

# OUR KNOW-HOW FOR YOUR SAFETY



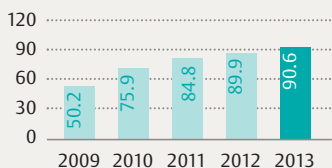
ANNUAL REPORT 2013

***Nabaltec***

# BUSINESS DIVISIONS



REVENUES (in EUR million)



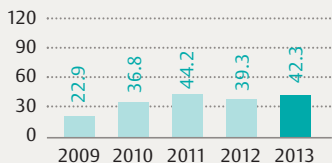
## FUNCTIONAL FILLERS

Nabaltec’s functional fillers are eco-friendly and safe. Depending on their field of application, they reduce the emission of hazardous fumes in the case of fire or increase operational stability of materials for various applications, from profiles to state-of-the-art energy storage facilities.

In our business division “Functional Fillers,” we develop highly specialized aluminum hydroxide-based products for a wide variety of applications, and we are among the leading manufacturers in the world in this area. In addition to current market trends, the development of our halogen-free eco-friendly flame retardants, additives and boehmites is driven above all by the specific requirements of our customers.



REVENUES (in EUR million)



## TECHNICAL CERAMICS

Nabaltec’s ceramic raw materials and ceramic bodies, in special qualities, offer fields of application in all areas of life and in all industrial sectors. They provide e.g. greater mechanical strength in household ceramics and higher durability for components in engineering ceramics.

In our business division “Technical Ceramics,” we develop innovative materials for a wide variety of industries based on all-natural ingredients and occupy a leading position in the global market for ceramic raw materials and bodies. We are constantly investing in optimizing our production facilities, in innovative technologies and in improving our production processes in order to enable us to consistently supply tailor-made qualities which meet our customers’ needs.

# SPECIALTY CHEMICALS

FOR SAFER AND MORE ECO-FRIENDLY PRODUCTS

The range of applications for Nabaltec products is extremely diverse. They are preferred whenever utmost quality, safety, eco-friendliness and durability are required. It is the combination of these important characteristics that guarantees Nabaltec products outstanding growth prospects. The special strengths of Nabaltec are a number of functional fillers for the plastics industry and high-quality, specialized raw materials for technical ceramics, always featuring unchanging prime quality and designed for very specific requirements.

## APPLICATIONS



*Eco-friendly aluminum hydroxide is used e.g. for cables in tunnels, and aluminum monohydrate (boehmite) is used amongst others in heavy metal-free printed circuit boards.*



*Nabaltec's additives are used e.g. as co-stabilizers in PVC products and as process additives.*



*Aluminum hydroxide serves e.g. to eliminate fumes in power plants and boehmite is used as a raw material in alternative energy storage and in catalyzers.*



*Aluminum oxide and sintered mullite are used primarily in the refractory and polishing industries, in the automotive sector and in glass and ceramics production.*



*Highly specialized and ready-formulated mixtures are used particularly to prevent abrasion and protect people and vehicles, as well as in engineering ceramics.*

# KEY FIGURES NABALTEC GROUP

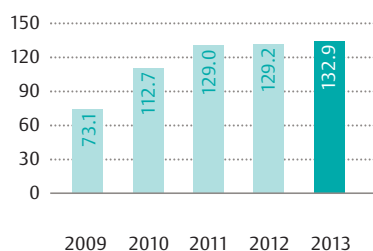
FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

(in EUR million)	2013 (IFRS)	2012 (IFRS)	Change
<b>Revenues</b>			
Total revenues	132.9	129.2	2.9%
thereof			
Functional Fillers	90.6	89.9	0.8%
Technical Ceramics	42.3	39.3	7.6%
Foreign share (%)	69.2	69.0	
<b>Earnings</b>			
EBITDA	19.8	18.8	5.3%
EBIT	10.5	10.0	5.0%
Consolidated result after taxes*	2.6	2.1	23.8%
Earnings per share (EUR)*	0.33	0.26	26.9%
<b>Financial position</b>			
Cash flow from operating activities	12.9	21.5	-40.0%
Cash flow from investing activities	-2.6	-10.6	-75.5%
<b>Assets, equity and liabilities</b>			
Total assets	176.3	161.5	9.2%
Equity	50.4	47.5	6.1%
Non-current assets	112.3	116.8	-3.9%
Current assets	63.9	44.7	43.0%
Employees ** (number of persons)	415	417	-0.5%

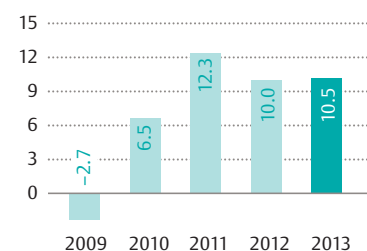
\* after non-controlling interests

\*\* on the reporting date, including trainees

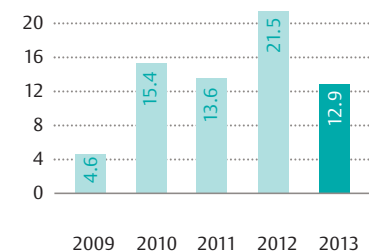
REVENUES (in EUR million)



EBIT (in EUR million)



CASH FLOW FROM OPERATING ACTIVITIES (in EUR million)



# NABALTEC AG

LEADING IN ECO-FRIENDLY 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 (“ATH”) and aluminum oxide, as well as other raw materials, on an industrial scale through its “Functional Fillers” and “Technical Ceramics” divisions. Nabaltec maintains production sites in Germany and the US and plans to continue to consolidate its market position by expanding capacity, further optimizing processes and quality and making strategic extensions to its product range. On the strength of its specialty products, the company strives to attain the market leadership in each segment.

## NABALTEC WORLDWIDE



NABALTEC MAINTAINS A GLOBAL PRESENCE,  
WITH LOCATIONS IN GERMANY AND THE US  
AND A NETWORK OF INTERNATIONAL AGENCIES

□ Locations    ■ Agencies



THE QR CODE  
FOR THE NABALTEC WEBSITE

*Further information can be found here or at  
[www.nabaltec.de](http://www.nabaltec.de)*

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Gerhard Witzany

Johannes Heckmann

## MANAGEMENT BOARD FOREWORD

*Ladies and gentlemen,  
Dear Shareholders and Business Partners,*

*Results in 2013  
were satisfactory  
for Nabaltec*

The global economic environment improved over the course of last year and the uncertainty created by the financial crisis and the EURO zone debt crisis has subsided. Results in the year 2013 were also satisfactory for Nabaltec AG, with EBIT of EUR 10.5 million, up slightly from the year before, and with revenues climbing to a record high of EUR 132.9 million, even though the month of December was marked by considerable reductions in inventories on the part of our customers.



The year 2014 is off to a promising start after January and February. Our customers are certainly optimistic about the remainder of the year, despite maintaining cautious forecasts and operating with low inventories.

We are also optimistic about 2014: our products, in both the “Functional Fillers” and “Technical Ceramics” business division, continue to meet with intact markets and strong demand. We expect a stable price trend in all segments. We consider Nabaltec’s market position to be strong, and our products and solutions are well-positioned in global competition. For example, there is still considerable potential for development in reactive aluminum oxides and polishing oxides. Even the relatively new product segments, such as boehmite and CAHC, are expected to post growth in 2014. These product segments began to show improvement at the start of 2014, after an extended start-up period, and we continue to believe in their future potential.

*Our products continue to meet with intact markets and strong demand*

#### WHAT ARE OUR GOALS FOR 2014?

Assuming that the stable economic trend continues, we expect revenue growth in the mid-single digits in the year 2014 as well, and an EBIT margin in line with last year’s margin. We plan to steadily alter our product mix in the direction of higher-margin products. For example, we intend to expand our production capacity for reactive aluminum oxides, an area in which our investments will only begin to noticeably boost quantities towards the end of 2014. On the other hand, we will have to contend with higher costs relative to last year, resulting from the 3.7% increase in collective wages and the lifting of the pay cut.

On the financing side, we were able to lay solid groundwork in 2013 to ensure continued growth while at the same time maintaining the freedom of action needed for investments and possible future projects. Our corporate bond, which was issued in 2010, was terminated early at the end of 2013 and fully redeemed. At the same time, we were able to issue a loan against borrower’s note with a volume of EUR 50 million, in three tranches, giving us flexibility in terms of timing, as well as highly attractive terms. The performance of our shares was also very strong in 2013 and especially at the start of 2014, finishing 2013 with a gain of over 39%.

*Further growth of Nabaltec is solidly secured*

We plan to boost our investors’ returns even further with a very specific measure: it is our intention, subject to the approval of the shareholders at the general meeting in June, to pay out a dividend of EUR 0.06 per share for the year 2013. We see this as a return to our regular dividend policy. We are pleased that you have chosen to accompany us along this path, and we thank you for your trust.

Big thanks to our employees for their commitment, performance and solidarity last year.

Schwandorf, March 2014

Sincerely yours,



JOHANNES HECKMANN  
Member of the Board



GERHARD WITZANY  
Member of the Board



Prof. Dr.-Ing. Jürgen G. Heinrich

Dr. Leopold von Heimendahl  
(Chairman of the Supervisory Board)

Dr. Dieter J. Braun

# REPORT OF THE SUPERVISORY BOARD

*Ladies and Gentlemen,  
Dear Shareholders,*

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

Under these circumstances, the Supervisory Board consistently advised, monitored and supervised Management Board with utmost care, in accordance with its responsibilities as established by law, the Articles of Association and the Rules of Procedure. The Supervisory Board was informed by the Management Board directly and involved at an early stage in every decision of fundamental importance for the company.

*All transactions  
requiring approval  
were adopted*

Whenever required by law, the Articles of Association or the Rules of Procedure, the Supervisory Board voted on the Management Board's reports and draft resolutions after careful deliberation and review. All transactions requiring approval were adopted.

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

*The members of the Supervisory Board also conducted deliberations in writing and over the phone additionally*

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

*The Supervisory Board reviewed its performance with a positive result*

## FOCUS OF DELIBERATIONS

Even outside the Supervisory Board sessions, the Management Board made full and timely reports to the Supervisory Board, verbally and in writing. In particular, the Supervisory Board was kept informed e.g. of market trends, the risk and competitive situation, the development of sales, revenues and earnings and the accomplishment of objectives through monthly and quarterly reports. In addition, the Chairman of the Supervisory Board kept himself constantly informed of the current course of business, major transactions and crucial Management Board decisions. To that end, the Chairman of the Supervisory Board was engaged in a close and routine exchange of information and ideas with both members of the Management Board.

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

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

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

*Management and Supervisory Board issued their joint Declaration of Compliance on 8 March 2013*

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

#### 2013 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to §315a of the German Commercial Code, and the consolidated management report. The Supervisory Board issued the audit mandate by resolution of the Annual General Meeting of 20 June 2013. Before publishing the nomination, the Supervisory Board obtained an independence declaration from the auditor. There were no known reasons to doubt the auditor's independence. The auditor was also asked to notify the Supervisory Board immediately of any circumstances which could establish bias on its part and to keep us informed about any performances it rendered in addition to the audit. The focus of the 2013 audit was on the "financial management" process.

*Auditor issued an unqualified auditor's opinion*

The auditor issued an unqualified auditor's opinion for Nabaltec AG's annual financial statements and management report and for the consolidated financial statements and consolidated management report. All of the documents pertaining to the financial statements, as well as the auditor's report, were made available to each member of the Supervisory Board in a timely manner for independent review. The documents and the auditor's report were the subject of intense consideration at the session of 10 April 2014. The auditor was present during the session, reported on the essential conclusions of the audit and was available for further questions. One focus of the auditor's explanations was his assessment of Nabaltec AG's consolidated financial statements and the accounting-related controlling system for the "financial management" unit. The auditor was not able to find any accounting-related weaknesses in that area. The Management Board and the auditors have answered all of the Supervisory Board's questions fully and to its satisfaction.

After conducting an independent review of the annual financial statements and consolidated financial statements, management report and consolidated management report, the Supervisory Board has made no objections, and accepts the conclusions of the audit conducted by Deloitte & Touche GmbH. The Supervisory Board accordingly approved the annual financial statements and consolidated financial statements for 31 December 2013 which have been prepared by the Management Board, and the annual financial statements for Nabaltec AG are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of management for their consistently strong, trusting and constructive collaboration. Special thanks goes to all of Nabaltec AG's employees, who once again demonstrated their solidarity with the company in 2013, achieving success through innovative ideas and at the same time kept in view the lasting satisfaction of the customers.

Schwandorf, 10 April 2014



DR. LEOPOLD VON HEIMENDAHL  
Chairman of the Supervisory Board

## NABALTEC SHARE AND BOND

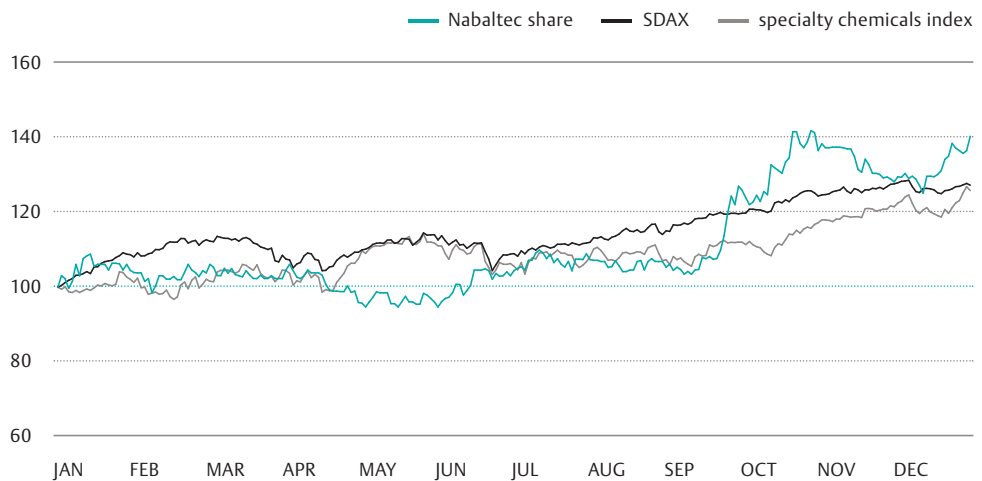
Since 2006, Nabaltec AG share has been listed in the Entry Standard segment of the Frankfurt Stock Exchange. The company’s corporate bond, which was launched in October 2010 in the Bondm segment of the Stuttgart Stock Exchange, was terminated early and redeemed at the end of 2013.

### NABALTEC SHARE ON THE CAPITAL MARKET

*Nabaltec share achieved a price increase of 39.1% in 2013*

Nabaltec share posted very strong performance starting in mid-September 2013, after remaining rather stable up to that point. The price of Nabaltec share remained just below the EUR 7.00 mark in the first quarter, before falling to EUR 6.25 in the second quarter, its low for the year. The price of Nabaltec share then mounted a sustained recovery over the remainder of the year. After a strong gain, the share price climbed to EUR 9.35 at the end of October, its high for the reporting year. At the end of 2013, Nabaltec share was trading at EUR 9.25, up 39.1% from its price at the end of 2012. Nabaltec share was up 13.2% in the fourth quarter alone. The stock indices of relevance for Nabaltec, the SDAX and the specialty chemicals index, also posted strong gains over the course of the year, finishing the year up 29.3% and 27.7% respectively.

PERFORMANCE OF NABALTEC SHARE 2013 (XETRA, indexed)



Nabaltec AG’s market capitalization was EUR 74.0 million at the end of 2013, compared to EUR 53.2 million as of 31 December 2012.

## KEY DATA FOR NABALTEC SHARE (XETRA)

	2013	2012
Number of shares	8,000,000	8,000,000
Market capitalization (cutoff date, in EUR million)	74.00	53.20
Average price (in EUR)	7.32	7.07
High (in EUR)	9.35	8.70
Low (in EUR)	6.25	6.12
Closing price (cutoff date, in EUR)	9.25	6.65
Average daily turnover (in shares)	5,822	5,817
Earnings per share* (in EUR)	0.33	0.26

\* after non-controlling interests

## TRADING VOLUME

Nabaltec share's average XETRA daily trading volume was 5,822 shares in 2013, nearly unchanged from last year's daily trading volume, 5,817 shares. Trading volume rose steadily over the course of the year 2013. In all, about 1.5 million shares were traded on XETRA in the reporting year, representing about half of the free float shares. Since it was first listed, the liquidity of Nabaltec share has been reinforced by a voluntary commitment from a designated sponsor. Since 2013, this function has been performed by Baader Bank Aktiengesellschaft and Close Brothers Seydler Bank AG.

*Liquidity of shares supported by the designated sponsor*

## EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.33 in 2013 (after non-controlling interests), compared to EUR 0.26 the year before. Nabaltec AG calculates earnings per share based on the average number of shares in circulation, in accordance with IAS 33. There was no dilution in 2013.

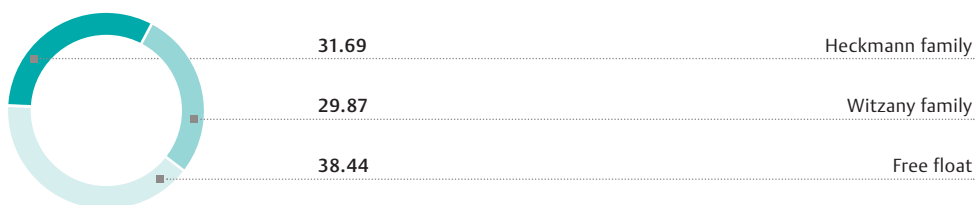
*Earnings per share were EUR 0.33 in 2013*

## SHAREHOLDER STRUCTURE

The majority of Nabaltec's 8,000,000 shares are still held by the Heckmann and Witzany families. As of the cutoff date, the Heckmann family held 31.69% of the company's capital stock and the Witzany family held 29.87%. The residual shares are in free float.

