

4.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING INSTRUMENTS

The Group uses derivative financial instruments to hedge against interest rate and currency risks arising from operations. Financial instruments are measured at fair value as of the reporting date. Changes in value are recognized at profit and loss unless the requirements for hedge accounting are met. Changes in the market value of derivative financial instruments subject to hedge accounting are recognized either in profit and loss (fair value hedge) or as a component of shareholders' equity (cash flow hedge). Hedge accounting was applied in the financial year for cash flow hedges relating to interest rate risks. No currency hedges were used in the reporting year.

Derivative financial instruments which are not designated as hedging instruments are classified as financial assets at fair value through profit and loss. Derivatives are classified as financial assets if their fair value is positive or as financial liabilities if their fair value is negative. Derivative financial instruments are measured at fair value. Changes in the fair value of these derivative financial instruments are recognized in profit and loss.

4.16 SHAREHOLDERS' EQUITY

Shareholder contributions and payments into the capital reserve are recognized, less transaction costs directly associated with the acquisition of shareholders' equity, and with due regard for a possible tax effect.

4.17 OTHER PROVISIONS

Pursuant to IAS 37, "Provisions, contingent liabilities and contingent assets," provisions are recognized insofar as a present obligation towards third parties arises from a past event which is likely to result in a future payment and which can be reliably estimated. This means that the probability of occurrence must be higher than 50%. Provisions are recognized for identifiable risks and contingent liabilities in their probable amount and recourse claims are not taken into account. Non-current other provisions are discounted. The settlement amount includes cost increases as of the reporting date.

Provisions were made for existing service anniversary bonus obligations established by works agreements using the same calculation assumptions as for pension reserves and pension-like liabilities. Service anniversary bonus obligations are calculated using the projected unit credit method.

4.18 PENSION RESERVES

Pension reserves are calculated using the projected unit credit method in accordance with IAS 19. This method takes into account known pensions and vested rights as of the reporting date as well as expected future increases in pensions and salaries, based on a careful assessment of the relevant factors. The calculation is based on an actuarial opinion with biometric assumptions.

The (net) interest component is determined at the start of the period by multiplying (net) pension obligations, i.e. pension liabilities less plan assets, by the discount rate for measurement of the pension obligation. As a result, the interest expense resulting from the compounding of the obligation is netted out with the expected income from plan assets, with the result to be recognized as profit and. Expected income from plan assets is assumed to be in the amount of the discount rate.

Deviations between the actual return on plan assets and/or the actual discount rate as of the reporting date and the expected discount rate (= the expected return on plan assets) are recognized as other comprehensive income, like other actuarial gains and losses, as a remeasurement component.

The discount rate for (net) pension obligations is determined based on the yields of high-quality fixed-interest corporate bonds.

The service time component (service cost), which is to be recognized as profit and loss, includes both current service cost and past service costs arising from changes in the plan.

4.19 FINANCIAL LIABILITIES

Financial liabilities in terms of IFRS 9 are classified as "financial liabilities at fair value through profit and loss" or "other liabilities."

The Group classifies its financial liabilities upon initial recognition and reviews that classification at the end of each year, to the extent reasonable and permissible.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are measured at fair value upon initial recognition. Income and losses due to changes in fair value are immediately recognized as profit and loss. This category includes derivative financial instruments with negative market values. Income and losses from financial liabilities measured at fair value are recognized as profit and loss.

Other liabilities

Loans and bonds are measured at fair value upon initial recognition less directly associated transaction costs. They are not designated as financial liabilities at fair value through profit and loss.

Following initial recognition, interest-bearing loans and bonds are measured at amortized cost using the effective interest method. Differences between the historical cost and the repayment amount are recognized as profit and loss in accordance with the effective interest method.

Financial liabilities, all of which are classified as other liabilities, are measured upon initial recognition at the fair value of the consideration received less associated transaction costs. Following initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized once they are extinguished, i.e. once the underlying obligation is satisfied, cancelled or expired.

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 REVENUES

For the breakdown of revenues into product segments, reference is made to the segment reporting and the associated notes in Section 7.7, “Segment reporting.”

5.2 OWN WORK CAPITALIZED

Own work in the amount of TEUR 706 (year before: TEUR 507) was capitalized in Financial Year 2018 for various technical equipment and machinery, including capitalized interest in the amount of TEUR 199 (year before: TEUR 74).

5.3 OTHER OPERATING INCOME

Other operating income is comprised as follows:

OTHER OPERATING INCOME

in TEUR	2018	2017
Income from the reversal of other accounts payable	926	2,656
Currency gains	824	545
Other	418	406
Payments in kind	230	197
Rent and lease payments	152	156
Insurance indemnities	152	25
Supply of industrial water	149	149
Analysis Center services	145	179
Warehouse and scrap sales	35	41
HR services	25	26
Government grants	6	17
Income from the disposal of property, plant and equipment	5	42
Siding and track work	3	80
Allowances on accounts receivable	2	18
Total	**3,072**	**4,537**

Government grants relate to expense subsidies. The requirements associated with these grants have been met in full and no other uncertainties exist.

5.4 COST OF MATERIALS

Cost of materials is comprised as follows:

COST OF MATERIALS

in TEUR	2018	2017
Cost of raw materials, supplies and purchased goods	83,635	82,236
Cost of purchased services	2,632	1,502
Total	**86,267**	**83,738**

5.5 PERSONNEL EXPENSES

Personnel expenses are comprised as follows:

PERSONNEL EXPENSES

in TEUR	2018	2017
Wages and salaries	27,429	25,814
Social security contributions	4,615	4,468
Expenses for pension obligations	754	827
Other pension expenses	191	188
Total	**32,989**	**31,297**

Expenses for pension obligations meet the criteria for a defined benefit plan in terms of IAS 19.

Other pension expenses consist of employer subsidies to employee pension plans meeting the criteria of a defined contribution plan in terms of IAS 19.

The company's share of statutory pension insurance contributions, in the amount of TEUR 1,960 (year before: TEUR 1,842), are included in social security contributions, which are paid monthly.

5.6 EMPLOYEES

The average number of employees in the Group has changed as follows:

EMPLOYEES

	2018	2017
Industrial workers	247	243
Employees	184	170
Minimally employed workers	4	4
Total	**435**	**417**

In addition, an average of 51 trainees were employed during the year (year before: 50).

5.7 DEPRECIATION

Depreciation of fixed assets is evident from the Statement of Fixed Asset.

If there are indications of impairment, the company performs an impairment test for intangible assets and property, plant and equipment, in which the book value of the cash-generating units are compared against the realizable value. The realizable value of each cash-generating unit was determined by calculating the value in use with the help of the discounted cash flow method. These discounted cash flows are based on three-year forecasts using management-approved projections. The cash flow forecasts take into account past experience and management's best estimate of the company's future development. Forecasted cash flows are discounted using a risk-adequate discount rate.

Impairment tests did not indicate a need to write down assets in Financial Year 2018.