*Stable shareholder structure*

## SHAREHOLDER STRUCTURE (in %)



**ANALYSTS' RECOMMENDATIONS**

*Analysts issued buy recommendations*

Hauck&Aufhäuser has been following Nabaltec share with research reports consistently since 2011, and published ten studies and updates last year. Hauck&Aufhäuser issued a buy recommendation in each of its analyses, and confirmed a price target of EUR 14.00 in its last study of 11 December 2013.

Baader Bank Aktiengesellschaft has been reporting on Nabaltec routinely since 2013 and published four studies on the share in the reporting year. A buy recommendation was issued in all of its analyses. In its study of 26 November 2013 Baader Bank Aktiengesellschaft confirmed a price target of EUR 10.00.

Recommendations of Nabaltec share can be found online in the Investor Relations section of [www.nabaltec.de](http://www.nabaltec.de), under Analysts' Recommendations.

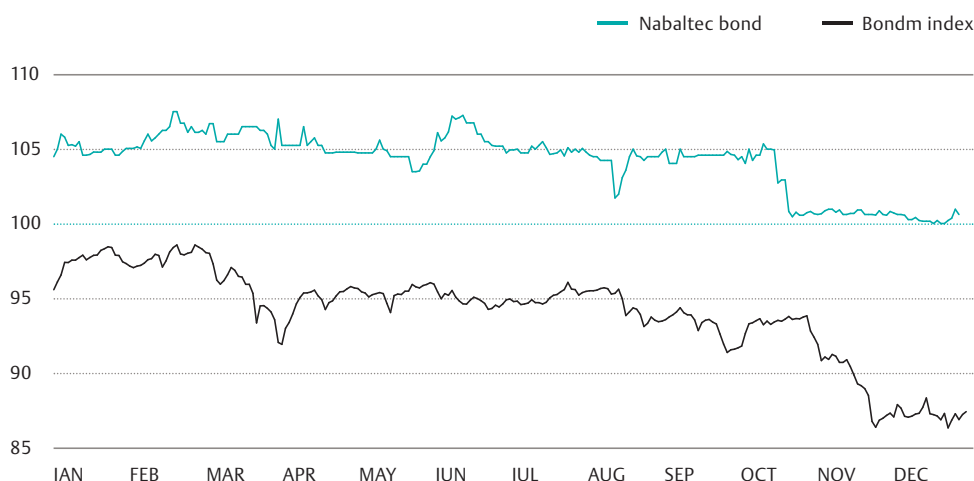
**BOND PERFORMANCE**

*Bond was redeemed preterm at face value*

In 2010, Nabaltec became one of the first companies to launch a small-cap corporate bond. Nabaltec AG's corporate bond was listed in the Bondm (mid-cap) segment of Stuttgart Stock Exchange, and had a volume of EUR 30.0 million and a term of five years. Nabaltec exercised its right of early termination and redeemed the bond at face value on 31 December 2013.

Bondholders were unsettled in Financial Year 2013, a circumstance which affected bond prices in the fourth quarter above all, so that the Bondm index fell to a low of 86.44 at the end of December. It finished the year at 87.52. The price of Nabaltec bond was up throughout the year, remaining well above 100 at all times, up until the early termination was announced in mid-October. After the announcement, the price remained stable, at slightly higher than 100, so that Nabaltec bond finished the last trading day of the year at a price of 100.65.

PERFORMANCE OF NABALTEC BOND 2013 (Stuttgart Stock Exchange)





## CAPITAL MARKET COMMUNICATIONS

Nabaltec AG continued its intensive investor relations activities in Financial Year 2013. It took part in several investor and analyst conferences, and was represented at road shows in Germany and Europe, as well as at numerous investor conferences, including Deutsche Börse's Spring Conference in May 2013 in Frankfurt.

*Intensive dialogue  
with the capital  
market*

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.

Investors can find all the information they need about Nabaltec share (in the Investor Relations section) on the company's website, [www.nabaltec.de](http://www.nabaltec.de), as well as additional information about the company.

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### BASIC DATA FOR NABALTEC SHARE

ISIN (International Security Identification Number)	DE000A0KPPR7
Share symbol	NTG
Stock exchanges	Frankfurt (Entry Standard), over the counter in Berlin, Düsseldorf, Munich, Stuttgart
Sector	Industrial
Industry group	Products & Services
Index membership	Entry Standard, Entry All Share, DAXsector All Industrial, DAXsubsector All Industrial Products & Services

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### BASIC DATA FOR NABALTEC BOND

ISIN (International Security Identification Number)	DE000A1EWL99
Volume	EUR 30,000,000
Annual yield	6.50%
Coupon payments	annually, on 15 October
Term	issued on 15 October 2010 (original term: five years), terminated early and redeemed on 31 December 2013
Amortization rate	100%
Unit	EUR 1,000
Exchange listing	Bondm segment, Stuttgart Stock Exchange

#### Contact Investor Relations:

Phone: +49 9431 53-202

Fax: +49 9431 53-260

E-mail: [InvestorRelations@nabaltec.de](mailto:InvestorRelations@nabaltec.de)



STORAGE DEPOT FOR ALUMINUM HYDROXIDE  
The material is transported by using cranes

# KNOW-HOW IN SPECIALTY CHEMICALS

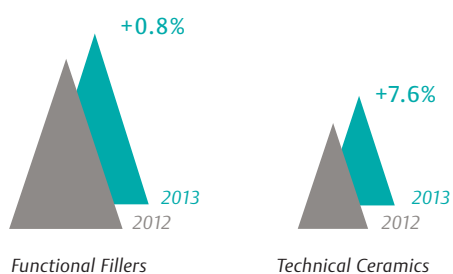
*It's all in the mix*

## PERFORMANCE YOU CAN'T SEE, BUT CAN FEEL

We specialize in functional fillers and heavy metal-free additives for the plastics industry as well as high-quality raw materials for technical ceramics for a wide variety of applications and for highly specific requirements.

The company's organization in two business divisions, "Functional Fillers" and "Technical Ceramics," enables optimal marketing in order to meet the individual demands of our customers. We are among the world's leading suppliers in both areas. Know-how, experience and the implementation of complex processes lay the groundwork for our innovative products.

## 2013 REVENUE GROWTH BY BUSINESS DIVISIONS





*Developing solutions for  
a safer world together*

**INNOVATION IS WHAT INSPIRES OUR  
CUSTOMERS**

Innovation is an integral component of our corporate strategy and is the key prerequisite for securing Nabaltec's future. Innovation is what allows us to provide our customers with better products and solutions.

Through our technical integrated sales, we work closely with our customers at all times to identify trends in product development and optimization at an early stage. We have entered into long-term development partnerships with around ten key customers, creating a real win-win situation for all involved.

**"INTEGRATED SALES":  
THE INNOVATION DRIVER**

We were awarded our seventh "Top 100" prize in 2013 for our innovation management.



Ranga Yogeshwar hands Gerhard Witzany the "Top 100" innovation award



**PERMANENT AVAILABILITY  
OF RAW MATERIALS**

Storage capacity ensures that  
raw materials are available for  
production



INDIVIDUAL COMPONENTS OF A LITHIUM ION BATTERY

Lithium ion battery in the form of a pouch bag cell and separator film

**DR. YUEJIANG LIANG**  
*Regional Manager Sales and Technical Services*



# HEAT-RESISTANT AND HIGHLY EFFECTIVE

*Alternative energy storage*

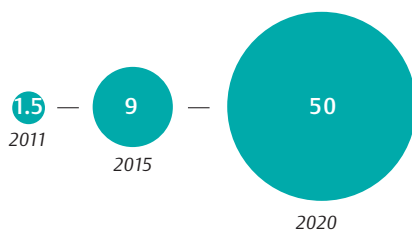
## BOEHMITE FOR MORE RELIABILITY

Alternative energy storage (e.g. lithium ion batteries) for the electronics and automotive industries are exposed to a diverse array of stresses, of both the thermal and electrical variety.

Until now, a quite substantial safety issue with lithium ion batteries has been the risk of internal short circuit due to overheating. A boehmite-based product family newly developed by Nabaltec effectively protects alternative energy storage devices from fire and explosion, since boehmite acts as a protective shield in separator films for lithium ion batteries. Using boehmite can protect the separator film from damage in case of thermal and electrical stress.

Our boehmite is supplied to manufacturers of separator films and battery cells all over the world.

## GLOBAL MARKET GROWTH FOR LITHIUM ION BATTERIES FOR ELECTRIC VEHICLES IN BILLIONS OF US DOLLAR



Source: "Global Vehicle LiB Market Study," Roland Berger Strategy Consultants, August 2011, forecast through 2020



## ELECTRIC VEHICLES

Lithium ion batteries and molten sodium aluminumchloride batteries with Nabaltec technology help to make the latest electric cars safer



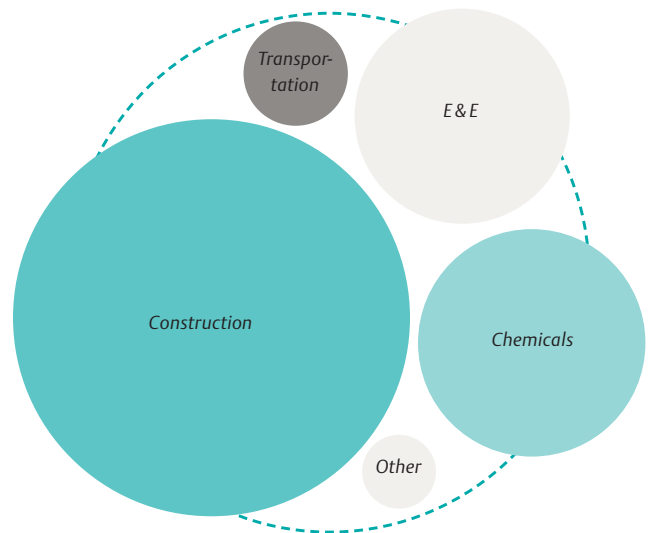
### For more safety

Our halogen-free, flame retardant and other functional fillers and heavy metal-free additives make a wide variety of plastics more eco-friendly and sustainable safer.

They are used e.g. for cables in tunnels or airports and in printed circuit boards of electronic devices in order to prevent or at least considerably delay the outbreak of fire and in order to curtail the development of gases which are harmful to human health and the environment.

Our broad range of products provide optimal solutions for our customers in a variety of applications.

### APPLICATIONS IN THE BUSINESS DIVISION "FUNCTIONAL FILLERS"



SHARE OF REVENUES





#### ELECTRIC VEHICLES

Lithium ion batteries and molten sodium aluminumchloride batteries with Nabaltec technology help to make the latest electric cars safer

CERAMIC  
HIGH-VOLTAGE INSULATOR

Nabaltec's materials are further processed in the technical fine ceramics industry



**CHRISTIAN DÜNZEN**  
*Dipl.-Eng. Technical Services*

# EXTREME LOAD: MAXIMUM ENDURANCE

*High-voltage insulators*

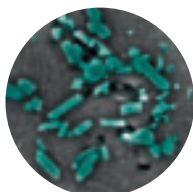
## DURABILITY WITH NABALTEC TECHNOLOGY

High-voltage insulators are used e.g. for overhead lines in railway traffic or in electrical substations. In addition to particularly high tensile and bending strength, they require very pronounced dielectric strength in order to withstand the extreme load to which they are exposed. These properties are featured by so-called electrotechnical porcelain, the key component of which is synthetic aluminum oxide from Nabaltec.

Our aluminum oxides or reactive aluminum oxides feature consistent quality and utmost purity and enable our customers to manufacture top-quality ceramic products.

## ALUMINUM OXIDE CRYSTALS

*Microscopically small aluminum oxide crystals in the porcelain microstructure ensure maximum breaking strength of high-voltage insulators*



## HIGH-VOLTAGE LINES

Insulators with Nabaltec technology are used e.g. in substations due to their high durability



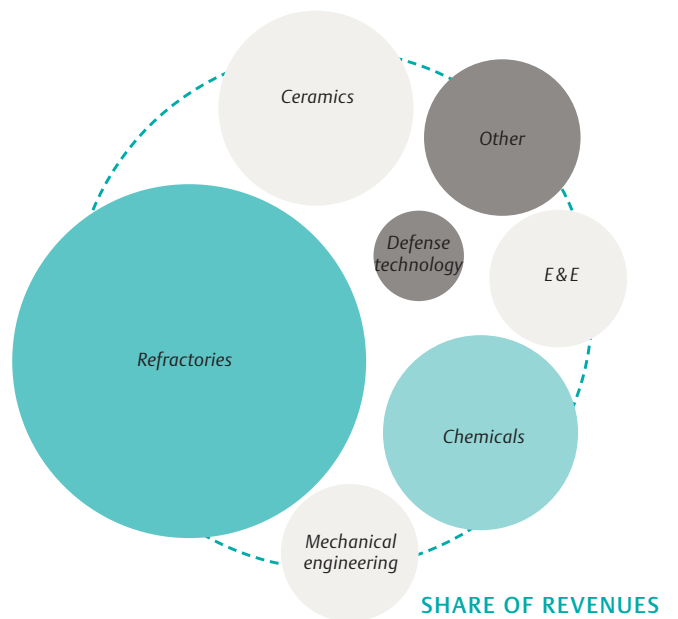
## Diverse range of applications

Our ceramic raw materials and ceramic bodies deliver increased safety and durability in a wide variety of sectors.

The key area of application is the refractory industry, where Nabaltec products are used e.g. for blast furnace linings in steel production. We also supply amongst others the fine ceramics industry, e.g. for the manufacture of high-voltage insulators.

Our application engineers are constantly in close contact with our customers in order to optimally adapt our products to the individual requirements of our customers.

### APPLICATIONS IN THE BUSINESS DIVISION "TECHNICAL CERAMICS"





HIGH-VOLTAGE LINES

Insulators with Nabaltec technology are used e.g. in substations due to their high durability



# CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2013

## CONSOLIDATED MANAGEMENT REPORT

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# CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2013

## 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, ceramic raw material and ceramic bodies. The production capacity entails approximately 250.000 tons per annum (t.p.a.) with an export share of nearly 70%.

The range of applications of Nabaltec products is very diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment
- fillers and additives that pigment and stabilize plastics and that are applied due to their catalyst features or as flame retardant in the electronics industry
- ceramic raw materials applied in the refractory industry, in technical ceramics and abrasives industry
- highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters

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

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



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

*The market for reactive alumina 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 our clients is fundamental for the concerted, client-specific design and development of our products.

### CORPORATE STRUCTURE

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

Nabaltec AG owns a 51% interest in Nashtec LLC (USA) as part of a joint venture. Its joint venture partner is Sherwin Alumina. Nabaltec AG does not have any other participations or subsidiaries.

Reflecting the characteristics of the target and buyers’ markets, Nabaltec AG’s operations are divided into two Company divisions, each in turn comprising of market segments, or respectively, of business units. In addition, the Company operates four service departments as profit, respectively, cost centers.

*Nabaltec organizes its operations in two business divisions*

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

### BUSINESS DIVISIONS

#### Functional Fillers:

- Flame Retardants
- Additives
- Environmental Technique

#### Technical Ceramics:

- Ceramic Raw Materials
- Ceramic Bodies

### SERVICE CENTERS

- Administrative Services
- Controlling/Finance
- Technical Services
- Laboratory Services

## 1.2 OBJECTIVES AND STRATEGIES

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

### 1. QUALITY LEADERSHIP AND A MARKET SHARE AMONG THE RESPECTIVE TOP THREE SUPPLIERS IN THE TARGET MARKETS

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

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

In the ceramic raw materials segment, the market for reactive alumina is developing over proportionally well due to increasing refractory industry quality requirements. Markets for technical ceramics and the abrasive industry also continue showing solid growth. Nabaltec responds to this growth by further expanding its facilities for innovative products.

We are already market-leader in aluminum-oxide based readily available ceramic bodies for highly specialized applications in technical ceramics due to amongst others the state-of-the-art production facility for granulated ceramic bodies in Schwandorf.

### 2. STRATEGIC POSITIONING WITHIN GROWTH MARKETS

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

### 3. OPTIMIZING CUSTOMER BENEFITS BY CONTINUOUSLY IMPROVING PRODUCTION PROCESSES AND PRODUCT QUALITY

*Product and process development is constantly optimized*

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

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

#### 4. SYSTEMATIC EXPANSION OF OUR PRODUCT RANGE

Nabaltec develops its own product portfolio along three dimensions:

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

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

#### 5. FLEXIBLE AND QUICK ADAPTION OF CAPACITIES AND COST STRUCTURES THANKS TO HIGH-RESOLUTION CONTROLLING PROCESSES

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

*Nabaltec pursues a margin oriented capacity policy*

#### 6. SECURING FUTURE INVESTMENTS THROUGH A STRONG FINANCIAL BASE

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

### 1.3 CONTROLLING

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

*Incentive scheme defines responsibilities*

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

## 1.4 BASIS OF THE REMUNERATION SYSTEM FOR THE GOVERNING BODIES

The remuneration of the management board and the supervisory board is specified in the notes.

### MANAGEMENT BOARD

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

*Variable compensation system for the Management Board*

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

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

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

### SUPERVISORY BOARD

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

*Members of the Supervisory Board included in D&O insurance coverage*

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

## 1.5 RESEARCH & DEVELOPMENT

*R&D activities play a central role*

Research and development activities play a central role within the context of Nabaltec AG's overall strategy. An essential element within the research and development strategy is the close collaboration and our joint development efforts with customers. In all our business divisions, the focus is clearly on offering customers superior quality and processing advantages so as to support them in securing their competitive advantage. As a leading supplier of highly specialized products, Nabaltec considers research & development to be one of our core competencies.

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

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

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

*Projects with research partners*

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

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

*R&D activities are based on customer and market requirements*

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

*Nabaltec plans to become the quality leader for additives and boehmite*

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

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

*The market for non-halogenated flame retardants still has considerable growth potential*

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

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

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

*New special qualities for technical thermoplastics*

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

Regarding new trends in environmental engineering, Nabaltec AG is currently in the process of developing new resources for alternative energy storage as well as electro mobility. Furthermore, special products based on aluminum hydroxide as well as boehmite are increasingly being applied for catalysis and cleaning of waste gas emitted by power plants.