5.8 OTHER OPERATING EXPENSES

Other operating expenses are comprised as follows:

OTHER OPERATING EXPENSES

in TEUR	2018	2017
Freight	12,886	11,485
Outside services	8,082	7,317
Sales commissions	3,294	3,257
Minimum lease payments	987	661
Other administrative costs	960	1,005
Insurance	842	733
Legal and consulting expenses	695	787
Other	682	652
Travel expenses	595	478
Ancillary personnel expenses	543	535
Other taxes	401	251
Advertising expenses	356	292
Currency losses	348	1,610
Losses from the disposal of fixed assets	6	517
Total	**30,677**	**29,580**

5.9 RESEARCH AND DEVELOPMENT

All research and development costs for the year, in the amount of TEUR 3,755 (year before: TEUR 3,719), were recognized as expenses.

5.10 INTEREST AND SIMILAR INCOME

Interest and similar income is shown in the following table:

INTEREST AND SIMILAR INCOME

in TEUR	2018	2017
Income from plan assets (pension liability insurance)	67	62
Interest income from bank balances	44	49
Total	**111**	**111**

5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are shown in the following table:

INTEREST AND SIMILAR EXPENSES

in TEUR	2018	2017
Interest expenses to banks	1,162	1,169
Interest expenses from interest rate swaps	902	883
Interest expenses from provisions	707	607
Interest expenses from compounding	37	34
Commission on bank guarantees	8	0
Total	**2,816**	**2,693**

5.12 TAXES ON INCOME

Taxes on income break down as follows:

TAXES ON INCOME

in TEUR	2018	2017
Actual taxes:		
Tax expense for current year	6,072	4,546
Tax expense for prior years	76	−18
Deferred taxes:		
Accrual and reversal of temporary differences	320	487
Recognized in other comprehensive income	−992	−867
Recognized in the capital reserve	0	137
Total	**5,476**	**4,285**

Taxes on income for Financial Year 2018 consist of current trade and corporate income tax.

Deferred taxes are calculated based on the tax rates in effect or expected at the time of realization, taking into account tax rules in effect or adopted as of the reporting date. The calculation of deferred taxes in Germany was based on a tax rate of 29.13% (year before: 29.13%). This number is comprised of the 15% corporate income tax rate, which remains in effect, the unchanged 5.50% solidarity mark-up and the average Group trade tax rate of 13.30% (year before: 13.30%). Taxes for the foreign companies were calculated using the applicable national tax rates.

The effects of taxes in other comprehensive income, recognized as part of consolidated shareholders' equity, break down as follows for each component:

	Before taxes		Deferred taxes		After taxes	
in TEUR	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Foreign currency translation	1,829	−3,075	−495	0	1,334	−3,075
Net income from hedge accounting	279	1,031	−81	−300	198	731
Actuarial gains and losses	1,428	1,946	−416	−567	1,012	1,379
Total	**3,536**	**−98**	**−992**	**−867**	**2,544**	**−965**

The table below shows the tax reconciliation of the expected tax expense in each year with the actual tax expense recognized in the consolidated income statement:

TAX RECONCILIATION OF THE EXPECTED TAX EXPENSE

	2018	2017
Tax rate	**29.13%**	**29.13%**
in TEUR		
Earnings before taxes (EBT)	**15,762**	**15,735**
Expected tax expense	**4,591**	**4,584**
Deviations		
1. Different foreign tax rate	476	307
2. Adjustments to actual taxes from prior years	76	8
3. Losses in current year for which no deferred taxes were claimed	559	0
4. Changes in tax rates (year before: USA)	0	−371
5. Non-deductible expenses	43	753
6. Tax effects of consolidation measures	−269	−1,088
7. Other	0	92
Tax expense recognized in the consolidated income statement	**5,476**	**4,285**

Deferred tax assets and liabilities are as follows:

	Consolidated balance sheet		Consolidated income statement	
in TEUR	12/31/2018	12/31/2017	2018	2017
Deferred tax assets				
Other assets	526	517	9	8
Pension reserves	5,951	6,304	–353	–754
Other provisions	171	176	–5	–29
Loss carry-forward	650	148	502	–554
Other	601	663	–62	–300
Gross total, deferred tax assets	7,899	7,808	91	–1,629
Netting	–7,899	–7,133	0	0
Net total, deferred tax assets	**0**	**675**	**91**	**–1,629**
Deferred tax liabilities				
Fixed assets	7,649	7,757	108	439
Inventories	426	385	–41	34
Other	528	38	–490	669
Gross total, deferred tax liabilities	8,603	8,180	–423	1,142
Netting	–7,899	–7,133		
Net total, deferred tax liabilities	**–704**	**–1,047**	**–423**	**1,142**

The deferred tax asset in the form of the loss carry-forward is attributable in its entirety to Nabaltec USA Corporation. In general, the tax loss carry-forwards in the US, in the amount of TEUR 3,096 (year before: TEUR 707), can be carried back two years and carried forward up to 20 years for the purposes of federal tax:

in TEUR	2018	2017
Expiration date within		
1 year	0	0
2 – 5 years	0	0
6 – 10 years	0	0
11 – 20 years	3,096	707

Deferred tax assets and liabilities in the US are netted out with deferred tax assets in connection with loss carry-forwards.

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 INTANGIBLE ASSETS

With regard to the change in intangible assets, reference is made to the Statement of Fixed Assets.

Intangible assets largely consist of IT software and proprietary rights.

No intangible assets had been transferred by way of security as of 31 December 2018, as was the case in the prior year as well.

Material obligations to acquire intangible assets did not exist.

6.2 PROPERTY, PLANT AND EQUIPMENT

The change in property, plant and equipment is shown in the Statement of Fixed Assets.

As in the year before, no property, plant and equipment served as collateral or land charges for debt.

A total of TEUR 199 in borrowing costs were capitalized in Financial Year 2018 (year before: TEUR 74) for the long-term manufacture of various technical equipment, buildings and operating equipment. The average capitalization rate used for the calculation of capitalizable borrowing costs was 2.60% (year before: 2.60%).

6.3 FINANCIAL ASSETS

Financial assets relate to the Group's 100% interest in Nabaltec Asia Pacific K.K. The subsidiary has not been fully consolidated for materiality reasons.

6.4 INVENTORIES

Inventories are comprised as follows:

INVENTORIES

in TEUR	12/31/2018	12/31/2017
Raw materials and supplies	20,609	19,025
Work in process	880	28
Finished goods and merchandise	13,135	13,950
Total	**34,624**	**33,003**

As in the previous year, no inventories serve as collateral for accounts payable to banks.

The impairment of inventories, which is recognized as an expense, amounted to TEUR 69 (year before: TEUR 224).

6.5 TRADE RECEIVABLES

Trade receivables are as follows:

TRADE RECEIVABLES

in TEUR	12/31/2018	12/31/2017
Gross trade receivables	4,607	4,239
Individual allowances	–148	–150
Total	**4,459**	**4,089**

All trade receivables are not interest-bearing and have a residual term of less than one year.

We refer to Section 7.2, "Disclosures for financial instruments," with regard to the development of the allowance account and the age structure of accounts receivable.

6.6 OTHER ASSETS

Other assets are comprised of other financial assets and other non-financial assets as follows:

OTHER ASSETS

in TEUR	12/31/2018	12/31/2017
Accounts receivable from factoring	4,303	3,507
Other	1,808	740
Other financial assets	**6,111**	**4,247**

OTHER NON-FINANCIAL ASSETS

in TEUR	12/31/2018	12/31/2017
VAT receivable	1,248	1,019
Accrued assets	184	210
Other non-financial assets	**1,432**	**1,229**
Total	**7,543**	**5,476**

The accounts receivable from factoring recognized as of 31 December 2018, in the amount of TEUR 4,303 (year before: TEUR 3,507), consist primarily of withheld purchase prices in connection with factoring arrangements.