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

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

*Reactive aluminum oxides are used mainly in the refractory industry*

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

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

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

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

## 2. FINANCIAL REPORT

### 2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

#### 2.1.1 MACROECONOMIC SITUATION

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

*Global production up 2.9% in 2013*

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

The German economy, despite the recession in the EURO zone proved to be very resistant and could grow in 2013 albeit somewhat lower than in prior years. According to the Federal Bureau of Statistics, GDP-growth after taking inflation into account was 0.4% compared to 0.7% in 2012 and 3.3% in 2011. According to the Federal Bureau of Statistics, the German economy was affected by the ongoing recession in some European countries and by the worldwide economic development which could not be compensated by domestic demand. Further complicating matters was the negative impact of the trade balance due to increased imports. Significant positive stimulus was noted caused by private and government spending.

*The German economy continues to prove very robust*

#### 2.1.2 INDUSTRY DEVELOPMENT

In 2013, total revenue in the German chemical industry increased slightly to the prior year level by 0.5% to EUR 188.0 billion (source: German chemical industry association Verband der Chemischen Industrie e.V. (VCI)). Although the production level of the German chemical industry rose by 1.5%, prices decreasing by -1% hampered sales growth.

Domestic sales of the German chemical industry in comparison to 2012 rose by 1% to EUR 75.0 billion. Exports stagnated at EUR 113.0 billion, however.

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

*Chemical industry increases investments to EUR 6.4 billion*

*The long-term trend of increasing demand remains intact*

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

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

## 2.2 COURSE OF BUSINESS

Nabaltec's business developed satisfactorily in 2013. Different to prior years, the dynamic was not different in the two half years but rather was constant. During the first half year as well as the second half year, sales exceeded the comparable periods of the prior year. In total, revenue 2013 increased slightly by 2.9% to EUR 132.9 million while the operating profit (EBIT) increased by 5% to EUR 10.5 million (2012: EUR 10.0 million), Earnings per share increased by 26.9% to EUR 0.33 (2012: EUR 0.26) while equity grew by 6.1% to EUR 50.4 million (2012: EUR 47.5 million).

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

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

*Successful course of business continues at the start of 2014*

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



## 2.3 OVERVIEW OF THE COURSE OF BUSINESS AT NABALTEC AG

### 2.3.1 DEVELOPMENT OF REVENUE

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

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

*Results in the second half of 2013 up from the year before*

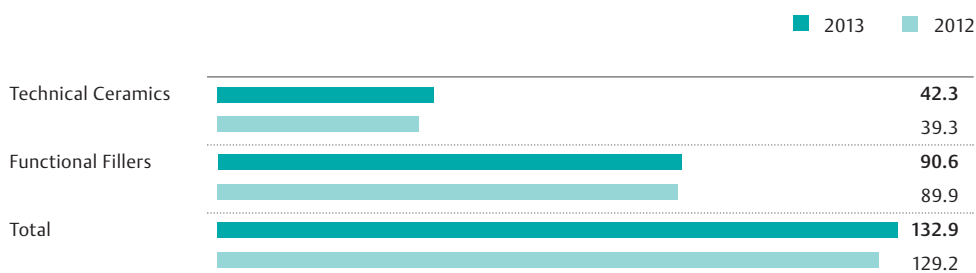
Throughout the year, orders amounted to EUR 131.5 million in total. Nabaltec ended the financial year 2013 with an order backlog of EUR 14.9 million.

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

The US subsidiary, Nashtec, could further brace her market position and sustainably contribute toward the Group's earnings.

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

REVENUE BY BUSINESS DIVISION IN 2013 (in EUR million)



REVENUE BY REGION 2013 (in %)



Total performance up 3.8%

Nabaltec Group’s total performance increased in 2013 by 3.8% from EUR 129.4 million to EUR 134.3 million. This is mainly due to the build up of stock levels of finished goods and work in progress compared to a reduction in prior year. Capitalized internally generated assets amounted to EUR 0.2 million.

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

OPERATIONAL EXPENSE RATIOS COMPARED TO TOTAL PERFORMANCE (in %)

	2013	2012
Cost of materials	51.8	52.0
Personnel expenses	16.8	16.8
Other operating expenses	17.7	17.9

The cost-of-materials-ratio fell by 0.2 percentage points

Compared to prior year, the cost-of-materials-ratio (compared to total performance) could be decreased by 0.2 percentage points to 51.8%. The 2013 gross profit margin (compared to total performance) turned out slightly lower 49.1% than prior year level of 49.3%. In absolute terms, gross profit exceeded the prior year with EUR 66.0 million in the reporting period and EUR 63.8 million in 2012.

In 2013, the personnel-expenses-ratio (compared to total performance) of 16.8% remained stable compared to prior year level, given that the number of employees decreased from 417 per 31 December 2012 to 415 per 31 December 2013.

Other operating expenses increased from EUR 23.2 million to EUR 23.8 million. The expense-ratio (compared to total performance) slightly improved from 17.9% to 17.7%. While the distribution-costs-ratio and the cost-ratio relating to sales agent commissions remained stable, costs for external services and repair services came in higher. Decreasing cost ratios for general administration, consulting, insurance, and employee benefit costs were noted.

Earnings before interest, tax and depreciation and amortization (EBITDA) increased by 5.3% from EUR 18.8 million to EUR 19.8 million. This is mainly due to the increased total performance for the business year.

Taking into account the scheduled depreciation/amortization in the financial year 2013 in the amount of EUR 9.2 million, the operating result (EBIT) amounts to EUR 10.5 million compared to EUR 10.0 million in prior year. This was primarily due to the upward trend in the overall performance despite higher depreciation/amortization compared to prior year.

## EBIT (in EUR million)

2013		10.5
2012		10.0

Earnings before tax (EBT) amounted to EUR 4.7 million (2012: EUR 4.1 million). This includes the financial result 2013 almost unchanged with EUR –5.9 million, consisting of EUR 6.2 million interest expenses and EUR 0.3 million interest income. Because of the early redemption of the corporate bond as per 31 December 2013 one time compounding expenses (pro rata placing commission of the bond) of 0.6 million were incurred. In addition, fourth quarter was impacted by the additional interest expense from the promissory note bond issued in October 2013. Due to the discontinuation of the corporate bond starting in January 2014, the financial result is expected to improve. By placing the promissory note bond, the financing of the company was secured on a long-term basis at good terms.

*Non-recurring interest expenses due to early redemption of bond issue*

Tax expenditure of EUR 0.9 million was incurred in the 2013 business year (2012: EUR 1.1 million), including EUR 0.4 million deferred taxes (2012: EUR 0.6 million).

Group earnings after non-controlling interests amounted to EUR 2.6 million (2012: EUR 2.1 million). Earnings per share increased from EUR 0.26 in 2012 to EUR 0.33 in the reporting period.

## Segment report: Development within the business divisions

## FUNCTIONAL FILLERS (in EUR million)









	2013	2012
Revenue	90.6	89.9
EBITDA	13.4	14.7
EBIT	6.7	8.3
Investments	2.4	5.4

In 2013, revenue increased by 0.8% in the business division “Functional Fillers”. The setting forth of the excellent development in 2011 and 2012 proves that, also in 2013, the underlying market drivers for Nabaltec products are fully intact and the Company disposes of extraordinary prospects. Globally, non-halogenated, flame-retardant fillers continue to be on the rise due to their environmental friendliness and are increasingly crowding out halogenated alternatives currently used.

*The underlying market drivers for Nabaltec products are fully intact in 2013*

## REVENUE BUSINESS DIVISION “FUNCTIONAL FILLERS”

## PER QUARTER (in EUR million)

	2013	2012
Q4		21.1
		20.1
Q3		23.0
		22.7
Q2		22.8
		23.9
Q1		23.7
		23.2

EBITDA in the "Functional Fillers" business division down to EUR 13.4 million

Based on EBITDA, the business division "Functional Fillers" softened by 8.8% from EUR 14.7 million to EUR 13.4 million in the reporting period. Determining factor was a slightly decreasing price development compared to prior year.

Approximately 40% of total investments of Nabaltec Group went into the business division "Functional Fillers", mainly for process optimization.

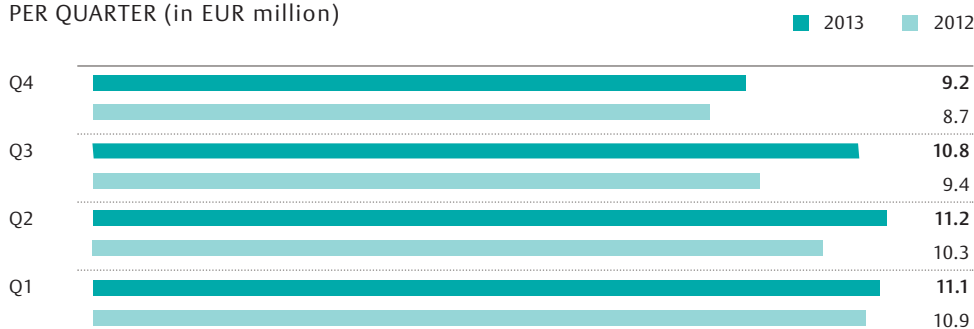
TECHNICAL CERAMICS (in EUR million)

	2013	2012
Revenue	42.3	39.3
EBITDA	6.4	4.1
EBIT	3.8	1.7
Investments	3.4	3.3

Revenues in the "Technical Ceramics" business division up 7.6%

In the reporting period, revenue increased by 7.6% from EUR 39.3 million to EUR 42.3 million in the business division "Technical Ceramics". Particularly in Europe, high demand was noted in the reactive alumina business. Definitely, Nabaltec continues to see intact market drivers for this business division especially with value adding products.

REVENUE BUSINESS DIVISION "TECHNICAL CERAMICS" PER QUARTER (in EUR million)



Earnings development in the business division "Technical Ceramics", based on EBITDA, increased compared to prior year by 56.1% from EUR 4.1 million to EUR 6.4 million.

60% of all investments went to the business division "Technical Ceramics"

In 2013, the business division "Technical Ceramics" was the focus of investments in the Nabaltec Group. Approximately 60% of total capital expenditure went into this segment, mainly for the enlarging of capacities of value adding products and the optimization of production processes.

2.3.2 FINANCIAL POSITION

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

The impact of exchange rate fluctuations was largely eliminated

Thanks to our own production in the USA through our subsidiary, Nashtec, Nabaltec was able to eliminate exchange rate effects derived from fluctuations between US dollar and EURO to a considerable degree. Nabaltec pursues a thorough currency hedging policy regarding any residual exchange rate risks, should market volatility or the volume of business transactions denominated in foreign currency require such measures.

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

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

*Nabaltec secures long-term financing*

The bond of EUR 30 million placed in 2010 was terminated by Nabaltec and repaid by 31 December 2013.

#### 2.3.2.1 CAPITAL STRUCTURE

Group's shareholders' equity increased from EUR 47.5 million to EUR 50.4 million as of 31 December 2013. This increase is primarily due to the net profit for 2013. The calculated equity ratio slightly decreased from 29.4% to 28.6% which was caused by an increase in total assets due to issuing the promissory note bonds and incurring long-term debt of EUR 5.0 million in the first quarter. This capital base can continue to be considered as sound compared to the industry.

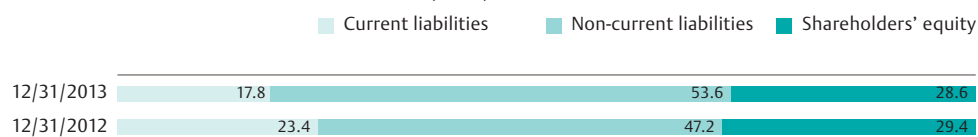
*Equity ratio down slightly, to 28.6%*

Non-current liabilities increased in the reporting period from EUR 76.2 million to EUR 94.5 million. This includes Nabaltec AG's promissory note bonds in the amount of net EUR 49.6 million as well as the long-term loan of EUR 5.0 million. As a consequence, long term payables to banks significantly increased by EUR 44.9 million. The retirement benefit obligation increased in 2013 by EUR 1.1 million to EUR 18.9 million.

*Non-current liabilities up to EUR 94.5 million*

Current liabilities could be decreased in 2013 from EUR 37.8 million to EUR 31.4 million. The reason for this decrease was mainly caused by the redemption of the existing profit participation rights capital of EUR 5.0 million as planned as well as lower trade liabilities.

#### STRUCTURE OF EQUITY & LIABILITIES (in %)



#### Other off-balance sheet financing instruments

Nabaltec sold various technical equipment and machinery as part of a sale-and-lease-back transaction. Upon expiration of the lease contracts on 29 November 2013 and 31 December 2013 and based on purchase offers from the lessor, Nabaltec purchased the technical equipment and machinery. On the closing dates 16 December 2013 and 2 January 2014, respectively, the fixed assets were capitalized as part of property plant & equipment. The remaining lease term of further lease contracts amounts up to five years. Furthermore, Nabaltec continuously uses factoring in connection with trade receivables, also to minimize potential default risks. Nabaltec Group does not use any other financial engineering instruments.

2.3.2.2 INVESTMENTS

*Nabaltec invested a total of EUR 5.8 million in 2013*

In the reporting period, the Nabaltec Group invested a total amount of EUR 5.8 million net of including the portion of the investment grant while 2012 investments were EUR 8.7 million. Investments were in particular focused on the further optimization of processes in both business segments and the addition to capacity for strongly value adding products in the “Technical Ceramics” business division.

2.3.2.3 CASH FLOW

Net cash generated by operating activities on Group level decreased compared to prior year by 40.0% to EUR 12.9 million (2012: EUR 21.5 million). Without exception, the decrease is caused by changes in the working capital. An increase in trade receivables by EUR 1.3 million, by EUR 2.6 million higher stock levels, a decrease in trade liabilities as well as other liabilities led to this cash outflow during the business year.

Net cash used in investing activities amounted to EUR –2.6 million in the reporting period (net of EUR 3.2 million new investment subsidies received) as compared to 2012: EUR –10.6 million.

*Early redemption of the corporate bond issue in the amount of EUR 30 million*

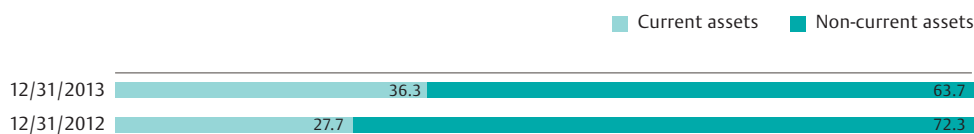
Net cash used in financing activities amounted to EUR 5.2 million in 2013 (2012: EUR –12.9 million). The scheduled redemption of finance loans in current year amounted to EUR 9.9 million, the corporate bonds for EUR 30 million were repaid as well as new loans amounting to EUR 54.6 million (including the placement commission for the promissory note bonds) were taken out. Paid interest was reduced from EUR 4.7 million in 2012 to EUR 4.6 million in the reporting period and includes interest payments for the corporate bond until 31 December 2013.

Nabaltec Group’s total cash and cash equivalents as at 31 December 2013 amounted to EUR 29.7 million compared to EUR 14.3 million in prior year.

2.3.2.4 NET ASSETS

Nabaltec AG’s total assets increased as at 31 December 2013 from EUR 161.5 million to EUR 176.3 million.

STRUCTURE OF ASSETS (in %)



Property, plant and equipment decreased slightly to EUR 111.8 million (31 December 2012: EUR 116.0 million). Technical machinery increased markedly, since less investments were taken into operation in the course of 2013 and additionally higher depreciation was incurred. The sum of the non-current assets in the amount of EUR 112.3 million encompasses a deferred tax asset arising from the joint venture, Nashtec, amounting to EUR 0.3 million. Non-current assets amounted to 63.7% of the balance sheet total as per 31 December 2013; current assets amounted to 36.3%.

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

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

Significant profitability figures at Nabaltec AG:

#### RETURN ON SALES AND CAPITAL (in %)

	2013	2012
Return on equity	7.3	6.3
Return on Capital Employed (ROCE)	7.9	7.6

Return on equity, consisting of the ratio of group profit to equity, amounted to 7.3% in the reporting period and was therefore above the prior year value of 6.3%. Reason for this is the increase in the annual result.

*Return on equity was 7.3%*

Return on Capital Employed (ROCE) compares EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 7.9% after 7.6% in prior year.

#### 2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

##### Employees

End 2013, Nabaltec Group employed in total 415 employees (31 December 2012: 417). Thereof, 413 employees (31 December 2012: 416) were employed in Germany. This figure includes 46 apprentices (31 December 2012: 53). Nabaltec sets a high value on sound professional training. Therefore, also in 2013, the rate of apprentices of 11.1% traditionally presents a remarkably large portion of the workforce. This rate was slightly lower in comparison to prior year but exceeded the industry average significantly. Nabaltec apprentices regularly count to the best of their class. The Company currently has vacancies relating to training positions for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists.

*The trainee ratio was 11.1% in 2013*

Nabaltec AG regularly belongs to the 100 best employers in the German middle market, according to the national multi-sector company comparison, 'TOP JOB'. Such distinctions which Nabaltec received for the third time in 2012, indicate how seriously the Company takes its responsibility toward her employees. Nabaltec's central concern is to offer her employees company-internal perspectives and opportunities for further development in order to enhance and strengthen the employees' corporate identity, commitment and involvement.

*Nabaltec is routinely among the 100 top employers among German mid-size companies*

##### Customer Relations

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

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

Prerequisite for our market success are products of the ongoing highest quality, developed, optimized and delivered in large number of units over a long period of time based on specific customer needs. The Company's products are continuously geared so as to help our customers make safer, environmentally friendlier, more robust and competitive products and simultaneously optimize customer production processes. Therefore, joint development projects as well as business relations result in long term supply contracts and sustainable cooperations.

*Nabaltec products are specially designed to meet customer needs*

Particularly regarding to new products, Nabaltec often has to go through a long and thorough release-process with their customers. In most cases, the successful conclusion results in long term supply agreements on the basis of reliable conditions and quantities.