Other assets have a residual term of less than one year.

6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised as follows as of the reporting date:

CASH AND CASH EQUIVALENTS

in TEUR	12/31/2018	12/31/2017
Bank balances	30,287	45,916
Cash on hand	2	1
Total	**30,289**	**45,917**

Bank balances earn interest at variable interest rates for sight deposits. Short-term deposits are made for a variety of terms, ranging from one day to three months depending on the Group's needs. They earn interest in each case at the rates in effect for short-term deposits.

For the purposes of the consolidated cash flow statement, there are no differences in cash and cash equivalents as of 31 December 2018.

Cash and cash equivalents are not subject to any restrictions on disposal.

6.8 SHAREHOLDERS' EQUITY

The changes in Nabaltec AG's shareholders' equity are shown in the Statement of Consolidated Shareholders' Equity.

Subscribed capital

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 in Financial Year 2017, 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 EUR 8,000,000 to EUR 8,800,000. The capital increase was entered into the Commercial Register on 15 September 2017.

Fully paid-in capital (capital stock) therefore amounted to TEUR 8,800 on the reporting date (year before: TEUR 8,800) and consists of 8,800,000 bearer shares, with each share representing EUR 1.00 of the capital stock. Each share confers one vote.

Authorized capital

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 TEUR 4,000 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).

Following the partial use described above, Authorized Capital 2016/I now amounts to TEUR 3,200.

Conditional capital

The capital stock was conditionally raised by up to TEUR 4,000 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.

Capital reserve

As of 31 December 2018, the capital reserve amounted to TEUR 47,029 (year before: TEUR 47,029). The capital reserve results in part from the capital increase executed in September 2017 in the amount of TEUR 17,265. With an issue price of EUR 23.00 per share, the capital increase generated a premium in the amount of TEUR 17,600. At the same time, transaction costs in the amount of TEUR 335 (after taxes) were subtracted from shareholders' equity. The capital reserve also includes a premium from the IPO, which took place in 2006. This resulted from the issuance of 2,000,000 shares at a price of EUR 15.50 per share, with each share representing EUR 1.00 of the capital stock, so that a premium of EUR 14.50 was charged per share, for a total of TEUR 29,000.

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 TEUR 150,000 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.

Earnings reserves

As of 31 December 2018, earnings reserves amounted to TEUR 9,699 (year before: TEUR 9,721).

The Management Board will propose a dividend payout in the amount of EUR 0.20 per share for Financial Year 2018, for a total distribution of TEUR 1,760.

We refer to the consolidated statement of changes in equity regarding changes in earnings carry-forwards.

Other changes in equity with no effect on profit and loss

Differences arising from currency translation, changes in the market value of derivative financial instruments for which hedge accounting is used, actuarial gains and losses from pension reserves and from corresponding deferred taxes are recognized separately in shareholders' equity under "other changes in equity with no effect on profit and loss." As of 31 December 2018, other changes in equity with no effect on profit and loss amounted to TEUR –11,892 (year before: TEUR –14,436).

Non-controlling shareholders

Following acquisition of the minority shares in Nashtec LLC in Financial Year 2017, shares held by non-controlling shareholders amounted to TEUR 0 (year before: TEUR 0).

6.9 OTHER CURRENT AND NON-CURRENT PROVISIONS

The development of other provisions is shown in the tables below:

FINANCIAL YEAR 2018

in TEUR	1/1/2018	Transfer	Use	Reversal	12/31/2018
Provisions for personnel expenses	1,056	135	38	0	1,153
Other provisions	173	182	170	0	185
Total	**1,229**	**317**	**208**	**0**	**1,338**

FINANCIAL YEAR 2017

in TEUR	1/1/2017	Transfer	Use	Reversal	12/31/2017
Provisions for personnel expenses	1,088	63	95	0	1,056
Other provisions	162	170	159	0	173
Total	**1,250**	**233**	**254**	**0**	**1,229**

Provisions for personnel expenses, in the amount of TEUR 1,153 (year before: TEUR 1,056), consist of anniversary pay obligations. These obligations were measured using the projected unit credit method, in which anniversary pay obligations are funded by single premiums for the annual growth in vested rights, with due regard for trend assumptions. As a biometric foundation for the calculation, the 2018 G benchmark tables of Prof. Dr. Klaus Heubeck were used. The measurement was also based on the assumption of an actuarial interest rate of 1.90%, a salary trend of 2.75% and a fluctuation rate of 1.00%.

Pension reserves

The Group has launched defined benefit pension plans which provide for a portion of the Group's employees in the period after retirement. These are final salary pension plans for Management Board members and employees based on the pension rules. The pension plans are in effect for employees who joined the company prior to 1 May 1995 and who are employed for an unlimited term. As a result, there can be no additions to the group of pension beneficiaries. Pension liability insurance premiums are paid for a portion of the plans. Because of how the plans are structured, the employer is exposed to actuarial risks, of which the most significant are interest rate risk and longevity risk. The average age of the persons covered by the pension plans is in a range between 60 and 65 years. Pension obligations are calculated based on a retirement age of 63 (pension rules) and 65 (Management Board members).

The tables below show the composition of the pension expenses recognized in the consolidated statement of comprehensive income as well as amounts recognized in the consolidated balance sheet for the individual pension plans:

PENSION EXPENSES

in TEUR	2018	2017
Current service cost	754	827
Net interest expense	657	566
Pension expenses	**1,411**	**1,393**
Actual income from plan assets	56	54

The net interest expense is comprised of the interest expense, in the amount of TEUR 688 (year before: TEUR 592), less expected income from plan assets in the amount of TEUR 31 (year before: TEUR 26). The interest share of the funds transferred to pension reserves and income from plan assets is recognized in net interest income. Actuarial gains and losses are recognized in other comprehensive income and have developed as follows:

DEVELOPMENT OF ACTUARIAL GAINS AND LOSSES

in TEUR	
Actuarial gains/losses on 1 January 2017	−18,544
Gains from changes in biometric and financial assumptions	2,300
Experience losses	−382
Income from plan assets	28
Actuarial gains/losses on 31 December 2017	**−16,598**
Income from changes in biometric and financial assumptions	536
Experience gains	868
Income from plan assets	24
Actuarial gains/losses on 31 December 2018	**−15,170**

Changes in the present value of defined benefit obligations are as follows:

DEVELOPMENT OF ACTUARIAL GAINS AND LOSSES

in TEUR	
Defined benefit obligations on 1 January 2017	39,822
Interest expense	592
Current service cost	827
Benefits paid	−743
Actuarial gains/losses	−1,918
Defined benefit obligations on 31 December 2017	**38,580**
Interest expense	688
Current service cost	754
Benefits paid	−759
Actuarial gains/losses	−1,404
Defined benefit obligations on 31 December 2018	**37,859**

Of the TEUR 37,859 in defined benefit obligations as of 31 December 2018 (year before: TEUR 38,580), a sum in the amount of TEUR 12,586 (year before: TEUR 12,656) is covered by pension liability insurance with a premium reserve of TEUR 1,807 (year before: TEUR 1,776).

Pension payments in the amount of approximately TEUR 776 are expected in Financial Year 2019 and TEUR 791 in Financial Year 2020.

Changes in the fair value of plan assets are as follows:

FAIR VALUE OF PLAN ASSETS

in TEUR	
Fair value of plan assets on 1 January 2017	1,746
Employer contributions	36
Benefits paid	–60
Expected returns	26
Actuarial gains/losses	28
Fair value of plan assets on 31 December 2017	**1,776**
Employer contributions	36
Benefits paid	–60
Expected returns	31
Actuarial gains/losses	24
Fair value of plan assets on 31 December 2018	**1,807**

Plan assets consist of the asset value of a pension liability insurance policy, which is to be treated as part of plan assets pursuant to IAS 19.7 (b). The Group expects contributions to plan assets to total TEUR 36 in Financial Year 2019.

The recognized value of pension reserves can be reconciled as follows with the present value of the defined benefit liability:

in TEUR	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Fair value of plan assets	1,807	1,776	1,746	1,616	1,489
Present value of defined benefit liability	37,859	38,580	39,822	29,567	26,764
Pension reserves	36,052	36,804	38,076	27,951	25,275

The basic assumptions for the calculation of post-employment pension obligations are shown below:

in %	2018	2017
Discount rate	1.90	1.80
Salary trend	2.75	2.75
Pension trend	2.00	2.00
Fluctuation	1.00	1.00

Post-employment mortality among 65-year-old retirees in accordance with Heubeck’s 2018 G benchmark tables.

The following would be the effects on the pension liability if the actuarial assumptions change:

PENSION LIABILITY

in TEUR	+25 BP	–25 BP
Discount rate	36,164	39,670
Salary trend	38,217	37,508
Pension trend	39,161	36,618

The above sensitivity analysis is based on a scenario where one assumption changes while all the others remain constant. In reality, however, it is not unlikely for changes in multiple assumptions to be correlated.

The methods and types of assumptions used for the sensitivity analysis have not changed since the previous period.

6.10 CURRENT AND NON-CURRENT ACCOUNTS PAYABLE

BOOK VALUES

in TEUR		Book value	thereof term < 1 year	thereof term 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2018	70,946	529	70,417	0
	12/31/2017	71,804	1,423	70,381	0
Trade payables	12/31/2018	12,643	12,643	–	–
	12/31/2017	15,639	15,639	–	–
Accounts payable from income taxes	12/31/2018	2,183	2,183	–	–
	12/31/2017	1,995	1,995	–	–
Other accounts payable	12/31/2018	6,226	6,226	–	–
	12/31/2017	8,296	8,296	–	–
Total	**12/31/2018**	**91,998**	**21,581**	**70,417**	**0**
	12/31/2017	**97,734**	**27,353**	**70,381**	**0**

Accounts payable to banks

Accounts payable to banks consist of long-term loans against borrower’s note obtained at typical market interest rates.

Nabaltec AG’s loan contracts are subject to covenants which are measured by leverage coverage ratios such as equity ratio. If the covenants are breached, the lender has the option of raising the interest margins or it may exercise its right of extraordinary termination. None of the covenants in effect as of 31 December 2018 were breached in the 2018 reporting year.

Trade payables

Trade payables have a residual term of up to 90 days.

The book values of trade payables are equal to their fair value.

Accounts payable from income taxes

This includes outstanding tax payments in Germany resulting from corporate income tax, solidarity mark-up and trade tax for the financial year just closed and the prior year.

Other accounts payable

Current accounts payable consist of the following financial and non-financial obligations:

OTHER ACCOUNTS PAYABLE

in TEUR	12/31/2018	12/31/2017
Negative market values from interest rate swaps	1,996	2,274
Other	244	2,407
Professional association	198	116
Financial statements and auditing	129	121
Other current financial accounts payable	**2,567**	**4,918**

in TEUR	12/31/2018	12/31/2017
Bonuses and other performance-based compensation	1,929	1,896
Outstanding vacation claims	1,025	933
Amounts owed to the tax office	351	317
Other excise duties	259	140
Social expenses owed	43	38
Inventor compensation	35	38
Demographic Contribution II	17	16
Other current non-financial accounts payable	**3,659**	**3,378**
Other current accounts payable (total)	**6,226**	**8,296**

Amounts owed for bonuses and performance-based compensation accrue depending on the degree to which the targets are met. Amounts owed for outstanding vacation claims depend on the individual employees.

Amounts owed to the tax office consist primarily of wage and church tax for the financial year just closed which has yet to be paid as of the reporting date.

Due to the short-term nature of these obligations, the book values of the other current accounts payable are approximately equal to their fair value.

7. OTHER DISCLOSURES

7.1 OTHER FINANCIAL LIABILITIES

Liabilities arising from operating leases with the Group as lessee

The Group has financial liabilities arising from rental and lease agreements. As of the reporting date, 31 December 2018, no lease agreements existed for various technical equipment and machinery within the context of a sale-and-leaseback transaction. The residual terms of all contracts are largely between 1 and 5 years.

A total of TEUR 987 (year before: TEUR 661) in expenses arising from rental and operating lease agreements were recognized in the current year.

Total future minimum lease payments in connection with rental and operating lease contracts have the following maturities:

in TEUR	12/31/2018	12/31/2017
Minimum lease payments within 1 year	601	615
Minimum lease payments, 1 – 5 years	530	777
Minimum lease payments, over 5 years	0	0
Total	**1,131**	**1,392**

Contingent liabilities and guarantees

No material contingent liabilities, guarantees or other material litigation existed as of the reporting dates for which provisions have not yet been set aside. As of 31 December 2018, there were a total of EUR 2,776 in obligations (year before: TEUR 5,981) arising from investment orders.

Nabaltec AG has made a written commitment to continue to support Nashtec by providing necessary funding through 31 December 2019.

7.2 DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

Book value, measurement and fair value by measurement category

The table below shows the book values and fair values of all financial instruments recognized in the consolidated financial statements:

in TEUR	Measurement category pursuant to IFRS 9	Book value 2018	Book value 2017	Fair value 2018	Fair value 2017
Financial assets					
Trade receivables	AC	4,459	4,089	4,459	4,089
Other assets and accounts receivable					
Other non-derivative accounts receivable and financial assets	AC	6,111	4,247	6,111	4,247
Cash and cash equivalents	AC	30,289	45,917	30,289	45,917
Financial liabilities					
Financial liabilities at amortized cost					
Accounts payable to banks	AC	70,946	71,804	70,946	71,804
Trade payables	AC	12,643	15,639	12,643	15,639
Other financial liabilities					
Other non-derivative financial liabilities	AC	571	2,644	571	2,644
Negative market values of interest rate derivatives (designated in effective cash flow hedges)	–	1,996	2,274	1,996	2,274

The following abbreviations are used for the measurement categories pursuant to IFRS 9:

ABBREVIATIONS		
AC	Amortized cost	Financial instruments recognized at amortized cost
FVOCI (debt)	Fair Value through Other Comprehensive Income – debt instrument	Debt instruments at fair value, with no effect on profit and loss (recycling)
FVCOI (equity)	Fair Value through Other Comprehensive Income – equity instrument	Equity instruments at fair value, with no effect on profit and loss (non-recycling)
FVTPL	Fair Value through Profit and Loss	Financial instruments at fair value through profit and loss

No differences in measurement resulted from first-time application of IFRS 9 and the new measurement categories associated with that Standard, so that there were no transitional effects. The financial assets and financial liabilities which were assigned to the "Loans and Receivables" category last year will now be assigned to the "Amortized Cost" category and, as such, will continue to be measured at amortized cost.