### Management Systems

In order to promote safety-consciousness among all of our employees and to simplify implementation of statutory and workmen's compensation board requirements, the Company already decided in 2007, in addition to its existing quality and environmental management systems in accordance with ISO 9001, respectively, ISO 14001, to introduce a health and safety management system in compliance with BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series). In 2013, an extensive monitoring audit of the existing management system based on ISO 9001 and ISO 14001 was performed in the Schwandorf and Kelheim locations. Furthermore, an audit of BS OHSAS 18001 was reperformed. On the site in Corpus Christi, the quality management system (ISO 9001) was also successfully reaudited.

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

*Energy management system in accordance with the ISO 50001 standard*

### Environmental protection

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

As in prior years, special emphasis was placed on optimizing energy processes in production, both for environmental reasons and as a means of cutting costs. Also in 2013, this area was invested in. Through joint efforts with external partners, Nabaltec developed techniques requiring much less process energy, leading to a substantial reduction in CO<sub>2</sub> emissions. Participating in the task force energy management of "Bayern Innovativ GmbH" was extended until 2016. The goal is to transfer and receive innovations relating to continuous improvement processes to and from other enterprises. In collaboration with the refuse utilization association in Schwandorf, an essential part of Nabaltec's energy needs are covered by renewable energy.

*Essential part of energy needs are covered by renewable energy*

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

*CAHC plant operates entirely without production waste water*



environment. Rather, we ensure that such chemicals can be completely used for the re-employment in an entirely closed production cycle.

#### Capital Market

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

### 3. REPORT ON SUBSEQUENT EVENTS

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

### 4. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

#### 4.1 OUTLOOK

##### OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

For her own products, Nabaltec also foresees intact sales markets across the board in 2014, as well as stable demand, if the environment does not change fundamentally. The Company has taken a top international position within its markets. Thanks to the further expansion of her market position in 2013 and the long term reputation, Nabaltec sees good future prospects for its key products.

*Good future prospects for key products*

##### ECONOMIC AND INDUSTRY DEVELOPMENT

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

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

*IfW expects EURO zone GDP to grow in 2014*

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

## GDP GROWTH FORECAST (in %)

	2014	2015
World	3.7	4.0
USA	2.3	3.0
EURO zone	0.9	1.6
Germany	1.7	2.5
France	0.8	1.4
Italy	0.4	1.0
Great Britain	2.0	2.3
Japan	1.5	1.1
China	7.5	7.0
India	5.0	5.0

Source: IfW, "Weltkonjunktur im Winter 2013", 18 December 2013

VCI expects chemical production to be up 2.0% in 2014

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

Basic drivers and growth triggers are intact

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

#### OUTLOOK ON THE COURSE OF BUSINESS

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

Order back-log per 31 December 2013, amounted to EUR 14.9 million.

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

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

**EXPECTED EARNINGS, NET ASSETS AND FINANCIAL POSITION**

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

*Nabaltec expects revenue growth in the mid-single digits*

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

The financial result in 2014 shall improve compared to prior year. Nabaltec will redeem payables to banks as scheduled in the amount of approximately EUR 9 million.

**NOTE WITH RESPECT TO UNCERTAINTIES IN THE OUTLOOK**

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

*Actual developments may deviate from forecasts*

**4.2 RISKS AND OPPORTUNITIES REPORT****SALES MARKET**

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

**PROCUREMENT MARKET**

We monitor our suppliers' economic situation very closely and deliberately build up alternatives for all products. For the procurement of raw materials, Nabaltec operates on the basis of medium and long term contracts. The supply of the most important media, electricity, gas and vapor for the production process is also secured by long term agreements. The accrediting of the energy management system in accordance with ISO 50001 supports these efforts. In the case of strong growth, Nabaltec disposes of alternative scenarios and preliminary considerations to cover rising energy needs at attractive conditions. In addition, permanent efforts are being made to optimize production processes in order to reduce the specific energy usage. An additional risk is the more disproportional increase in logistics costs. On the one hand, Nabaltec can counter this risk by passing on logistics costs to customers, and on the other hand, by finding a balanced logistics mix. For example, we dispose of our own railway siding, which makes transport per rail very attractive.

*Supply of key media is secured through long-term contracts*

**FINANCIAL MARKET**

If necessary, exchange rate risks are specifically restricted by hedging instruments covering risks arising from US dollar exposure. In the case of medium term financing, interest risks are

*Swaps used to hedge against interest and exchange rate risks*

hedged by swaps or credit agreements with fixed interest rates are entered into. Nabaltec AG as well as her USA subsidiary have at their disposal a detailed financial and liquidity budget. Variance analyses are performed periodically. If additional liquidity is deemed necessary, the appropriate financing measures are initiated. Interest rate fluctuations are partially covered by hedge instruments. Credit agreements of Nabaltec AG are partially subject to covenants that are, among others, oriented toward leverage coverage ratios as well as equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period, covenants valid as at 31 December 2013 were not violated. Given the successful placement of the promissory note bond in October 2013, Nabaltec AG's financing situation has further improved.

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

#### PERSONNEL

*Intensive training and education programs*

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

#### PRODUCTION, PROCESS AND IT

*Production-specific risks are manageable*

Nabaltec disposes of an integrated quality management system with ISO 9001 accreditation that is put to practice companywide. Therefore, Nabaltec considers the production-specific risks as manageable. Regarding IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundant design of high-quality hardware. Through regular verification of the access structure, data protection is guaranteed. Data security is based on appropriate, well-established procedures. Compliance with the privacy policy based on the most recent legal framework is guaranteed at all times within the Company and is additionally monitored by an external data protection official.

#### ENVIRONMENTAL PROTECTION

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

#### TECHNOLOGICAL DEVELOPMENT

Potential technological risks could result from customers substituting Nabaltec products due to a change in technology, from the disuse of newer technology or from not recognizing technological development. As the innovation leader, we try to minimize these risks by engaging in continuous and intensive research and development efforts, by maintaining customer proximity and by integrating marketing and research and development structures. Nabaltec considers technological development as a source of opportunity to generate a competitive edge with product quality by occupying new markets through fast-paced product adjustments and by generating process and quality advantages together with our clients; thereby, setting the stage for economic success.

## LEGAL FRAMEWORK

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

*Regulatory changes currently provide additional market opportunities*

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

## RISK MANAGEMENT SYSTEM

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

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

*Risk management constantly optimized*

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

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

*System of strategic planning*

Risk management also includes routinely testing the efficiency of applied hedging instruments and the reliability of controlling systems. There is insurance coverage for casualty and liability

risks, thus limiting the financial consequences for the Company's liquidity, financial position and earnings as well as preventing situations that could jeopardize the continued existence of the Company.

*No significant risks  
to Nabaltec's future  
development*

#### OVERALL ASSESSMENT

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

## 5. CORPORATE GOVERNANCE STATEMENT AND REPORT

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

Schwandorf, 3 March 2014

Nabaltec AG  
The Management Board



JOHANNES HECKMANN



GERHARD WITZANY

# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2013

## CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

(in EUR '000)	Notes	01/01 – 12/31/2013	01/01 – 12/31/2012
Revenue	5.1	132,934	129,213
Change in unfinished and finished products		1,172	-479
Other own services capitalized	5.2	223	622
<b>Total performance</b>		<b>134,329</b>	<b>129,356</b>
Other operating income	5.3	1,332	1,700
Cost of materials	5.4	-69,613	-67,304
<b>Gross profit</b>		<b>66,048</b>	<b>63,752</b>
Personnel expenses	5.5	-22,518	-21,770
Depreciation and amortization	5.7	-9,231	-8,806
Other operating expenses	5.8	-23,768	-23,155
<b>Operating result (EBIT)</b>		<b>10,531</b>	<b>10,021</b>
Interest and similar income	5.10	296	419
Interest and similar expenses	5.11	-6,173	-6,308
<b>Result from ordinary operations (EBT)</b>		<b>4,654</b>	<b>4,132</b>
Income taxes	5.12	-939	-1,110
<b>Consolidated result after taxes</b>		<b>3,715</b>	<b>3,022</b>
thereof attributable to			
Shareholders of the parent company		2,646	2,055
Non-controlling interests		1,069	967
<b>Consolidated result after taxes</b>		<b>3,715</b>	<b>3,022</b>
<b>Earnings per share (in EUR)*</b>	7.5	<b>0.33</b>	<b>0.26</b>

\* see also Note 6.8 Equity



(in EUR '000)	Notes	01/01 – 12/31/2013	01/01 – 12/31/2012
<b>Consolidated result after taxes</b>		<b>3,715</b>	<b>3,022</b>
Items that may be reclassified subsequently to profit or loss			
Foreign Currency Translation (after taxes)		-280	-124
Net Result from Hedge Accounting (after taxes)		-303	177
		<b>-583</b>	<b>53</b>
Items that will not be reclassified to profit or loss			
Actuarial gains and losses		-251	-2,521
		<b>-251</b>	<b>-2,521</b>
<b>Other result</b>		<b>-834</b>	<b>-2,468</b>
thereof attributable to			
Shareholders of the parent company		-972	-2,607
Non-controlling interests		138	139
<b>Comprehensive income</b>		<b>2,881</b>	<b>554</b>
thereof attributable to			
Shareholders of the parent company		1,674	-552
Non-controlling interests		1,207	1,106

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2013

ASSETS (in EUR '000)	Notes	12/31/2013	12/31/2012
<b>Non-current assets</b>		<b>112,346</b>	<b>116,771</b>
Intangible assets			
Concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments)	6.1	228	232
Property, plant and equipment		111,817	115,984
Land, leasehold rights and buildings on non-owned land	6.2	28,424	29,126
Technical equipment, plant and machinery	6.2	77,597	81,626
Other fixtures, fittings and equipment	6.2	3,054	2,656
Advance payments and plant and machinery under construction	6.2	2,742	2,576
Deferred tax assets	5.12	301	555
<b>Current assets</b>		<b>63,928</b>	<b>44,729</b>
Inventories		26,211	23,597
Raw materials and supplies	6.3	13,562	12,168
Unfinished goods	6.3	217	261
Finished products and merchandise	6.3	12,432	11,168
Trade receivables and other assets		8,039	6,827
Trade receivables	6.4	4,287	3,411
Income tax claims	6.5	62	164
Other assets	6.6	3,690	3,252
Cash and cash equivalents	6.7	29,678	14,305
<b>TOTAL ASSETS</b>		<b>176,274</b>	<b>161,500</b>

<b>EQUITY &amp; LIABILITIES</b> (in EUR '000)			
	Notes	12/31/2013	12/31/2012
<b>Equity</b>		<b>50,369</b>	<b>47,488</b>
Subscribed capital	6.8	8,000	8,000
Capital reserve	6.8	29,764	29,764
Earnings reserves	6.8	9,711	9,711
Profit/loss carried forward		5,647	3,592
Consolidated result after taxes		2,646	2,055
Accumulated other comprehensive result	6.8	-4,628	-3,656
Non-controlling interests	6.8	-771	-1,978
<b>Non-current liabilities</b>		<b>94,471</b>	<b>76,245</b>
Retirement benefit obligation	6.9	18,920	17,834
Other provisions	6.9	742	456
Financial liabilities arising from corporate bonds	6.10	0	29,181
Payables to banks	6.10	70,583	25,699
Deferred tax liabilities	5.12	2,853	3,075
Other liabilities	6.10	1,373	0
<b>Current liabilities</b>		<b>31,434</b>	<b>37,767</b>
Income tax payables	6.10	703	638
Other provisions	6.9	156	206
Payables to banks	6.10	9,942	9,668
Profit participation capital	6.10	0	5,000
Trade payables	6.10	8,707	10,403
Other liabilities	6.10	11,926	11,852
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>176,274</b>	<b>161,500</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

(in EUR '000)		Notes	01/01 – 12/31/2013	01/01 – 12/31/2012
<b>Cash flow from operating activities</b>				
Period profit before taxes			4,654	4,132
+	Depreciation and amortization	5.7	9,231	8,806
-/+	Gain/loss from asset disposals		-1	4
-	Interest income	5.10	-296	-419
+	Interest expenses	5.11	6,173	6,308
<b>Operating profit before working capital changes</b>			<b>19,761</b>	<b>18,831</b>
+/-	Increase/decrease in provisions		353	-28
-/+	Increase/decrease in trade receivables and other assets not attributable to investing or financing activity		-1,314	-1,593
+/-	Decrease/increase in inventories		-2,613	2,722
+/-	Increase/decrease in trade payables and other liabilities, not attributable to investment or financing activity		-2,883	1,612
<b>Cash flow from operating activities before taxes</b>			<b>13,304</b>	<b>21,544</b>
-/+	Income taxes paid		-416	-54
<b>Net cash generated by operating activities</b>			<b>12,888</b>	<b>21,490</b>

(in EUR '000)			01/01 – 12/31/2013	01/01 – 12/31/2012
	Notes			
<b>Cash flow from investing activities</b>				
+ Cash received from disposals of property, plant and equipment			11	8
+ Cash received from grants related to assets	6.10		3,150	0
- Cash paid for purchases in property, plant and equipment	6.2		-5,667	-10,499
- Cash paid for investments in intangible assets	6.1		-58	-86
<b>Net cash used in investing activities</b>				
			<b>-2,564</b>	<b>-10,577</b>
<b>Cash flow from financing activities</b>				
- Cash rendered for the redemption of profit participation rights	6.10		-5,000	0
- Cash paid for redemption of corporate bonds	6.10		-30,000	0
+ Cash received from financial loans	6.10		54,600	0
- Cash rendered for payment of financial loans	6.10		-9,914	-8,436
- Interest paid			-4,586	-4,727
+ Interest received			63	277
<b>Net cash generated by financing activities</b>				
			<b>5,163</b>	<b>-12,886</b>
<b>Net change in cash and cash equivalents</b>				
			<b>15,487</b>	<b>-1,973</b>
<b>Effects of exchange rate changes on the balance of cash held in foreign currencies</b>				
			<b>-114</b>	<b>-69</b>
<b>Cash and cash equivalents at the beginning of the year</b>				
	6.7		14,305	16,347
<b>Cash and cash equivalents at the end of the year</b>				
	6.7		29,678	14,305

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

(in EUR '000)

Equity attributable to shareholders of Nabaltec AG

	Subscribed Capital	Capital reserve	Earnings reserves
<b>Balance per 01/01/2012</b>	<b>8,000</b>	<b>29,764</b>	<b>9,711</b>
Actuarial gains and losses	—	—	—
Foreign currency translation	—	—	—
Net gains from hedge accounting	—	—	—
Other gains/losses	—	—	—
Result for the period after tax	—	—	—
<b>Consolidated result for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Balance per 12/31/2012</b>	<b>8,000</b>	<b>29,764</b>	<b>9,711</b>
<b>Balance per 01/01/2013</b>	<b>8,000</b>	<b>29,764</b>	<b>9,711</b>
Actuarial gains and losses	—	—	—
Foreign currency translation	—	—	—
Net gains from hedge accounting	—	—	—
Other gains/losses	—	—	—
Result for the period after tax	—	—	—
<b>Consolidated result for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Balance per 12/31/2013</b>	<b>8,000</b>	<b>29,764</b>	<b>9,711</b>

Profit carried forward	Accumulated other comprehensive result	Total	Non-controlling interests	Consolidated equity
3,592	-1,049	50,018	-3,084	46,934
—	-2,521	-2,521	—	-2,521
—	-158	-158	34	-124
—	72	72	105	177
—	-2,607	-2,607	139	-2,468
2,055	—	2,055	967	3,022
2,055	-2,607	-552	1,106	554
5,647	-3,656	49,466	-1,978	47,488
5,647	-3,656	49,466	-1,978	47,488
—	-251	-251	—	-251
—	-317	-317	37	-280
—	-404	-404	101	-303
—	-972	-972	138	-834
2,646	—	2,646	1,069	3,715
2,646	-972	1,674	1,207	2,881
8,293	-4,628	51,140	-771	50,369

# CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

(in EUR '000)

						Historical Cost
	Balance per 01/01/2013	Additions	Disposals	Transfers	Foreign Ex- change Rate Differences	Balance per 12/31/2013
<b>Intangible assets</b>	<b>2,255</b>	<b>59</b>	<b>–</b>	<b>0</b>	<b>–</b>	<b>2,314</b>
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,208	10	–	8	–	2,226
Advance payments	47	49	–	–8	–	88
<b>Property, plant and equipment</b>	<b>170,919</b>	<b>5,716</b>	<b>27</b>	<b>0</b>	<b>–1,085</b>	<b>175,523</b>
Land, leasehold rights, buildings and buildings on non-freehold land	35,661	644	–	75	–308	36,072
Technical equipment, plant and machinery	125,345	1,919	–	1,966	–743	128,487
Other fixtures, fittings and equipment	7,337	935	27	11	–34	8,222
Advance payments as well as plants and machinery under construction	2,576	2,218	–	–2,052	–	2,742
<b>Total non-current assets</b>	<b>173,174</b>	<b>5,775</b>	<b>27</b>	<b>0</b>	<b>–1,085</b>	<b>177,837</b>

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2012 THROUGH 31 DECEMBER 2012

(in EUR '000)

						Historical Cost
	Balance per 01/01/2012	Additions	Disposals	Transfers	Foreign Ex- change Rate Differences	Balance per 12/31/2012
<b>Intangible assets</b>	<b>2,169</b>	<b>86</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,255</b>
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,168	39	–	1	–	2,208
Advance payments	1	47	–	–1	–	47
<b>Property, plant and equipment</b>	<b>163,176</b>	<b>8,653</b>	<b>421</b>	<b>0</b>	<b>–489</b>	<b>170,919</b>
Land, leasehold rights, buildings and buildings on non-freehold land	34,852	547	–	402	–140	35,661
Technical equipment, plant and machinery	109,909	5,584	345	10,529	–332	125,345
Other fixtures, fittings and equipment	6,720	507	76	200	–14	7,337
Advance payments as well as plants and machinery under construction	11,695	2,015	–	–11,131	–3	2,576
<b>Total non-current assets</b>	<b>165,345</b>	<b>8,739</b>	<b>421</b>	<b>0</b>	<b>–489</b>	<b>173,174</b>



Cumulative Depreciation/Amortization					Book Value	
Balance per 01/01/2013	Additions	Disposals	Foreign Exchange Rate Differences	Balance per 12/31/2013	Balance per 12/31/2013	Balance per 12/31/2012
2,023	63	—	—	2,086	228	232
2,023	63	—	—	2,086	140	185
—	—	—	—	—	88	47
54,935	9,168	17	-380	63,706	111,817	115,984
6,535	1,197	—	-84	7,648	28,424	29,126
43,719	7,437	—	-266	50,890	77,597	81,626
4,681	534	17	-30	5,168	3,054	2,656
—	—	—	—	—	2,742	2,576
56,958	9,231	17	-380	65,792	112,045	116,216

Cumulative Depreciation/Amortization					Book Value	
Balance per 01/01/2012	Additions	Disposals	Foreign Exchange Rate Differences	Balance per 12/31/2012	Balance per 12/31/2012	Balance per 12/31/2011
1,937	86	—	—	2,023	232	232
1,937	86	—	—	2,023	185	231
—	—	—	—	—	47	1
46,777	8,720	409	-153	54,935	115,984	116,399
5,425	1,144	—	-34	6,535	29,126	29,427
37,097	7,073	345	-106	43,719	81,626	72,812
4,255	503	64	-13	4,681	2,656	2,465
—	—	—	—	—	2,576	11,695
48,714	8,806	409	-153	56,958	116,216	116,631

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

## 1. GENERAL INFORMATION

Nabaltec, based in Schwandorf, Germany<sup>1</sup>, was founded under the name Nabaltec GmbH, with its registered head office in Schwandorf (registered in the Commercial Register of the Amberg Local Court under HRB 3920) by virtue of Articles of Incorporation dated 14 December 1994. It acquired the specialty alumina division of VAW aluminium AG in 1995. The Company was converted to a stock corporation in 2006.