The fair value of derivative financial instruments and loans was determined by discounting expected future cash flows using typical market interest rates. The fair value of other financial assets was calculated using typical market interest rates.

Cash and cash equivalents, trade receivables and other accounts receivable have a residual term of less than one year. As a result, their book value as of the reporting date approximates their fair value.

In accordance with IFRS 9, shares in non-consolidated affiliated companies are generally classified as FVOCI.

Net income by measurement category

Income and expenses from financial instruments are presented below using the measurement categories in IFRS 9:

MEASUREMENT CATEGORY PURSUANT TO IFRS 9

in TEUR		From interest	From subsequent measurement: At fair value	Currency translation	Impairment	Net income 2018
Amortized cost	AC	44	–	482	2	528
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–1,199	–	–5	–	–1,204
Total 2018		**–1,155**	**–**	**477**	**2**	**–676**

MEASUREMENT CATEGORY PURSUANT TO IFRS 9

in TEUR		From interest	From subsequent measurement: At fair value	Currency translation	Impairment	Net income 2017
Amortized cost	AC	49	–	–1,097	18	–1,030
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–1,203	–	32	–	–1,171
Total 2017		**–1,154**	**–**	**–1,065**	**18**	**–2,201**

In the consolidated statement of comprehensive income, interest income and expenses from financial instruments are recognized under "interest and similar income" and "interest and similar expenses." Interest income from financial assets in the "amortized cost" measurement category largely consists of interest income from current account balances and short-term deposits. Interest expenses from financial liabilities in the "other liabilities" measurement category largely consist of interest expenses for accounts payable to banks.

The total interest expense for the loan against borrower's note, calculated using the effective interest method, was TEUR 1,199 (year before: TEUR 1,203).

Effects from the subsequent measurement of interest rate derivatives which are designated as effective cash flow hedges are recognized under shareholders' equity with no effect on profit and loss. The recognition of ineffective hedges with an effect on profit and loss was not necessary.

Currency translation income and expenses for financial assets in the "amortized cost" measurement category and financial liabilities in the "other liabilities" measurement category result from shares in companies which are not fully consolidated, trade payables and receivables and accounts payable to banks which are denominated in foreign currency. They are recognized under "other operating income" and "other operating expenses."

Impairments largely consist of transfers to and reversals of individual allowances on trade receivables. These amounts are recognized under "other operating income" and "other operating expenses."

Fair value hierarchy

A hierarchy of various fair values exists for financial assets and liabilities measured at fair value with effect on profit and loss specifying the significance of the input data used for measurement. This hierarchy is as follows:

Level 1: At the first level of the fair value hierarchy, fair value is determined based on publicly quoted market prices, since the best possible objective indication of the fair value of a financial asset or liability can be observed in an active market.

Level 2: If an active market does not exist for a financial instrument, companies determine fair value using valuation models. Valuation models include use of the discounted cash flow method, option price models, comparing the instrument to the present fair value of another, largely identical, financial instrument, and examining recent transactions between well-informed, independent and willing business partners. Fair value is estimated based on the results of a valuation method which uses market data to the greatest possible extent and is based as little as possible on company-specific data.

Level 3: The valuation models used on this level are, in part, not based on parameters and assumptions which are observable in the market.

The financial instruments which are measured by the Group at fair value have been assigned to the following levels of the hierarchy:

12/31/2018				
in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	1,996	0	1,996
Negative market values of currency derivatives	0	0	0	0

12/31/2017				
in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	2,274	0	2,274
Negative market values of currency derivatives	0	0	0	0

No assets or liabilities were reclassified between the measurement levels in Financial Year 2018.

Fair value is determined in each case based on the mark-to-market valuation of the participating banks.

Hedging transactions

Interest rate swaps are executed to hedge against fluctuations in future cash flows for loans with variable rates of interest resulting from changes in market interest rates. Designated and effective cash flow hedges are recognized in accordance with the hedge accounting rules in IFRS 9. Accordingly, risks arising from fluctuations in interest and exchange rates are deliberately managed with a view to reducing earnings volatility.

At the commencement of the hedge, both the hedging transaction and the Group's risk management goals and strategies with regard to the hedge are formally defined and documented. The documentation is to include a definition of the hedging instrument and the hedged item, as well as the type of risk and a description of how the Group will measure the effectiveness of the hedging instrument in compensating for risks arising from changes in cash flow associated with the hedged item. Hedging transactions are continually examined to ascertain whether they actually were highly effective for the entirety for the reporting period for which the hedging transaction was defined.

Among the requirements imposed by IFRS 9 within the framework of hedge accounting is the requirement that designated hedges must be effective. The effective portion of a hedge, i.e. that which falls within the above range, is recognized in shareholders' equity with no effect on profit and loss, while the ineffective portion is immediately recognized as profit and loss in the consolidated statement of comprehensive income.

As of 31 December 2018, the Group recognized interest rate derivatives with a market value of TEUR –1,996 (year before: TEUR –2,274), which served to hedge against interest rate risks associated with loans against borrower's notes, which are recognized under accounts payable to banks (book value: TEUR 70,000). No currency derivatives were used in the reporting year (year before: also TEUR 0). Realization of the fair value of the interest rate and currency derivative, with no effect on profit and loss, resulted in changes in value in Financial Year 2018 of TEUR 278 (year before: TEUR 856), the full amount of which was recognized in shareholders' equity. The cash flow hedges are designed to hedge cash flows in the form of routine interest payments, in the case of the interest rate derivatives. Interest rate derivatives amount to a total of TEUR 70,000, with TEUR 31,000 maturing through 2020 and TEUR 39,000 maturing through 2022. The interest rate derivatives secure Nabaltec a fixed interest rate of between 0.95% and 1.07% depending on maturity.

There were no major changes relative to the year before to the risk positions for the risks presented below.

Default risk

Default risks arise primarily from trade receivables. Factoring transactions are used in order to minimize default risks. Under these contractual arrangements, the risk that the debtor will be unable to pay is transferred to the counterparty. As a result, the relevant amounts are derecognized in their entirety and are no longer recognized as trade receivables. The exceptions are trade receivables which are not accepted by the factor, e.g. because a credit limit has been exceeded. Trade receivables are also insured through credit default insurance.

The amounts recognized in the balance sheet have been adjusted by the allowance for unrecoverable claims, which was estimated by management using the expected loss model. Individual allowances are made whenever an indication exists that accounts receivable are uncollectible. These indications are based on intensive contacts within the framework of receivables management.

The default risk in the event of counterparty default in connection with the Group's financial assets, such as trade receivables, cash and cash equivalents and other assets, is no higher than the book value of the relevant instruments.

There is no major concentration of default risks within the Group, as these risks are spread out over a large number of counterparties and customers. As in the previous year, there were no restrictions on ownership or disposal.