According to Section 2 of the Articles of Association, Nabaltec AG's business activities include the development, manufacturing and distribution of highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide ('ATH') and aluminum oxide.

Since 24 November 2006, the shares of Nabaltec AG are listed on the Open Market (Entry Standard) segment of the Frankfurt Stock Exchange.

The consolidated financial statements at hand were approved for publication by the Management Board and the Supervisory Board on 3 March 2014.

## 2. BASIC PRINCIPLES, METHODS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and valuation principles described below have been applied uniformly in all the reporting periods presented herein.

### 2.1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The consolidated financial statements as at 31 December 2013 (including the prior year figures as at 31 December 2012) were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the European Union (EU) as well as with the regulations under commercial law as set forth in Section 315a Paragraph 1 of the German Commercial Code (Handelsgesetzbuch – HGB). The IFRS issued by the International Accounting Standards Board comprise the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All EU-compliant standards applicable to the financial year 2013 were applied.

<sup>1</sup> Nabaltec AG, Alustraße 50 - 52, 92421 Schwandorf, Germany

The consolidated financial statements present a true and fair view of the net asset position, financial position and earnings of Nabaltec AG.

The financial year of Nabaltec AG comprises the period from January 1 through December 31 of every year.

The consolidated financial statements are prepared in euro (EUR). Unless otherwise indicated, all figures have been rounded up or down to thousand euro (EUR thousand) in accordance with commercial rounding practices. Please note that differences can result from the use of rounded amounts and percentages.

Presentation in the balance sheet differentiates between current and non-current assets and liabilities, some of which are broken down further by their respective maturities in the notes to the financial statements.

The consolidated statement of comprehensive income has been prepared by presenting expenses by nature.

## 2.2 ADOPTED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

All accounting standards and interpretations required to be applied for financial years starting 1 January 2013 were applied in the financial year 2013. These also include the following standards and interpretations that had to be adopted for the first time, in particular:

- IAS 1 (amendments 2011) Presentation of the other comprehensive income section: The amendment requires that line items for amounts of other comprehensive income section should be classified as items which will be reclassified subsequently to profit or loss (so called recycling) and items that will not be reclassified subsequently to profit and loss. These changes were adopted by the EU in June 2012 and need to be applied retrospectively for years starting on or after 1 July 2012. These changes merely relate to the presentation without affecting the group's financial performance and performance.
- IFRS 7 amendments Disclosures on Financial Instruments: In December 2011, IASB published amendments to IFRS 7 Disclosures – Offsetting financial assets and financial liabilities. The adaptations provide for disclosure of new qualitative and quantitative notes in connection with certain offsetting agreements. The amendments have to be applied retrospectively for fiscal years starting on or after 1 January 2013. The amendments were endorsed by the EU in December 2012. They did not have an effect on the consolidated financial statements.
- IFRS 13 Fair Value Measurement: This standard applies in identifying fair value measurements and respective disclosures while aiming to a further close the Gap between IFRS and US-Generally Accepted Accounting principles (US GAAP). The standard offers help to measure the fair value when another IFRS requires fair value measurements, as far as this standard applies. This standard is effective for annual periods beginning on or after 1 January 2013. The amendments were endorsed by the EU in December 2012. This standard did not have a material effect on the consolidated financial statements.
- Improvements of International Financial Reporting Standards 2011: On 3 May 2012 IASB published the Annual Improvements to IFRSs 2009–2011 Cycle 2011. The annual improvement process is geared toward implementing improvements which are less urgent but nonetheless necessary. The Annual Improvements Project 2009–2011 involved smaller amendments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 whose application did not have a material effect on the Group's financial statements.

The following non compulsory standards that have been issued but are not mandatory were not applied for an earlier period:

- Amendments to IAS 19 Employee Benefits: In November 2013 the IASB issued amendments to IAS 19 Defined Benefit Plans: Employees' Service. The amendment incorporates a right of choice regarding accounting for defined benefit plans to which employees or third parties can commit to contribute. The amendments apply retrospectively for business years starting on or after 1 July 2014. These amendments were not yet approved by the EU. The first time application will not result in material changes to the Group's financial position and performance.
- IAS 27 (amended 2011) Separate Financial Statements: the consolidation principles previously part of IAS 27 (2008) were amended and are now part of IFRS 10 Consolidated Financial Statements. The objective of IAS 27 is to prescribe the accounting requirements for investments in subsidiaries, joint ventures and associates when an entity decides to prepare separate financial statements. The standard becomes effective for business years starting on or after 1 January 2014 and was endorsed by the EU in December 2012. First time application will have no effect on the consolidated financial statements.
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures: within the scope of the publication of the new standard IFRS 11 in May 2011, IAS 28 Investments in Associates was renamed and amended. Joint ventures, which fall under the definition of "Joint Arrangements" within the new standard IFRS 11, have to be capitalized according to the equity method pursuant to the amended IAS 28. The underlying approach to determining the existence of significant influence by an entity as well as the regulations regarding the application of the equity method remains unchanged. The new standard is applicable to annual reporting periods beginning on or after 1 January 2014 and was endorsed by the EU in December 2012. The first-time adoption of the amendments will not have any effects on the consolidated financial statements.
- Amendments to IAS 32 Financial Instruments: Presentation: In December 2011, the IASB issued amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. The principles formulated in IAS 32 for the offsetting remained unchanged, but have been supplemented by substantiating application guidelines. These illustrate in detail the meaning of the current legally enforceable right to offsetting and include exemplifying criteria under which a system generally geared for gross netting can lead to settle on a net basis. The amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and were endorsed by the EU in December 2012. The first-time adoption of the amendments will not have any effects on the consolidated financial statements.
- IFRS 9 Financial Instruments: In November 2009, the IASB issued a revision of the classification and measurement of financial assets. According to IFRS 9, financial assets are to be measured either based on net book value or on fair value. Taking into account the amendments of December 2011, IFRS 9 is effective for annual periods beginning on or after 1 January 2015. The standard has not yet been endorsed by the EU. Currently, the first-time adoption will have an impact on the consolidated financial statements.
- Additions to IFRS 9 Financial Instruments: In October 2010, the IASB issued requirements regarding the recognition of financial liabilities. The amendments supplement the revised standard Financial Instruments issued in November 2009 by giving guidance to account for financial liabilities. With the new requirements, an entity choosing to measure a liability at

fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of equity, rather than within profit and loss statement. Taking the amendments of December 2011 into consideration, the additions are effective for annual periods beginning on or after 1 January 2015. The standard has not yet been endorsed by the EU. Currently, the first-time adoption will not have any significant impact on the consolidated financial statements.

- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures: In December 2011, the IASB issued the amendments “Mandatory Effective Date and Transition Disclosures” relating to IFRS 9 and IFRS 7. The original mandatory effective date for the amendments to IFRS 9 was for annual periods beginning on or after 1 January 2013, has been postponed to annual periods beginning on or after 1 January 2015. Furthermore, the amendments modify the relief when transitioning to IFRS 9 from restating comparative periods to rather including additional disclosures in the notes to the financial statements. The additional disclosures in the notes required by IFRS 9 were added as amendments to IFRS 7. The changes to these two standards have not yet been endorsed by the EU.
- Amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IAS 39 Financial Instruments: recognition and valuation. In November 2013 IASB published amendments to Accounting for hedges: IFRS 9 was amended in regard of the admission of a new model for hedge accounting; the permission of an early adaption of this pronouncement; changes in determining fair value relating to credit risks regarding liabilities, which are accounted for by recognizing changes in fair values via profit and loss in the statement of comprehensive income; and the deletion of the mandatory effective date 1 January 2015. The current version of IFRS 9 does not determine a date for coming into effect but may, however, depending on approval processes like in the EU be applied early. A mandatory first adoption date will only be determined once all phases of the project are finished and a final version of IFRS 9 is on hand. During the IASB's November 2013 session it was decided that IFRS 9 will only come into effect at the earliest for business years starting on or after 1 January 2017. The company has not yet concluded the analysis of possible effects on the Group's financial statements.
- IFRS 10 Consolidated Financial Statements: The Standard gives detailed guidance on how to apply the control principle and thereby a uniform basis for the existence of a parent subsidiary relationship forming a single basis for consolidation for all entities. IFRS 10 replaces those parts of IAS 27 that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 in its entirety. The effective date of IFRS 10 is 1 January 2014 and was endorsed by the EU in December 2012. The first-time adoption is not expected to have an effect on the consolidated financial statements.
- IFRS 11 Joint Arrangements: The Standard gives guidance on how to account for interests in joint arrangements classified as either joint operations or joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities. The most significant change in IFRS 11 from IAS 31 is the elimination of the proportionate consolidation method, requiring the use of the equity method of accounting for interest in joint ventures. The effective date of IFRS 11 is for business years starting on or after 1 January 2014 and was endorsed by the EU in December 2012. The first-time adoption will not have any effect on the consolidated financial statements.
- IFRS 12 Disclosure of Interests in other Entities: This Standard establishes disclosure objectives and specifies minimum disclosure that entities applying the new standards IFRS 10

Consolidated Financial Statements and IFRS 11 Joint Arrangements. The standard is effective for business years starting on or after 1 January 2014 and was endorsed by the EU in December 2012. The first-time adoption will not have any effect on the consolidated financial statements.

- Changes to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in other Entities: In June 2012 IASB published “consolidated financial statements, joint arrangements and disclosures for participations in other companies: transitional guidance (changes in IFRS 10, IFRS 11 and IFRS 12)”. Those amendments clarify the transitional guidelines in IFRS 10 allow and additional simplifications in all three standards. The changes are to be applied for business years starting on or after 1 January 2014 and were approved by the EU in November 2013. First time application will not have an impact on the Group.
- Changes to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements: In October 2012 IASB published the announcing “Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)”, which provides exceptions to the consolidation requirements of a subsidiary under IFRS 10. The exception is applicable if the parent company meets the criteria of an “Investment Entity”. These entities would account their investments in certain subsidiaries at fair value through profit and loss according to IFRS 9 “Financial Investments” or IAS 39 “Financial Investments: Recognition and Measurement” instead. The changes are to be applied for business years starting on or after 1 January 2014 and were endorsed by the EU in November 2013. First time application will not have an impact on the Group.
- Various: Improvements to International Financial Reporting Standards 2012 and Improvements to International Financial Reporting Standards 2013: On 12 December 2013, the IASB issued the 2012 Annual Improvements to International Financial Reporting Standards (annual improvements to IFRSs 2010–2012 cycle) and the Annual Improvements to International Financial Reporting Standards 2013 (annual improvements to IFRSs 2011–2013 cycle). The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs. Through the Annual Improvements process 2010–2012 smaller changes to the following standards were implemented: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/IAS 18, IAS 24. The annual improvement process 2011–2013 includes changes to the following standards: IFRS 1, IFRS 3, IFRS 13, IAS 40. The respective amendments are effective for annual periods beginning on or after 1 July 2014 with prospective application, only. Earlier adaption is possible. The amendments have not yet been endorsed by the EU. The IASB has issued further announcements. The Company currently assumes that the first-time adoption of new or revised standards will prospectively not have any or any significant consequences for the consolidated financial statements.

The following Standards have not been applied due to lacking relevance to Nabaltec AG:

- IFRS 4 Insurance Contracts
- IFRS 6 Exploration for and Evaluation of Mineral Assets
- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 28 Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interests in Joint Ventures
- IAS 40 Investment Property
- IAS 41 Agriculture

### 2.3 SCOPE OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Nabaltec AG, as the parent company, and that of its subsidiary controlled by the Company.

Subsidiaries are companies where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; usually evidenced by holding more than 50% of the voting rights in the entity. In determining whether the Group has control, the existence and effects of potential voting rights that can currently be exercised or converted are also taken into consideration. Entities are included in the consolidated financial statements (full consolidation) from the date at which the Group effectively obtains control over them. They are deconsolidated from the effective date on which such control ends.

The composition of the Group is detailed in the table below:

NUMBER OF COMPANIES	2013	2012
	Nabaltec AG and fully consolidated entity	
Domestic	1	1
Foreign	1	1

The following entity is included in the consolidated financial statements of Nabaltec AG:

ENTITY	Interest held	
	EUR '000	%
Nashtec LLC, Corpus Christi (USA) (formerly Nashtec L.P., Corpus Christi (USA))	163	51.00

Nashtec L.P. was founded as a joint venture with Sherwin Alumina in 2005.

Up till 1 January 2010, Nabaltec AG owned a 51.00% interest in Nashtec Management Corp. and a 51.00% interest (50.49% directly and indirectly via Nashtec Management Corp., which held 1% of the shares as the general partner) in Nashtec L.P. (USA) as part of a joint venture. The Company does not have any other holdings or subsidiaries. Nashtec Management Corporation was not included in the consolidated financial statements for lack of materiality.

The group structure was changed per 1 January 2010. Nashtec Management Corp. was liquidated and Nashtec L.P. was changed into an LLC, such that Nabaltec AG owns a direct interest of 51.00% as from 1 January 2010, and Sherwin Alumina LLC owns a direct interest of 49.00% in Nashtec LLC. Within the scope of the restructuring, the shares held by Sherwin Alumina LLC were subsequently transferred to her parent company, Allied Alumina LLC.

All separate financial statements of entities included in the consolidated financial statements that were prepared under national laws and regulations were converted to IFRS and adapted to reflect accounting policies and valuation principles of the Group.

The balance sheet date of all the entities included in the consolidated financial statements is respectively 31 December.

SHAREHOLDINGS ACCORDING TO SECTION 313 PARAGRAPH 2  
OF THE GERMAN COMMERCIAL CODE (HGB)

	Share of equity		Latest year's equity*		Latest year's earnings*	
	in %	in USD	in USD	in EUR	in USD	in EUR
<b>Direct Participation</b>						
Nashtec LLC, Corpus Christi (USA)	51.00	210,266	-2,167,283	-1,574,259.46	2,898,772	2,182,481.55

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

## 2.4 CONSOLIDATION METHODS

The capital consolidation of the entity is performed in accordance with IAS 27 (2008) Separate and Consolidated Financial Statements in conjunction with IFRS 3 R Business Combinations. For this purpose, the carrying amount of the investment is set off against the revalued equity of the entity at the acquisition date (revaluation method). The cost of the acquisition is equal to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus the costs allocated directly to the acquisition. As part of a business combination, the identifiable assets, liabilities and contingent liabilities associated with a business combination are measured at their fair value at the acquisition date, regardless of the extent of non-controlling interests. The excess of the acquisition cost over the Group's share of the net assets measured at fair value is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the consolidated comprehensive income, after a subsequent review.

The effects of all material intragroup transactions, including expenses and income and receivables and payables between the Group entities, are eliminated. Likewise, intercompany profits and losses from intragroup sales of assets that have not yet been resold to third parties are eliminated. Deferred taxes required by IAS 12 are recognized in respect of temporary differences arising from consolidation measures.

The profits and losses of entities acquired or sold during the course of the year are included in the consolidated comprehensive income from the date when the power to control those entities becomes effective, respectively, until the power to control ends.

Shares of consolidated equity and of consolidated profit or loss for the year attributable to non-controlling interests are presented separately from the shares attributable to the parent company. To the extent that the value of non-controlling interests is negative, they are presented as a negative position in consolidated equity and earnings for the period.

## 2.5 FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are denominated in euro, as the functional and reporting currency of the Group.

In the separate financial statements of the consolidated entities denominated in local currencies, monetary items in foreign currency (cash and cash equivalents, receivables, liabilities) are translated using the exchange rate as of the balance sheet date. Currency translation differences are recognized through profit or loss. Non-monetary items in foreign currency are translated at the historical exchange rates.



The financial statements of the consolidated entity denominated in foreign currency are translated on the basis of the functional currency concept defined in IAS 21 The Effects of Changes in Foreign Exchange Rates by applying the modified closing rate method. As the entity generally conducts its business independently in all financial, economic and organizational respects, the functional currency is identical to the national currency of the respective entity.

Accordingly, assets and liabilities are translated at the closing rate, equity is translated at the historical exchange rate and expenses and income are translated at the average exchange rate for the year. The difference arising on currency translation is recognized directly in equity and presented in a separate item of equity titled 'accumulated other comprehensive result'.

Currency differences arising in relation to the prior year currency translation of the Group are recognized directly in equity under the item of 'accumulated other comprehensive result'.

The opening balances of historical acquisition and production costs and of cumulative depreciation and amortization charges on non-current assets are translated at the exchange rate of the latest balance sheet date; the depreciation and amortization charges and all other movements in the financial year are translated at the average exchange rate for the reporting period. The translation of the non-current assets of the foreign subsidiary gives rise to currency translation differences, which are presented in separate columns of the consolidated statement of changes in non-current assets.

### 3. USE OF ASSUMPTIONS AND ESTIMATES

The preparation of the consolidated financial statements according to IFRS requires Management to make certain assumptions that have an impact on the stated values of the assets and liabilities and on the disclosure of contingent assets and contingent liabilities as at the balance sheet date, as well as the stated amounts of income and expenses.

The assumptions and estimates consisted mainly of the following:

- **Economic useful lives** of property, plant and equipment and intangible assets: The applied economic lives of non-current assets are based on Management estimates. The Group reviews the estimated economic useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period. During the current financial year, however, no changes were made to the estimates pertaining to economic useful lives.
- **Land and buildings:** The fair value option for measurement at the date of the IFRS opening balance sheet allowed by IFRS 1.16 in conjunction with IFRS 1.18 was exercised. Land and buildings were revalued at 1 January 2007 on the basis of independent expert appraisals.
- **Retirement and other post-employment benefits:** Pension plans are measured on the basis of actuarial calculations. The actuarial valuation is based on assumptions regarding discount rates, the expected return on plan assets, future wage and salary increases, mortality rates and future pension benefit increases. As a result of the long term horizon of these plans, such estimates are subject to considerable uncertainties. As at 31 December 2013, the provision for pensions and similar benefits amounts to EUR 18,920 thousand (PY: EUR 17,834 thousand). Further details are provided in Note 6.9 Current and non-current provisions.

- Provisions for **ecological and decommissioning obligations**: Such provisions are recognized if it is considered probable that ecological and decommissioning obligations will result in future outflows of economic benefits, if the costs can be reliably estimated and the measures in question are not expected to result in future inflows of economic benefits. The estimate of future costs is subject to many uncertainties, including legal uncertainties based on the applicable laws and regulations, and with uncertainties regarding the actual conditions in the different countries and operating locations. In particular, estimates of costs are based on earlier experiences in similar cases, the conclusions of expert opinions commissioned by the Group, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future results of the Group. As at 31 December 2013, the carrying amount of recognized provisions is EUR 0 thousand (PY: EUR 0 thousand).
- Measurement of **other provisions**: Other provisions are measured on the basis of the best possible Management estimate of the amount required to settle the current obligation at the balance sheet date. As at 31 December 2013, the carrying amount of the recognized other provisions was EUR 134 thousand (PY: EUR 152 thousand). Further details are provided in Note 6.9 Current and non-current provisions.
- Recognition of **deferred tax assets**: In determining whether deferred taxes can be realized, the Management Board examines whether it is probable that all deferred tax assets can be recovered. The final recoverability of deferred tax assets depends on whether there will be sufficient taxable income available in those periods in which the temporary differences are deductible. If this is not the case, deferred tax assets cannot be used and consequently cannot be recognized in the balance sheet. The carrying amount as of 31 December 2013 (before netting with deferred tax liabilities) is EUR 5,195 thousand (PY: EUR 5,165 thousand).
- **Impairment** of non-financial assets: Impairment tests of other intangible assets as well as property, plant and equipment are generally based on the estimated discounted future net cash flows expected from the continued use of an asset and from its disposal at the end of its useful life. Factors such as lower revenues and the resulting lower net cash flows and changes in the discount factors applied can lead to the recognition of an impairment loss or, to the extent permitted, also to the reversal of an earlier impairment loss.
- Investments in **jointly controlled entity**: The Company holds a direct investment in a joint venture with a share of 51.00% (PY: 51.00%). Taking into consideration all the legal and economic factors, Nabaltec AG has the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. The controlled entity is therefore fully consolidated as a subsidiary in the consolidated financial statements.
- Obligations arising from a **sale-and-lease-back transaction**: In financial year 2008, the Group sold and leased-back certain technical equipment and machinery in connection with a sale-and-lease-back transaction. Upon expiration of the contracts on 29 November 2013 and 31 December 2013, based on current purchase offers of the lessor, Nabaltec purchased the technical equipment and machinery. Recognition in property, plant & equipment took place on the closing date on 16 December 2013 and 2 January 2014, respectively.

Future actual results of amounts to be considered may differ from these estimates. Revisions to accounting estimates are recognized through the income statement in the period in which the estimate is revised.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### 4.1 REVENUE RECOGNITION

In accordance with the criteria of IAS 18, revenues on the sale of goods are recognized if the significant risks and rewards of ownership have been completely transferred to the buyer, a price has been agreed on or is determinable and payment is considered probable.

Revenues are presented net of discounts and other deductions.

### 4.2 EXPENSE RECOGNITION

The expenses are allocable to income in the period to which they relate. Hence, operating expenses are recognized when they are incurred.

### 4.3 RESEARCH & DEVELOPMENT COSTS

Nabaltec AG invests a portion of its financial resources in research and development activities. In addition to internal development activities aimed at the customization of purchased software, these activities also comprise research and development activities to enhance existing products and processes and to develop new products and processes.

Research costs are recognized as expenses in the period in which they are incurred. An intangible asset created in the process of development for a single project is recognized as an asset only if the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for internal use or for sale, and the intention to complete the intangible asset and to use or sell it. Furthermore, the Group must demonstrate that the asset in question will generate future economic benefits, that resources are available to complete the asset and that the expenditures allocable to the intangible asset during the development phase can be measured reliably.

Subsequent to initial capitalization of development costs, the cost model is applied, under which the asset is carried at cost less accumulated amortization and accumulated impairments. The acquisition or production costs include the directly allocable labor costs and other direct costs as well as an appropriate share of the overhead costs. The capitalized amounts are amortized over the economic useful life of the asset, starting from the date of intended use.

The capitalized amount of development costs is subject to an annual impairment test if the asset is not yet ready for being used, or also during the year if there are indications of an impairment.

In principle, Nabaltec AG capitalizes all significant development costs incurred in connection with internally developed software in the application development phase. These costs are amortized over the expected useful life starting from the date the software is initially taken into service.

As internal development projects are often subject to governmental approval procedures and other imponderabilities, the criteria for capitalizing the costs incurred prior to approval are usually not met or such costs incurred in the brief phase between research, respectively, approval and market introduction are considered immaterial.

As at 31 December 2013 no development costs were capitalized (PY: EUR 0 thousand).

#### 4.4 INTANGIBLE ASSETS

Purchased intangible assets are measured at cost less straight-line amortization. As a rule, intangible assets are amortized systematically over the economic useful life by applying the straightline method.

The amortization periods are as follows:

- Data processing software                      4 to 5 years

The residual carrying amounts, economic useful lives and amortization methods are reviewed at the end of each annual period and adjusted if necessary.

The Group does not carry any intangible assets with indefinite economic useful lives.

With regard to the capitalization of development costs of internally generated assets, please refer to Note 4.3 Research & development costs.

#### 4.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at acquisition or production cost, less scheduled depreciation based on the expected economic useful life. In addition to directly allocable costs, the acquisition costs also include appropriate shares of overhead costs.

Property, plant and equipment are depreciated by applying the straight-line method.

The depreciation periods are as follows:

- Land, leasehold rights and buildings on non-freehold land      20 to 50 years
- Technical equipment, plant and machinery                      5 to 22 years
- Other fixtures, fittings and equipment                              3 to 20 years

The residual carrying amounts, economic useful lives and amortization methods are reviewed at the end of every financial year and adjusted if necessary.

#### 4.6 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. assets that take a substantial period of time to get ready for its intended use or sale) form part of the cost of that asset and, therefore, capitalized until the date the assets are ready for use or sale. Refer to Note 6.2 Property, plant and equipment.

Where funds are borrowed specifically, costs eligible for capitalization are the actual costs incurred less any income earned on the temporary investment of such borrowings.

Other borrowing costs are recognized as an expense as incurred.

#### 4.7 GOVERNMENTAL GRANTS AND OTHER SIMILAR SUBSIDIES

Government grants are accounted for as a deduction from the acquisition or production costs of the respective asset (IAS 20.24). These deductions are released over the economic useful life of the asset in the form of reduced depreciation charges. See Note 6.10 Current and non-current liabilities.

#### 4.8 LEASE ARRANGEMENTS – THE GROUP AS LESSEE

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form. The assessment requires the evaluation of whether the performance of the contractual agreement depends on the use of a given asset or assets and whether the agreement conveys a right to use the asset.

Finance leases under which substantially all the risks and rewards incident to ownership of the leased asset are transferred to the Group are recognized as an asset and a liability at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized immediately as expenses in the income statement. If the transfer of ownership to the Group at the end of the lease term is not sufficiently certain, the capitalized leased assets are depreciated completely over the shorter of the lease term and the economic useful life of the asset. As at 31 December 2013 and 31 December 2012, there were no liabilities relating to finance leases.

Rent and lease arrangements under which no economic ownership is transferred to the group are classified as operate leases. Expenses resulting from operating leases are accumulated on a straightline base in consolidated statement of comprehensive income profit throughout the lease term. For informations about future payments we refer to chapter 7.1 Other financial obligations.

Under sale-and-lease-back transactions that constitute an operating lease, the profit to be recognized on the sale depends on the relationship of the sales price to the fair value. If the sale price is equal to the fair value, the profit is recognized immediately. Under sale-and-lease-back transactions that constitute a finance lease, the entire profit is generally recognized as deferred income and released over the term of the lease.

#### 4.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The value of the capitalized carrying amount of intangible assets with finite useful lives and property, plant and equipment is reviewed with reference to the future cash flows (discounted by the current market risk-free rate of interest) expected to arise from the use of that asset and with reference to the fair value less costs to sell (impairment test) if particular events or market developments are indicative of a need to correct the estimated economic useful life or an impairment. Furthermore, an impairment test of intangible assets not yet ready for use is conducted annually. If the net carrying amount of an asset exceeds the recoverable amount (higher of the value in use and the fair value less costs to sell), an impairment loss is recognized. The factors considered in determining the expected future cash flows include the current and expected future profits and developments specific to the business segment as well as technological, economic and general developments. If the reason for an earlier impairment is no longer in effect, that impairment loss is reversed, to the extent permitted, up to the depreciated historical cost would have been if the impairment had not been recognized.

#### 4.10 FINANCIAL ASSETS

According to IAS 39, financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets.

Upon initial recognition, financial assets are measured at fair value. In the case of financial assets that are not measured at fair value through profit and loss, the recognized amount also

includes transaction costs that are directly attributable to the purchase of the financial asset.

The Group determines the classification of its financial assets upon initial recognition and reviews this classification at the end of each financial year, to the extent permitted and appropriate. As at the balance sheet date, the Group did not carry any financial assets classified as 'held-to-maturity investments' and 'available-for-sale financial assets'.

All arm's length transactions are recognized at the trade date, i.e. the date on which the sales or purchase of the asset, respectively, the liability becomes effective. An arm's length transaction is a purchase or sale of a financial asset under the delivery terms required in general by the regulation of or convention within the fixed period.

#### Financial assets measured at fair value through profit or loss

The group of financial assets measured at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as being measured at fair value through profit or loss. Such designation has not been applied within the Group in the reporting period.

Financial assets are classified as held-for-trading when they were acquired for the purpose of selling them in the short term. Derivatives are also classified as held-for-trading, with the exception of those derivatives that constitute a financial guarantee or have been designated as hedging instruments and are effective as such. Gains or losses on financial assets held for trading are recognized in profit or loss.

On the date upon which the Group enters into a contract, it determines whether embedded derivatives need to be presented separately from the host contract. The initial decision is reviewed only in the event of substantial changes in the contractual terms and conditions that give rise to a significant change in the cash flows that would have otherwise resulted from the contract.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In particular, they consist of trade receivables, other assets as well as cash and cash equivalents.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains and losses are recognized in the profit or loss for the period when the loans and receivables are derecognized or impaired and in connection with installment payment plans.

#### Derecognition of financial assets

A financial asset is derecognized when the Group loses the power of disposal over the contractual rights relating to cash flows that constitute the financial asset concerned.

If the Group transfers its contractual rights to receive cash flows from an asset and substantially all the risks and rewards incident to ownership of that asset have neither been transferred nor retained and the Group retains the power of disposal over the transferred asset, the Group continues to recognize the transferred asset to the extent to which it has a continuing involvement in the asset.

#### 4.11 IMPAIRMENT OF FINANCIAL ASSETS

Financial assets and groups of financial assets are subject to an impairment test at each balance sheet date. Any impairment loss is recognized in profit or loss immediately.

Trade receivables are carried at amortized cost less appropriate valuation allowances. Valuation allowances on receivables are measured with reference to the probability of default.

Other financial assets and receivables are carried at amortized cost. In case of doubt as to the recoverability of other assets, individual valuation allowances are recognized.

#### 4.12 INVENTORIES

Inventories are measured at the lower of acquisition or production cost and net realizable value.

Upon initial recognition, raw materials and supplies are measured at acquisition cost plus costs of conversion and incurred in bringing the inventories to their present location and condition, net of trade discounts received. For determining the cost of inventories the weighted average method is applied.

Finished and unfinished goods are measured at production cost. Production costs include the directly allocable production costs and an appropriate share of allocable fixed and variable production overheads. The overhead cost shares are determined on the basis of normal capacity utilization. Selling expenses, general administrative expenses and borrowing costs are not capitalized.

Finished goods are aggregated into measurement units for valuation purposes.

Any write-downs for inventory risks arising from increased storage lives or reduced salability are recognized as an expense when they occur, reducing the inventory value to the net realizable value at the balance sheet date.

#### 4.13 CASH AND CASH EQUIVALENTS

The cash and cash equivalents presented in the balance sheet comprise petty cash, cash in banks and short term deposits with original maturities of less than three months. The same definition is applied for purposes of the consolidated statement of cash flows. Subsequent measurement is at amortized cost.

#### 4.14 TAXES

##### Current income taxes

Tax refund claims and tax liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. These amounts are calculated on the basis of the tax rates and tax laws applicable at the balance sheet date.

##### Deferred taxes

Deferred tax assets and liabilities are recognized in accordance with IAS 12 Income Taxes in respect of all temporary differences between the tax bases and the IFRS carrying amounts and in respect of consolidation measures recognized in profit or loss by applying the balance sheet-oriented liability method. IAS 12.34 prescribes that deferred tax assets in respect of tax loss carry forwards can be recognized only to the extent that it is considered probable that sufficient taxable profits will be available in the future against which these tax loss carry forwards can be off set.

Deferred taxes are at tax rates expected to apply to the period in which the asset is realized or the liability settled, according to the current status of the law. Tax rate changes are applied only if such changes are considered as being sufficiently probable.

Deferred tax assets and deferred tax liabilities are offset on the balance sheet to the extent allowed.

#### 4.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group employs derivative financial instruments to hedge against interest rate and currency risks arising from operations. Financial instruments are measured at fair value at the balance sheet date. Measurement gains and losses are recognized through the income statement unless the conditions for hedge accounting are met. Changes in the market value of derivative financial instruments that meet the conditions of hedge accounting are recognized either through the income statement (fair value hedge) or directly in equity (cash flow hedge). In the reporting periods, hedge accounting has been applied for cash flow hedges against interest rate risk only.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading financial assets, if their fair value is positive, or as held-for-trading liabilities, if their fair value is negative. Derivative financial instruments are measured at fair value; changes in their fair value are recognized through the income statement for the period.

#### 4.16 EQUITY

The capital contributions and other payments made by shareholders to the capital reserve are presented after deducting transaction costs directly related to the acquisition of equity and in consideration of any resulting tax effects.

#### 4.17 OTHER PROVISIONS

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Company recognizes provisions if, and only if a present obligation (legal or constructive) has arisen toward a third party as a result of a past event (the obligating event), the payment is probable ('more likely than not') and will lead to an outflow of economic resources in the future, and the amount can be estimated reliably. This implies that 'probable' means a probability of more than 50%. Estimated provisions take into account discernible risks and uncertain obligations in the amount that will probably be required to settle those obligations without deduction of any reimbursement claims. Non-current other provisions are discounted to present value. The settlement amount also includes the rate of inflation valid at the balance sheet date.

For liabilities for anniversary due to existing employment agreements, provisions were calculated by using the same assumptions as for the calculation of retirement benefit obligation. The liabilities for anniversary were calculated by using the projected unit credit method.

#### 4.18 RETIREMENT BENEFIT OBLIGATION

Retirement benefit obligation is measured based on the projected unit credit method according to IAS 19. Calculations performed under this method take into account the pension benefits and vested rights known at the balance sheet date as well as future expected increases of pension benefits and salaries based on conservative estimates of the relevant parameters. Calculations are performed on the basis of an expert actuarial opinion, which includes biometric data.



The (net) interest portion is to be determined at the beginning of the period by multiplication of the (net) retirement benefit obligation – that is the total obligation less plan assets – with the discount rate on which the valuation of the retirement benefit obligation is based. So doing, the interest expense arising from the compounding of the obligation and the expected return on plan assets are offset and must be recorded through the profit and loss statement in the annual result. Simultaneously, the expected return on plan assets is therefore assumed in the amount of the discount rate.

Deviations of the actual return on plan assets, respectively, the discount rate on the balance sheet date, from the assumed discount rate (=assumed return on plan assets) are also directly recognized in other comprehensive income as are other actuarial valuation adjustments in terms of a new valuation component.

The discount rate used for discounting the (net) retirement obligation is determined based on first-class, fixed-interest dealt industry corporate bonds.

Service costs, recognized through the profit and loss statement, consist of, amongst others, the current as well as the total past service costs arising as a result of changes in the plan arrangements.

#### 4.19 FINANCIAL LIABILITIES

According to IAS 39, financial liabilities are designated either as ‘financial liabilities at fair value through profit or loss’ or as ‘other financial liabilities’.

The Group classifies the financial liabilities upon initial recognition and reviews the classification at the end of each annual period, to the extent permissible and appropriate.