The table below shows the change in allowances on trade receivables:

in TEUR	2018	2017
1 January	150	168
Transfers	0	0
Reversals	2	18
31 December	148	150

The age structure of trade receivables is as follows:

in TEUR	Book value	Neither overdue nor impaired	Overdue but not impaired			
			< 3 months	3 – 6 months	6 – 12 months	> 12 months
12/31/2018	4,459	4,459	0	0	0	0
12/31/2017	4,089	4,089	0	0	0	0

As far as trade receivables are concerned which are neither in default nor written down, there was no indication as of the reporting date that the debtors will be unable to meet their payment obligations.

No trade receivables were overdue or impaired due to modified conditions.

No other financial assets were impaired. No impairments were expected in that regard as of the reporting date.

Liquidity risk

The Group routinely monitors the risk of a liquidity shortage, taking into account e.g. the terms to maturity of financial assets and liabilities as well as expected cash flows from business activities. The Group's goal is to use bank overdrafts and loans to continually meet liquidity requirements while at the same time ensuring utmost flexibility. The Group had existing unutilized credit limits in the amount of TEUR 2,250 as of 31 December 2018 (year before: TEUR 2,250).

The table below shows the contractually stipulated (undiscounted) cash flows in connection with financial liabilities. It includes all financial liabilities held as of the reporting date for which payments had been contractually stipulated. Estimates of future new obligations were not included. Amounts denominated in foreign currencies were translated using the exchange rate as of the reporting date. Variable interest payments on financial instruments were determined based on the fixed interest rates in effect most recently prior to the reporting date. Financial liabilities which are payable at any time are assigned to the earliest maturity category.

CASH FLOWS undiscounted

in TEUR		Total	thereof term < 1 year	thereof term 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2018	75,614	2,431	73,183	–
	12/31/2017	78,386	3,357	75,029	–
Trade payables	12/31/2018	12,643	12,643	–	–
	12/31/2017	15,639	15,639	–	–
Other financial liabilities	12/31/2018	2,567	2,567	–	–
	12/31/2017	4,918	4,918	–	–
Total (financial liabilities)	**12/31/2018**	**90,824**	**17,641**	**73,183**	**–**
	12/31/2017	**98,943**	**23,914**	**75,029**	**–**

Foreign exchange risk

The Group's foreign exchange risks result from its operations. While the individual Group companies operate predominantly with their respective functional currencies, they are exposed to foreign exchange risks in connection with expected payments outside of their functional currency.

In accordance with IFRS 7, foreign exchange risks are presented using sensitivity analyses, which show the effects on pre-tax earnings (due to changes in the measurement of financial assets and liabilities with effect on profit and loss) and possibly shareholders' equity of the Euro going up or down in value relative to all other foreign currencies. These analyses focus on financial instruments which are denominated in a currency other than the local functional currency, and which are monetary in nature. Accordingly, differences arising from the translation of foreign statements into the Group currency, euros, due to changes in exchange rates are not recognized, in accordance with the requirements of IFRS 7. In contrast to the year before, shareholders' equity as of the reporting date was not affected by changes in the fair value of currency derivatives intended to hedge future cash flows.

	Rate change in %	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity* in TEUR
2018			
USD	+10	680	0
USD	−10	−680	0
2017			
USD	+10	424	0
USD	−10	−424	0

* *Not including the impact on pre-tax earnings*

Interest rate risk

The Group's exposure to the risk of fluctuations in market interest rates results primarily from financial accounts payable to banks carrying variable interest rates. The Group's interest expenses are managed through a combination of fixed-interest and variable-interest debt. Interest rate swaps are used to hedge against interest rate risks arising from positions carrying long-term variable interest rates, in which the difference between fixed-interest and variable-interest cash flows is exchanged with the counterparty at defined intervals based on a predefined notional amount.

Interest rate risks are modelled in accordance with the requirements of IFRS 7 using sensitivity analyses, which show the effects of hypothetical changes in market interest rates on current interest payments, income and expenses as follows in the context of pre-tax earnings and possibly shareholders' equity (from the subsequent measurement of interest rate derivatives designated as effective cash flow hedges):

	Increase / decrease in basis points	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity* in TEUR
2018			
Europe	+10	0	155
USA	+10	0	0
Europe	–10	0	–157
USA	–10	0	0
2017			
Europe	+10	0	221
USA	+10	0	0
Europe	–10	0	–225
USA	–10	0	0

* *Not including the impact on pre-tax earnings*

7.3 ADDITIONAL DISCLOSURES CONCERNING CAPITAL MANAGEMENT

Nabaltec AG employs a solid capital management scheme in order to enable the Group to remain on track for growth and to ensure its ability to meet its payment obligations. A particular goal is to maintain an enduring balance between equity and debt.

Nabaltec AG's shareholders' equity and debt items recognized in connection with capital management as of 31 December 2018 and 2017 are shown below:

	12/31/2018 in TEUR	12/31/2017 in TEUR	Change in %
Shareholders' equity	**95,787**	**84,563**	**13.27**
as % of total capital	57.45	54.08	6.23
Non-current financial debt	70,417	70,381	0.05
Current financial debt	529	1,423	–62.83
Debt*	**70,946**	**71,804**	**–1.20**
as % of total capital	42.55	45.92	–7.34
Total capital for capital management purposes	**166,733**	**156,367**	**6.63**

* *The company defines debt as accounts payable to banks and accounts payable to a minority shareholder.*

Equity increased by TEUR 11,224 last year, to TEUR 95,787, largely due to consolidated earnings in the amount of TEUR 10,286.

Debt decreased by TEUR 858 last year, to TEUR 70,946, largely due to the amortization of long-term bank loans.

Together, these effects resulted in an increase in the equity ratio (shareholders' equity as a percentage of total capital) to 57.45% in 2018, up from 54.08% in the year before. The ratio of debt to capital for capital management purposes decreased from 45.92% on 31 December 2017 to 42.55% on 31 December 2018.

In the future, the Group will endeavor to steadily optimize its financial management, together with continuous monitoring and management of its equity ratio.

The object of this financial management is to improve the solvency of Nabaltec AG relative to its business partners and optimize capital costs.

Nabaltec AG is not subject to any capital adequacy requirements in accordance with its Articles of Association. For covenants arising from loan contracts, reference is made to Section 6.10, "Current and non-current accounts payable."

7.4 TRANSACTIONS WITH RELATED PARTIES

Persons and companies are considered to be related parties in terms of IAS 24, "Related party disclosures," if one of the parties has the ability, directly or indirectly, to control or exercise a significant influence over the other party, or if one of the parties is engaged in joint management of the company.

The following persons and companies have been identified as related parties:

- members of the Management Board (see Section 7.8 “Corporate officers”) and their family members;
- members of the Supervisory Board (see Section 7.8 “Corporate officers”) and their family members;
- companies which are directly or indirectly controlled by members of the Management Board or Supervisory Board.

The members of the Management Board received short-term remuneration in the amount of TEUR 2,153 in Financial Year 2018 (year before: TEUR 2,181). An additional TEUR 3 was transferred to provisions for service anniversaries (year before: TEUR 0). In addition, a total of TEUR 601 was spent on post-employment benefits (year before: TEUR 604).