##### Financial liabilities measured at fair value through profit or loss

Upon initial recognition, financial liabilities measured at fair value through profit or loss are measured at fair value. The gains or losses resulting from fair value changes are recognized immediately in income. This category includes derivative financial instruments with negative market values (HfT). Gains or losses resulting from the subsequent measurement of financial liabilities at fair value are recognized through profit or loss.

##### Profit participation capital

Profit participation rights represent a financial liability according to IAS 32, which is not measured at fair value through profit and loss. Initial recognition is measured at fair value less transaction costs. The fair value is equal to the cash consideration received (face value) less transaction costs paid. In subsequent periods, the difference between the initially measured value and the redemption amount (face value) is distributed over the term of these instruments using the effective interest method through the income statement. The term of the profit participation capital ended in January 2013 and the EUR 5,000 thousand were fully repaid.

##### Interest-bearing loans and bonds

Upon initial recognition, loans and bonds are measured at fair value less the transaction costs directly related to the taking up of borrowings. They are not designated as being measured at fair value through profit or loss.

In subsequent periods, the interest-bearing loans and bonds are measured at amortized cost using the effective interest method. Differences between amortized cost and the repayments amount are recognized through profit or loss according to the effective interest method.

Financial liabilities, all of which are classified as other liabilities, are measured at the fair value of the consideration received less the transaction costs related to the taking up of borrowings upon initial recognition. In subsequent periods, financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying obligation has been settled, cancelled or has expired.

## 5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### 5.1 REVENUE

Refer to segment information and the respective notes in Note 7.7 Segment information for reporting on the distribution of revenues among the product segments.

### 5.2 OTHER OWN SERVICES CAPITALIZED

In 2013, EUR 223 thousand (PY: EUR 622 thousand) were capitalized as other own services for various technical equipment and machinery, thereof EUR 93 thousand (PY: EUR 266 thousand) for construction period interest.

### 5.3 OTHER OPERATING INCOME

The following is a specification of other operating income:

(EUR '000)	2013	2012
Income from reduction of bad debt allowance	257	0
Delivery of process water	160	136
Payments in kind	152	140
Other	144	105
Foreign currency translation gains	138	528
Government grants and similar grants	121	133
Laboratory Services	118	99
Reimbursements from insurances	98	229
Personnel services	73	110
Scrap sales	49	90
Gains on disposal of property, plant and equipment	11	5
Income from reversal of provisions	7	118
Routing and tracking services	4	7
<b>Total</b>	<b>1,332</b>	<b>1,700</b>

Government grants relate to subsidies for expenses. The conditions attached to these grants were fully met; no uncertainties remain.

#### 5.4 COST OF MATERIALS

Cost of materials is specified as follows:

(EUR '000)		
	2013	2012
Raw materials, supplies and merchandise	68,630	66,206
Cost of purchased services	983	1,098
<b>Total</b>	<b>69,613</b>	<b>67,304</b>

#### 5.5 PERSONNEL EXPENSES

Personnel expenses are specified in the table below:

(EUR '000)		
	2013	2012
Wages and salaries	18,682	18,125
Social security	3,249	3,183
Expenses for retirement benefit obligation	414	315
Other pension expenses	173	147
<b>Total</b>	<b>22,518</b>	<b>21,770</b>

Expenses for retirement benefit obligation fulfill the criteria of the so-called 'Defined Benefit Plans' as specified by IAS 19.

Other pension expenses relate to contributions made by the employer for pension plans of the employees that fulfill the criteria of the so-called 'Defined Contribution Plans' as described by IAS 19.

In addition, the Company's contributions toward the social security fund in the amount of EUR 1,456 thousand (PY: EUR 1,485 thousand) are included in the balance sheet item 'Social Securities', which are withheld once a month.

#### 5.6 EMPLOYEES

The average number of employees in the Group developed as follows:

	2013	2012
Blue-collar employees	212	203
White-collar employees	145	141
Part-time employees	11	13
<b>Total</b>	<b>368</b>	<b>357</b>

In additional, an average of 47 apprentices (PY: 50) were employed in the course of the financial year.

### 5.7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

The depreciation, amortization and impairment charged against non-current assets are presented in the statement of changes in non-current assets.

Intangible as well as tangible assets are assessed for impairment if such indicators arise. Impairment tests were performed. The impairment amount is determined as the difference between the carrying amount and the recoverable amount for the asset's cash-generating unit (CGU). The recoverable amount of the CGUs was determined on the basis of the recoverable amount and the value in use, using the discounted cash flow method. The discounted cash flows are based on three-year forecasts, which in turn are based on financial budgets approved by Management. The cash flow forecasts, which take past experience into account, are based on Management's best estimate of the Company's future development.

As a result of the asset impairment tests conducted, Management concluded that there was no need to recognize impairment losses in the financial year 2013.

### 5.8 OTHER OPERATING EXPENSES

The following is a specification of other operating expenses:

(EUR '000)	2013	2012
Transportation charges	9,100	8,775
Services from third parties not attributable to the process of production	5,575	4,960
Sales commission	2,652	2,672
Minimum lease payments (rent and lease)	2,415	2,392
Other administration expenses	727	866
Insurances	689	853
Legal and advisory fees	517	600
Travel expenses	477	514
Employee benefit costs	395	456
Other	561	421
Foreign currency translation losses	300	405
Advertising expenses	300	182
Other taxes	50	50
Losses from sale of fixed assets	10	9
<b>Total</b>	<b>23,768</b>	<b>23,155</b>

### 5.9 RESEARCH & DEVELOPMENT COSTS

In 2013, various research and development costs of EUR 2,560 thousand (PY: EUR 2,331 thousand) were recognized as expenses.

### 5.10 INTEREST AND SIMILAR INCOME

Interest and similar income are presented in the table below:

(EUR '000)		
	2013	2012
Return on plan assets (liability insurance)	136	142
Interest income from interest rate swaps	96	100
Interest income from bank balances	64	177
<b>Total</b>	<b>296</b>	<b>419</b>

### 5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are presented in the table below:

(EUR '000)		
	2013	2012
Interest expenses arising from corporate bonds	1,950	1,950
Interest expenses paid to banks	1,895	1,955
Interest expenses arising from compound interest	832	277
Interest expenses arising from provisions	756	752
Interest expenses arising from factoring	320	383
Interest expenses arising from interest rate swaps	211	143
Interest expenses loan Allied Alumina	176	196
Interest expenses arising from profit participation right	26	405
Commission on bank guaranty	7	36
Losses from interest rate swaps	0	211
<b>Total</b>	<b>6,173</b>	<b>6,308</b>

### 5.12 INCOME TAXES

Income taxes are specified as follows:

(EUR '000)		
	2013	2012
<b>Current income taxes:</b>		
Current tax expenses in respect of the current year	623	445
Adjustments recognized in current year in relation to the current tax of prior years	-40	21
<b>Deferred taxes:</b>		
Origination and reversal of temporary differences	32	-340
Of which directly through equity	324	984
<b>Total</b>	<b>939</b>	<b>1.110</b>

The current tax expenses for the financial year 2013 consist of current trade tax and corporate income tax as well as US withholding tax for 2013.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. For the calculation of deferred taxes in Germany, a tax rate of 28.08% (PY: 28.08%) is applied. It comprises the

unchanged currently valid corporate income tax rate of 15%, the unchanged solidarity surcharge of 5.5% and the Group's average trade tax rate of 12.25% (PY: 12.25%). The respective domestic tax rates are applied for foreign entities (34%, no change compared to prior year).

The effects of income tax referring to other comprehensive income as part of group equity are structured as follows:

(EUR '000)	Before taxes		Deferred tax		After tax	
	2013	2012	2013	2012	2013	2012
Foreign currency translation	-280	-124	0	0	-280	-124
Net result from hedge accounting	-529	177	226	0	-303	177
Actuarial gains or losses	-349	-3,505	98	984	-251	-2,521
<b>Total</b>	<b>-1,158</b>	<b>-3,452</b>	<b>324</b>	<b>984</b>	<b>-834</b>	<b>-2,468</b>

The table below presents the reconciliation between the expected income tax expense in each annual period and the income tax expense actually presented in the consolidated statement of comprehensive income:

(EUR '000)	2013	2012
<b>Tax rate</b>	<b>28.08%</b>	<b>28.08%</b>
<b>Earnings before tax (EBT)</b>	<b>4,654</b>	<b>4,132</b>
<b>Expected tax expense</b>		
<b>Deviations</b>	<b>1,307</b>	<b>1,160</b>
1. Adjustment of deferred tax assets related to interest carry forwards USA	0	84
2. Utilization of previously unrecognized interest carry forwards	-99	0
3. Deviating foreign tax rates	66	60
4. Adjustment actual tax prior years	-40	21
5. Non-deductible expenses	139	128
6. Tax effects from consolidation measures	-391	-315
7. Other	-43	-28
<b>Tax expenses presented in the consolidated statement of comprehensive income</b>	<b>939</b>	<b>1,110</b>

Deferred tax assets and liabilities are specified as follows:

(EUR '000)	Consolidated Balance Sheet		Consolidated Statement of Comprehensive Income	
	12/31/2013	12/31/2012	2013	2012
<b>Deferred tax assets</b>				
Financial assets	83	0	83	0
Other assets	385	342	43	32
Retirement benefit obligation	2,328	2,215	113	967
Other provisions	151	232	-81	-170
Liabilities from profit participation	0	0	0	-101
Loss carry forward	1,976	2,283	-307	-349
Other	272	93	179	70
<b>Total deferred tax assets – gross</b>	<b>5,195</b>	<b>5,165</b>	<b>30</b>	<b>449</b>
Deferred tax assets not recognized	0	0	0	0
<b>Total deferred tax assets – net</b>	<b>5,195</b>	<b>5,165</b>	<b>30</b>	<b>449</b>
<b>Deferred tax liabilities</b>				
Non-current assets	7,279	7,169	-110	-298
Inventories	356	267	-89	8
Other	112	249	137	181
<b>Total deferred tax liabilities</b>	<b>7,747</b>	<b>7,685</b>	<b>-62</b>	<b>-109</b>
	<b>-2,552</b>	<b>-2,520</b>	<b>-32</b>	<b>340</b>

The deferred tax asset arising from the loss carry forward relates to Nashtec LLC in the amount of EUR 1,745 thousand. Nashtec LLC is not regarded as a taxable entity according to US tax law for federal tax and state tax. The proportion of the US tax loss carry forward allocable to Nabaltec AG as shareholder amounts to EUR 4,742 thousand (PY: EUR 5,659 thousand) and, generally, tax losses can be applied retroactively for two years and carried forward for no more than 20 years on the federal level in the United States:

(EUR '000)	2013	2012
Expiration within		
1 year	0	0
2 – 5 years	0	0
6 – 10 years	0	0
11 – 20 years	4,742	5,659

Deferred tax assets and liabilities in the USA are set off against deferred tax assets from tax loss carry forwards. The tax loss carry forwards in the USA are higher than the actual realized losses due to favorable tax depreciation rules. As at 31 December 2013 German tax loss carry forwards as well as interest carry forwards in the amount of EUR 231 thousand (PY: EUR 343 thousand) were capitalized.

## 6. NOTES TO THE CONSOLIDATED BALANCE SHEET

### 6.1 INTANGIBLE ASSETS

Please refer to the statement of changes in non-current assets for more information on the changes in intangible assets.

Intangible assets consist mainly of data processing software and industrial property rights.

As in prior year, intangible assets were not assigned by way of collateral as of 31 December 2013.

There were no significant obligations for the acquisition of intangible assets.

### 6.2 PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment are presented in the statement of changes in non-current assets.

Assets amounting to EUR 37,414 thousand (PY: EUR 57,231 thousand) are pledged as securities for bank loans.

Land charges amounting to EUR 5,600 thousand as of 31 December 2013 (PY: EUR 9,690 thousand) were assigned by way of collateral for bank loans.

Borrowing costs in the amount of EUR 93 thousand (PY: EUR 266 thousand) were capitalized in the annual period 2013 in connection with the long term construction of various technical equipment, buildings and fixtures. The average interest rate that was used to determine the borrowing costs eligible for recognition in the balance sheet was 5.60%.

### 6.3 INVENTORIES

Inventories are specified as follows:

(EUR '000)	12/31/2013	12/31/2012
Raw materials and supplies	13,562	12,168
Unfinished goods	217	261
Finished products and merchandise	12,432	11,168
<b>Total</b>	<b>26,211</b>	<b>23,597</b>

All inventory items were assigned by way of collateral for liabilities to banks.

Inventory write-downs in the amount of EUR 439 thousand (PY: EUR 299 thousand) were recognized as expenses.



#### 6.4 TRADE RECEIVABLES

Trade receivables are specified in the table below:

(EUR '000)	12/31/2013	12/31/2012
Trade receivables – gross	4,520	3,901
Bad debt allowance	-233	-490
<b>Total</b>	<b>4,287</b>	<b>3,411</b>

At the balance sheet date, all trade receivables are non-interest-bearing and are receivable in less than one year.

Please refer to Note 7.2 Disclosures on financial instruments for more information on the development of the bad debt allowance account and the age structure of receivables.

#### 6.5 INCOME TAX CLAIMS

Income tax claims with a carrying amount of EUR 62 thousand (PY: EUR 164 thousand) consist of tax refund claims receivable from German tax authorities, resulting from corporate income tax, solidarity surcharge and trade taxes.

#### 6.6 OTHER ASSETS

Other assets consist of the following financial and non-financial assets:

(EUR '000)	12/31/2013	12/31/2012
Receivables from factoring	1,011	1,105
Other	529	665
<b>Other financial assets</b>	<b>1,540</b>	<b>1,770</b>

(EUR '000)	12/31/2013	12/31/2012
VAT (value added tax) receivables	2,061	1,364
Prepaid expenses	89	118
<b>Other non-financial assets</b>	<b>2,150</b>	<b>1,482</b>
<b>Total</b>	<b>3,690</b>	<b>3,252</b>

The receivables from factoring in the amount of EUR 1,011 thousand (PY: EUR 1,105 thousand) presented at 31 December 2013, consist of the purchase price retention related to factoring arrangements.

Other assets are receivable in less than one year.

## 6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the balance sheet date are presented in the table below:

(EUR '000)	12/31/2013	12/31/2012
Cash in banks	29,677	14,304
Petty cash	1	1
<b>Total</b>	<b>29,678</b>	<b>14,305</b>

Bank balances bear interest at variable interest rates for overnight call money. The short term deposits range from one day to three months, depending on the Group's cash requirements. These deposits bear interest at the respective interest rates for short term deposits.

For purposes of the consolidated cash flow statement, there were no differences in the holdings of cash and cash equivalents as of 31 December 2013.

The cash and cash equivalents are not subject to restrictions.

## 6.8 EQUITY

Changes in equity of Nabaltec AG are presented in the consolidated statement of changes in equity.

### Subscribed capital

At the balance sheet date, the fully paid-in capital (capital stock) amounted to EUR 8,000 thousand (PY: EUR 8,000 thousand). It consisted of 8,000,000 non-par bearer shares, each representing an imputed proportion of capital stock in the amount of EUR 1.00. Each share bears one voting right.

### Authorized capital

By resolution of the annual shareholders' meeting of 9 June 2011, the Management Board is authorized to increase the capital stock, with the consent of the Supervisory Board, by issuing new shares against cash and/or in-kind contributions on one or more occasions until 8 June 2016, by up to EUR 4,000 thousand through the issuance of up to 4,000,000 non-par bearer shares (non-par shares), whereby the increase in the number of shares shall maintain the relation of the increase of the capital stock and the Management Board is also authorized, with the consent of the Supervisory Board, to decide on any exclusion of subscription rights in connection with such issues (Authorized Capital 2011/I).

### Conditional capital

By resolution of the annual shareholders' meeting of 9 June 2011, the capital stock was increased conditionally by up to EUR 4,000,000 (Conditional Capital 2011/I). The conditional capital only serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants that were issued by the Company with the authorization of the annual shareholders' meeting of 9 June 2011. According to the conditions of the corporate bonds, the Conditional Capital also serves to issue shares to holders of convertible bonds foreseen with conversion obligations.

### Capital reserve

At 31 December 2013, the capital reserve amounted to EUR 29,764 thousand (PY: EUR 29,764 thousand). The capital reserve basically resulted from the issuance of 2,000,000 non-par

bearer shares at a price of EUR 15.50 per non-par share holding an interest of EUR 1.00 per non-par share in subscribed capital causing a premium of EUR 14.50 per non-par share or rather EUR 29,000 thousand in total.

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

#### Earnings reserves

At 31 December 2013, earnings reserves amounted to EUR 9,711 thousand (PY: EUR 9,711 thousand). The earnings reserves result from the first time adoption of IFRS. No dividend distributions were authorized for the annual period 2012.

For the annual period 2013 management board will propose a dividend distribution of EUR 0.06 per share.

Regarding the changes in profit/loss carried forward, please refer to the consolidated statement of changes in equity.

#### Accumulated other comprehensive expenses in equity

Any differences arising on currency translation, any changes in the market value of derivative financial instruments for which hedge accounting is applied, actuarial gains and losses from retirement benefit obligations as well as arising deferred tax effects in this context are recognized directly in equity and presented separately in equity within the item of accumulated other comprehensive income/expenses. As of 31 December 2013, accumulated other comprehensive expenses amounted to EUR –4,628 thousand (PY: EUR –3,656 thousand).

#### Non-controlling interests

As at 31 December 2013, non-controlling interests amount to EUR –771 thousand (PY: EUR –1,978 thousand) in the equity of Nashtec LLC.