The members of the Supervisory Board received a total of TEUR 56 in remuneration in Financial Year 2018 (year before: TEUR 59).

The following accounts receivable and payable existed on 31 December 2018 and 2017 vis-a-vis related parties:

	Accounts receivable		Accounts payable	
in TEUR	**12/31/2018**	**12/31/2017**	**12/31/2018**	**12/31/2017**
Companies controlled by Supervisory Board members	0	0	0	0
Companies controlled by Management Board members	14	14	0	0

In addition to Management and Supervisory Board compensation, the following transactions with related parties were recognized in Financial Years 2018 and 2017:

	Deliveries and services performed and other income		Deliveries and services received and other expenses	
in TEUR	**2018**	**2017**	**2018**	**2017**
Companies controlled by Supervisory Board members	0	0	9	19
Companies controlled by Management Board members	26	27	61	11

Transactions with companies controlled by Management Board members include human resources services and other services (income in the amount of TEUR 26, year before: TEUR 27), investment planning (expenses in the amount of TEUR 61, year before: TEUR 8), as well as other services (expenses in the amount of TEUR 0, year before: TEUR 3). Transactions with companies controlled by Supervisory Board members and related persons also resulted from the payment of a royalty (fees of TEUR 5, year before: TEUR 5) and other services (expenses in the amount of TEUR 4, year before: TEUR 14).

7.5 EARNINGS PER SHARE

The number of outstanding shares changed as follows over the Financial Year:

NUMBER OF SHARES

	2018	2017
Outstanding common shares as of 1 January	8,800,000	8,000,000
Capital increase on 15 September 2017		800,000
Outstanding common shares as of 31 December	8,800,000	8,800,000
Average undiluted number of outstanding common shares	**8,800,000**	**8,234,521**

To calculate undiluted earnings per share, the earnings attributable to holders of common shares in the company are divided by the weighted average number of common shares in circulation during the year.

In accordance with IAS 33, "Earnings per share," the calculation of diluted earnings per share must also take into account the effects of potential common shares. Dilutive effects on the earnings of Nabaltec AG do not exist. Accordingly, the undiluted earnings per share is equal to the diluted earnings per share for Financial Years 2018 and 2017.

Earnings per share are therefore as follows:

EARNINGS PER SHARE

	2018	2017
Consolidated after-tax earnings – shareholders in the parent company	10,286	11,450
Average undiluted number of outstanding common shares	8,800,000	8,234,521
Earnings per share (in EUR)	1.17	1.39

We also refer to the statements in Section 6.8, "Shareholders' equity."

7.6 DISCLOSURES CONCERNING THE CASH FLOW STATEMENT

The cash flow statement shows the origin and use of cash flows. A distinction is made between cash flow from operating activity and cash flow from investment and financing activity in accordance with IAS 7, "Statement of Cash Flows."

The item presented in Section 6.7, "Cash and cash equivalents," is included in the funds presented in the cash flow statement.

Interest paid and received and taxes on income are directly evident from the consolidated cash flow statement.

The changes in accounts payable to banks, which are attributable to financing activity, result from payments for the amortization of finance loans in the amount of TEUR 1,000 as well as from the compounding of original transaction costs in the amount of TEUR 38.

7.7 SEGMENT REPORTING

The operating segments conform to the Group's business segments. The Group's risks and internal organizational and reporting structures are largely determined by the products which are manufactured in the various segments.

Business segments

Nabaltec is divided into two product segments, "Functional Fillers" and "Specialty Alumina." Each segment represents a strategic business unit with distinct products and markets.

The product segment "Functional Fillers" primarily manufactures and distributes non-halogenated flame-retardant fillers for the plastics and cable industry, as well as additives.

In the product segment "Specialty Alumina", ceramic materials and ceramic bodies are manufactured and distributed for a wide range of applications in technical ceramics and in the refractory industry.

The "Others" column consists of assets and liabilities which are not attributable to any individual segment. It is comprised primarily of liquid funds (segment assets), accounts payable to banks and pension reserves (segment liabilities).

Transfer prices between the business segments are generally determined based on typical market conditions in accordance with the arm's length principle. Segment revenues, expenses and earnings include transfers between business units which are eliminated over the course of consolidation. No transactions between the business segments took place in the 2018 and 2017 Financial Years.

FINANCIAL YEAR ENDING ON 12/31/2018

in TEUR	Functional Fillers	Specialty Alumina	Others	Nabaltec Group
Revenues				
Revenues from non-Group customers	114,615	62,128	–	176,743
Segment earnings				
EBITDA	19,086	11,502	–	30,588
EBIT	10,469	7,998	–	18,467
Assets and liabilities				
Segment assets	146,979	48,611	30,289	225,879
Segment liabilities	13,094	7,113	109,885	130,092
Other segment data				
Investments				
– Property, plant and equipment	23,378	3,527	–	26,905
– Intangible assets	131	87	–	218
– Financial assets	0	0	–	0
Depreciation				
– Property, plant and equipment	8,523	3,427	–	11,950
– Intangible assets	94	77	–	171

FINANCIAL YEAR ENDING ON 12/31/2017

in TEUR	Functional Fillers	Specialty Alumina	Others	Nabaltec Group
Revenues				
Revenues from non-Group customers	112,153	56,448	–	168,601
Segment earnings				
EBITDA	21,479	8,549	–	30,028
EBIT	13,119	5,198	–	18,317
Assets and liabilities				
Segment assets	127,153	47,632	46,592	221,377
Segment liabilities	16,848	8,316	111,650	136,814
Other segment data				
Investments				
– Property, plant and equipment	16,287	4,649	–	20,936
– Intangible assets	82	64	–	146
– Financial assets	0	0	–	0
Depreciation				
– Property, plant and equipment	8,278	3,284	–	11,562
– Intangible assets	82	67	–	149

Regional data

Regions are defined as Germany, rest of Europe, USA and rest of world.

FINANCIAL YEAR ENDING ON 12/31/2018

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	46,238	89,052	20,023	21,430	176,743
Other segment data					
Segment assets	176,127	–	49,409	343	225,879
Investments					
– Property, plant and equipment	9,327	–	17,578	–	26,905
– Intangible assets	218	–	–	–	218
– Financial assets	–	–	–	0	0

FINANCIAL YEAR ENDING ON 12/31/2017

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	45,251	81,709	21,371	20,270	168,601
Other segment data					
Segment assets	191,000	–	30,377	–	221,377
Investments					
– Property, plant and equipment	10,574	–	10,362	–	20,936
– Intangible assets	146	–	–	–	146
– Financial assets	–	–	–	0	0

More than 10% of total revenues in Financial Year 2018 were earned from a single customer. The revenues from this customer amounted to TEUR 19,165 and are included in the results for the product segment "Functional Fillers". In Financial Year 2017 as well, more than 10% of revenues were earned from a single customer (TEUR 18,489).

The Group's non-current assets are located in Germany and the US. Non-current assets are defined as assets which are used in business operations and which are intended to remain in the company for more than 12 months. The allocation to the various regions is determined by the location of the respective assets.

7.8 CORPORATE OFFICERS

Management Board

- Mr. Johannes Heckmann (Chief Executive Officer)
- Mr. Günther Spitzer (Chief Financial Officer)
- Dr. Michael Klimes (Chief Operating Officer)

Supervisory Board

- Mr. Gerhard Witzany (Chairman)
- Dr. Dieter J. Braun (Vice Chairman)
- Prof. Dr.-Ing. Jürgen G. Heinrich

7.9 VOLUNTARY DECLARATION PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT ON THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Nabaltec AG have voluntarily issued the prescribed declaration for publicly traded companies in accordance with § 161 of the German Stock Corporation Act and have made this declaration available to its shareholders on the company's website. The declaration is posted on the company's website, "www.nabaltec.de," under "Investor Relations/Corporate Governance."

7.10 MAJOR EVENTS OCCURRING AFTER THE REPORTING DATE

There are no major events to be reported which occurred after the reporting date.

7.11 AUDITOR'S FEES

The auditor's fee for auditing services (including the 2018 consolidated financial statements) amounts to TEUR 103. The auditor received a fee in the amount of TEUR 10 for other assurance services, a fee of TEUR 29 for tax advisory services and a fee of TEUR 0 for other services.

Schwandorf, 22 March 2019

Nabaltec AG
The Management Board

JOHANNES HECKMANN GÜNTHER SPITZER DR. MICHAEL KLIMES

INDEPENDENT AUDITOR'S REPORT

To Nabaltec AG, Schwandorf

AUDIT OPINIONS

We have audited the consolidated financial statements of Nabaltec AG, Schwandorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2018 as well as the notes to the consolidated financial statements, including a summary of significant accounting 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 for the financial year from 1 January to 31 December 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018. 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 Group's position. In all material respects, this management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the management report in accordance with Section 317 German Commercial Code (HGB) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Management Report" section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the management report.

OTHER INFORMATION

The legal representatives are responsible for the other information. The other information comprises:

- the Annual Report, with the exception of the audited consolidated financial statements and management report and our auditor's report, as well as 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.

Our audit opinions on the consolidated 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 consolidated financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives 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 Group's financial reporting process for the preparation of the consolidated financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Group's position and, in all material respects, is consistent with the consolidated 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 consolidated 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 Section 317 German Commercial Code (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 consolidated 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 consolidated 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures 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.
- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- Conclude on the appropriateness of the legal representatives' 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 Group'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 consolidated 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 Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with German law, and the view of the Group'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 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Andreas Kiefer)	(Christian Fischer)
German Public Auditor	German Public Auditor

ANNUAL FINANCIAL STATEMENTS NABALTEC AG 2018

BALANCE SHEET

FOR 31 DECEMBER 2018

ASSETS

in TEUR	12/31/2018	12/31/2017
A. Non-current assets		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	318	291
2. Advance payments	109	78
	427	**369**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	25,294	25,035
2. Technical equipment and machinery	47,081	51,728
3. Other fixtures, fittings and equipment	3,437	3,236
4. Advance payments as well as plant and machinery under construction	5,499	2,509
	81,311	**82,508**
III. Financial assets		
1. Shares in affiliated companies	10,367	6,761
2. Loans to affiliated companies	42,946	22,583
	53,313	**29,344**
	135,051	**112,221**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	16,818	15,140
2. Finished goods and purchased products	12,973	13,941
	29,791	**29,081**
II. Accounts receivable and other assets		
1. Trade receivables	4,460	4,089
2. Receivables from affiliated companies	101	0
3. Other assets	6,682	5,266
	11,243	**9,355**
III. Cash and cash equivalents	29,124	**44,921**
	70,158	**83,357**
C. Prepaid expenses	169	**167**
TOTAL ASSETS	205,378	**195,745**

EQUITY & LIABILITIES

in TEUR	12/31/2018	12/31/2017
A. Shareholders' equity		
I. Subscribed capital (conditional capital: EUR 4,000 thousand)	8,800	8,800
II. Capital reserve	48,424	48,424
III. Accumulated profits	30,754	19,632
	87,978	**76,856**
B. Non-current assets investments grants	**3**	**4**
C. Provisions		
1. Retirement benefit obligation and similar provisions	26,716	24,012
2. Accrued taxes	2,183	1,995
3. Other provisions and accrued liabilities	6,936	7,387
	35,835	**33,394**
D. Accounts payable		
1. Payables to banks	71,029	71,924
2. Trade payables	9,649	11,620
3. Payables to affiliated companies	277	131
4. Other payables – thereof relating to taxes: EUR 351 thousand (PY: EUR 317 thousand) – thereof relating to social securities: EUR 39 thousand (PY: EUR 34 thousand)	607	1,816
	81,562	**85,491**
TOTAL EQUITY & LIABILITIES	**205,378**	**195,745**

INCOME STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY 2018 TO 31 DECEMBER 2018

in TEUR	1/1/ – 12/31/2018		1/1/ – 12/31/2017	
1. Revenues		177,366		169,318
2. Change in finished goods		–958		1,085
3. Other capitalized own services		437		307
Total performance		**176,845**		**170,710**
4. Other operating income – thereof exchange rate differences: EUR 823 thousand (PY: EUR 545 thousand)		1,979		1,046
		178,824		**171,756**
5. Cost of materials:				
a) Cost of raw materials and supplies and purchased goods	81,312		81,737	
b) Cost of purchased services	2,555	83,867	1,733	83,470
Gross profit		**94,957**		**88,286**
6. Personnel expenses:				
a) Wages and salaries	26,624		25,248	
b) Social security and other pension costs – thereof for pension costs: EUR 2,482 thousand (PY: EUR 2,314 thousand)	6,935		6,671	
7. Amortization/Depreciation of intangible assets and property, plant and equipment	10,672		10,579	
8. Other operating expenses – thereof exchange rate differences: EUR 346 thousand (PY: EUR 1,610 thousand)	29,318	73,549	29,109	71,607
		21,408		**16,679**
9. Income from securities and loans (financial assets) – thereof from affiliated companies: EUR 497 thousand (PY: EUR 315 thousand)	497		315	
10. Interest and similar income	43		49	
11. Depreciation of financial assets and of securities held as current assets – thereof from affiliated companies: EUR 6 thousand (PY: EUR 838 thousand)	6		838	
12. Interest and similar expenses – thereof for compounding interest: EUR 938 thousand (PY: EUR 936 thousand)	3,010	–2,476	2,987	–3,461
Financial result		**18,932**		**13,218**
13. Income taxes		6,148		4,528
14. Net after-tax result		12,784		8,690
15. Other taxes		78		71
16. Net result for the year		**12,706**		**8,619**
17. Profit carried forward		18,048		11,013
18. Accumulated profit		**30,754**		**19,632**

APPROPRIATION OF DISTRIBUTABLE PROFIT

The Management Board proposes that the distributable profit of the 2018 financial year, amounting to EUR 30,753,912.26, 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 2018 financial year. The remainder in the amount of EUR 28,993,912.26 will be carried forward.

Schwandorf, April 2019

The Management Board

JOHANNES HECKMANN GÜNTHER SPITZER DR. MICHAEL KLIMES

FINANCIAL CALENDAR 2019	
German Spring Conference, Frankfurt	13 – 14 May
Hauck & Aufhäuser Stockpicker Summit, Madrid	15 – 17 May
Interim Report 1/2019	23 May
Annual General Meeting	27 June
Interim Report 2/2019	22 August
Interim Report 3/2019	21 November

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

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

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