### 6.9 CURRENT AND NON-CURRENT PROVISIONS

Changes in provisions are presented in the tables below:

#### FINANCIAL YEAR 2013 (EUR '000)

	Opening Balance 01/01/2013	Additions	Utilization	Reversal	Closing Balance 12/31/2013
Provisions for personnel	510	338	77	7	764
Provisions related to ecological/ decommissioning obligations	0	0	0	0	0
Other provisions	152	133	151	0	134
<b>Total</b>	<b>662</b>	<b>471</b>	<b>228</b>	<b>7</b>	<b>898</b>

## FINANCIAL YEAR 2012 (EUR '000)

	Opening Balance 01/01/2012	Additions	Utilization	Reversal	Closing Balance 12/31/2012
Provisions for personnel	459	108	56	1	510
Provisions related to ecological/ decommissioning obligations	126	0	9	117	0
Other provisions	136	151	135	0	152
<b>Total</b>	<b>721</b>	<b>259</b>	<b>200</b>	<b>118</b>	<b>662</b>

**Retirement benefit obligation**

The Group has set up defined benefit pension plans. Based on these plans, pension benefits are promised to a major part of the employees for the time after retirement. These are final pay plans granted to Management and employees based on the pension scheme. The pension scheme is valid for employees, who were permanently employed by the Company prior to 1 May 1995. As a consequence, there have been no further additions to this group of beneficiaries. For part of the pension plans contributions are paid for reinsurance purposes. Given the scheme arrangements, the employer carries actuarial risks. The most important risks regard interest rate risk and longevity risk.

The average age of those included in the pension scheme lies in the range of 50 to 55 years. The pension obligation is calculated based on an assumed retirement age of 63 years.

The specification of pension benefit expenses recognized in the consolidated statement of comprehensive income and the amounts recognized for the respective pension plans in the consolidated balance sheet are presented in the tables below:

## EXPENSES FOR PENSION BENEFITS (EUR '000)

	2013	2012
Current service cost	414	315
Net interest expense	690	676
<b>Expenses for pension benefits</b>	<b>1,104</b>	<b>991</b>
Actual return on plan assets	62	29

Net interest expense comprises interest expense amounting to EUR 738 thousand (PY: EUR 734 thousand) less expected returns on plan assets amounting to EUR 48 thousand (PY: EUR 58 thousand). The interest portion of the additions to the retirement benefit obligation as well as the return on plan assets is presented under interest and similar expenses. Actuarial gains and losses are immediately fully recognized in other comprehensive income and evolved as follows:

DEVELOPMENT OF ACTUARIAL GAINS/LOSSES  
(EUR '000)

Actuarial gains/losses as at 1 January 2012	-1,050
Actuarial gains arising from changes in actuarial assumptions	-3,295
Experience based losses	-181
Losses on plan assets	-28
<b>Actuarial losses as at 31 December 2012</b>	<b>-4,554</b>
Actuarial losses arising from changes in actuarial assumptions	-705
Experience based gains	341
Gains on plan assets	14
<b>Actuarial gains/losses as at 31 December 2013</b>	<b>-4,904</b>

Changes in the present value of the defined benefit obligations are presented in the table below:

(EUR '000)

Defined benefit obligations at 1 January 2012	14,794
Interest expenses	734
Current service cost	315
Benefits paid	-266
Actuarial gains/losses	3,476
<b>Defined benefit obligations at 31 December 2012</b>	<b>19,053</b>
Interest expenses	738
Current service cost	414
Benefits paid	-280
Actuarial gains/losses	364
<b>Defined benefit obligations at 31 December 2013</b>	<b>20,289</b>

Of the total defined benefit obligation amounting to EUR 20,289 thousand as per 31 December 2013 (PY: EUR 19,053 thousand), an amount of EUR 6,570 thousand (PY: EUR 5,999 thousand) is covered by an actuarial reserve in the amount of EUR 1,369 thousand (PY: EUR 1,219 thousand) with a reinsurance company.

For 2014 and 2015 benefit payments are expected to amount to approximately EUR 290 thousand and EUR 296 thousand, respectively.

Changes in the fair value of plan assets are presented in the table below:

(EUR '000)	
Fair value of plan assets at 1 January 2012	1,106
Employer contributions	84
Expected return	57
Actuarial gains/losses	-28
<b>Fair value of plan assets at 31 December 2012</b>	<b>1,219</b>
Employer contributions	88
Expected return	48
Actuarial gains/losses	14
<b>Fair value of plan assets at 31 December 2013</b>	<b>1,369</b>

Plan assets recognized in the balance sheet comprise the cash surrender value of a reinsurance policy, which falls under the scope of IAS 19.7 (b) and thus has to be accounted for as a plan asset. The Group anticipates contributions to plan assets in the amount of EUR 80 thousand for the financial year 2014.

The reconciliation of the recognized retirement benefit obligation provision with the present value of the defined benefit obligation is presented below:

(EUR '000)	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Fair value of plan assets	1,369	1,219	1,106	980	864
Present value of the defined benefit obligation	20,289	19,053	14,794	14,033	11,942
Retirement benefit obligation provision	18,920	17,834	13,688	13,053	11,078

In the following table, the underlying assumptions used for determining retirement benefit obligation are summarized:

(in %)	2013	2012
Discount rate	3.70	3.90
Salary trend	2.75	2.75
Pension trend	2.00	2.00
Fluctuation rate	1.00	1.00

Mortality rates after retirement of pensioners aged 65 according to Heubeck-Richttafeln 2005G (mortality tables).

Changes to the underlying assumptions affect the retirement benefit obligation provision as follows:

RETIREMENT BENEFIT OBLIGATION PROVISION (EUR '000)		+25 BP	-25 BP
Discount rate		19,413	21,223
Salary trend		20,507	20,077
Pension trend		20,923	19,683

The preceding sensitivity analysis is based on one assumption assuming all other parameters remaining unchanged. In reality, however, it is not unlikely that changes will occur in some assumptions at the same time.

The methods and types of assumptions for preparing the sensitivity analysis did not change compared to last year.

## 6.10 CURRENT AND NON-CURRENT LIABILITIES

CARRYING AMOUNTS (EUR '000)		Carrying amount	thereof due within < 1 year	thereof due within 1 – 5 years	thereof due within > 5 years
Financial liabilities arising from	12/31/2013	0	–	–	–
corporate bonds	12/31/2012	29,181	–	28,181	–
Payables to banks	12/31/2013	80,525	9,942	53,716	16,867
	12/31/2012	35,367	9,668	25,699	–
Profit participation capital	12/31/2013	0	0	–	–
	12/31/2012	5,000	5,000	–	–
Trade payables	12/31/2013	8,707	8,707	–	–
	12/31/2012	10,403	10,403	–	–
Income tax payables	12/31/2013	703	703	–	–
	12/31/2012	638	638	–	–
Other liabilities	12/31/2013	13,299	11,926	1,373	–
	12/31/2012	11,852	11,852	–	–
<b>Total</b>	12/31/2013	<b>103,234</b>	<b>31,278</b>	<b>55,089</b>	<b>16,867</b>
	12/31/2012	<b>92,441</b>	<b>37,561</b>	<b>54,880</b>	<b>0</b>

### Financial liabilities arising from corporate bonds

Corporate bonds with a nominal volume of EUR 30,000 thousand with an original duration time until 14 October 2015 were terminated early within the period prescribed and repaid including pro rata interest on 31 December 2013. At the time of issuing these bonds, directly attributable transaction costs amounted to EUR 1,341 thousand. After the pro rata amortization of the transaction cost taking into consideration the originally agreed term of five years, upon legally terminating the bonds, a compounding interest effect was recognized for EUR 609 thousand in the fourth quarter.

### Payables to banks

Payables to banks mainly comprise long term loans borrowed under prevailing market interest rates. Their fair value equals the sum of the inherent carrying amounts.

Nabaltec AG successfully placed promissory note bonds for EUR 50,000 thousand to secure long-term financing at improved conditions. Placement of the promissory note bonds occurred in various tranches with duration times of three, five, and seven years, both with variable and fixed interest rates. 90% of the volume was placed with a five to seven year duration range. An interest rate hedge was entered into, accordingly.

Loan agreements of Nabaltec AG are partly subject to covenants, which are partially based on leverage coverage ratios as well as on the equity ratio. In the case of non-compliance, the lender is eligible to increase the interest margin or make use of his extraordinary right to terminate the contract. In the reporting period 2013, covenants valid as at 31 December 2013, were adhered to.

#### Profit participation capital

As per 31 December 2013, the Company has a liability pertaining to profit participation capital in the amount of EUR 0 thousand (PY: EUR 5,000 thousand). The scheduled term of the profit participation capital with an amount of EUR 5,000 thousand ended in January 2013. Prior to this time, there was no ordinary call right. The profit participation right grants only creditor claims against the Company and no shareholder rights are constituted. The Company is obliged to pay interest of 8.10% p.a. on the nominal amount by the end of the term; quarterly advance payments are made on the interest obligation. Under certain conditions, due advance payments can be deferred; in such cases, the interest rate would increase. At the end of the term, the profit participation right must be repaid at the nominal amount, less any participation in the Company's losses.

The term of the EUR 5,000 thousand profit participation rights ended in January 2013, and the amount of profit participation capital was repaid in full as scheduled.

#### Trade payables

Trade payables are due within 90 days.

The carrying amounts of trade payables are equal to their fair values.

#### Income tax payables

Those comprise outstanding tax liabilities in Germany, consisting of corporate income tax, solidarity surcharge and trade tax for the current and prior financial year.

#### Other liabilities

Current other liabilities consist of the following financial and non-financial liabilities:

(EUR '000)	12/31/2013	12/31/2012
Loan due to non-controlling shareholder	7,663	8,586
Investment grants	1,198	0
Negative fair value of interest rate swap	1,074	740
Interest expenses arising from corporate bonds	0	411
Other	390	288
Employer's Liability Insurance Association	116	187
Preparation and audit of the annual financial statements	149	185
Negative fair value of foreign exchange contracts	100	0
<b>Other current financial liabilities</b>	<b>10,690</b>	<b>10,397</b>



(EUR '000)

	12/31/2013	12/31/2012
Outstanding vacation claims	611	637
Bonuses and performance-based pay	332	318
Payables to tax authorities	214	237
Other consumption tax	7	141
Inventors' boni	30	100
Demographic contribution II	18	0
Social securities payable	24	22
<b>Other current non-financial liabilities</b>	<b>1,236</b>	<b>1,455</b>
<b>Total other current liabilities</b>	<b>11,926</b>	<b>11,852</b>

Liabilities arising from bonuses and performance-based pay depend on the fulfillment of the underlying targets. Liabilities for outstanding vacation claims were recognized on the basis of individual employees.

Payables to tax authorities result primarily from payroll and church taxes withheld for the past financial year outstanding as at the balance sheet date.

Due to their short term maturity, the carrying amounts of current other liabilities were approximately equal to their fair values.

Other current financial liabilities of EUR 2,571 thousand (PY: EUR 0 thousand) include an investment grant already received from the government of Upper Palatinate (Oberpfalz) for planned investments in fixed assets not yet carried out as at the balance sheet date. These items consisted exclusively of other financial liabilities. The carrying amount was approximately equal to its fair value. During the business year EUR 579 thousand (PY: EUR 0 thousand) of the received grants were deducted in arriving at the carrying amount of the respective non-current assets. Based on the volume of the planned capital expenditures, the liability was split up in a short-term amount of EUR 1,198 thousand (PY: EUR 0 thousand) and a long-term amount of EUR 1,373 thousand (PY: EUR 0 thousand).

## 7. OTHER DISCLOSURES

### 7.1 OTHER FINANCIAL OBLIGATIONS

#### Obligations under operating leases – the Group as lessee

The Group is subject to financial obligations under rental and lease agreements. At year end 31 December 2013 no more leasing contracts as part of a sale-and-lease back arrangement for various technical equipment and machinery existed. The remaining terms of all the contracts are mainly between 1 – 5 years.

In the current financial year, an amount of EUR 2,415 thousand (PY: EUR 2,392 thousand) was recognized as expenses under rental and operating lease agreements.

The total amount of future minimum payments under operating leases and rental agreements by maturities is specified as follows:

(EUR '000)	12/31/2013	12/31/2012
Minimum lease payments due in < 1 year	575	2,482
Minimum lease payments due 1 – 5 years	692	843
Minimum lease payments due > 5 years	405	412
<b>Total</b>	<b>1,672</b>	<b>3,737</b>

#### Contingent liabilities and other commitments

At the balance sheet dates, there were no significant contingent liabilities or pending litigation for which provisions had to be recognized. At 31 December 2013, the Company was subject to open purchase orders for capital expenditure projects in the amount of EUR 2,782 thousand (PY: EUR 2,092 thousand).

## 7.2 DISCLOSURES ON FINANCIAL INSTRUMENTS

### Carrying amounts, valuation, fair values by measurement categories

The carrying amounts and fair values of all financial instruments recognized in the consolidated financial statements are presented in the table below:

(EUR '000)	Category in accordance with IAS 39	Carrying amount		Fair value	
		2013	2012	2013	2012
<b>Financial assets</b>					
Trade receivables	LaR	4,287	3,411	4,287	3,411
Other receivables					
Other non-derivative and financial assets	LaR	1,540	1,770	1,540	1,770
Cash and cash equivalents	LaR	29,678	14,305	29,678	14,305
<b>Financial liabilities</b>					
Financial liabilities at amortized cost					
Financial liabilities arising from corporate bonds	FLaC	0	29,181	0	29,181
Payables to banks	FLaC	80,525	35,367	80,525	35,367
Profit participation capital	FLaC	0	5,000	0	5,000
Trade payables	FLaC	8,707	10,403	8,707	10,403
Other financial liabilities					
Other non-derivative financial liabilities	FLaC	10,889	9,657	10,889	9,657
Negative fair value interest rate derivatives (without a hedging relationship)	FVtPL	164	260	164	260
Negative fair value interest rate derivatives (designated in an effective cash flow hedging relationship)	—	910	480	910	480
Negative fair value forward foreign exchange derivatives (without a hedging relationship)	—	100	0	100	0

The following abbreviations were used for the valuation categories according to IAS 39:

LaR	Loans and Receivables
HfT	Held for Trading
FVtPL	Fair Value through Profit and Loss
FLaC	Financial Liabilities Measured at amortized Cost

The fair values of derivative financial instruments and loans were determined by discounting the expected future cash flows to their present values using prevailing market interest rates. The fair values of other financial assets were determined using prevailing market interest rates.

The cash and cash equivalents, trade receivables and other receivables are receivables in less than one year. Therefore, their carrying amounts are approximately equal to their fair values.

#### Net result by measurement categories

The following table presents income and expenses from financial instruments according to measurement categories as defined by IAS 39:

#### MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39

		From subsequent measurement				Net result 2013
		From interest	At Fair Value	Currency translation	Impairment/ allowance	
Loans and Receivables	LaR	64	—	-68	257	253
Held for Trading	HfT	-76	96	—	—	20
Other Liabilities	FLaC	-5,199	—	-94	—	-5,293
<b>Total 2013</b>		<b>-5,211</b>	<b>96</b>	<b>-162</b>	<b>257</b>	<b>-5,020</b>

#### MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39

		From subsequent measurement				Net result 2012
		From interest	At Fair Value	Currency translation	Impairment/ allowance	
Loans and Receivables	LaR	177	—	-99	—	78
Held for Trading	HfT	-20	-211	—	—	-231
Other Liabilities	FLaC	-5,166	—	222	—	-4,944
<b>Total 2012</b>		<b>-5,009</b>	<b>-211</b>	<b>123</b>	<b>—</b>	<b>-5,097</b>

Interest income and expenses from financial instruments are presented in the consolidated statement of comprehensive income within the positions interest and similar income and, respectively, expenses. Interest income from financial assets classified as loans and receivables mainly comprise interest income from current accounts and short term deposits. Interest expenses from financial liabilities in the category other liabilities primarily comprise interest expenses due to banks, corporate bonds and, respectively, profit participation capital.

Total interest expense relating to corporate bonds, applying the effective interest method, amounts to EUR 2,769 thousand for 2013 (PY: EUR 2,203 thousand), to promissory note bonds EUR 266 thousand (PY: EUR 0 thousand), and relating to profit participation capital amount to EUR 26 thousand (PY: EUR 429 thousand).

Net result arising from the subsequent measurement of derivative financial instruments classified as held for trading includes interest effects. The related amounts are presented within the positions interest and similar income, respectively, expenses. Effects, however, arising from

subsequent measurements of interest rate derivatives in an effective cash flow hedging relationship are recorded directly in equity. Recognition through profit or loss of an ineffective portion was not required.

Net result arising from foreign currency translation of financial assets classified as loans and receivables as well as liabilities classified as other liabilities mainly comprise trade receivables and payables denominated in foreign currency and is presented within the positions other operating income and expenses.

Net result from impairment mainly includes additions and reversals of individual bad debt allowances relating to trade receivables. The respective amounts are recorded within the positions other operating income and expenses.

#### Fair Value Hierarchy

Effective 1 January 2009, a hierarchy for the measurement of fair value was introduced for financial assets and liabilities valued at fair value through profit or loss. The hierarchy prioritizes the inputs to valuation techniques.

The three-level hierarchy is summarized as follows:

Level 1: On the first level of the 'Fair Value Hierarchy', quoted market prices in an active market are the best evidence of fair value and should be used, where they exist, to measure the financial asset or liability.

Level 2: If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes discounted cash flow analysis, option pricing models, reference to the current fair value of another instrument that is substantially the same, and recent arm's length market transactions between knowledgeable, from each other independent parties willing to enter into a contract. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is based as little as possible on company specific data.

Level 3: Valuation methods applied on this level are based on parameters and assumptions not readily available from an active market.

Group financial instruments measured at fair value were assigned to the following hierarchy levels:

12/31/2013 (EUR '000)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Positive fair value interest rate swaps	0	0	0	0
<b>Liabilities</b>				
Negative fair value interest rate swaps	0	1,074	0	1,074
Negative fair value foreign exchange contract	0	100	0	100

12/31/2012 (EUR '000)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Positive fair value interest rate swaps	0	0	0	0
<b>Liabilities</b>				
Negative fair value interest rate swaps	0	740	0	740

In 2013, there were no reclassifications between the different levels.

The fair value amounts were taken from mark-to-market valuations of the banks involved.

#### Hedging relationships

Interest rate swaps are used to limit interest rate risk exposures resulting from changes in market interest level and changes of future cash outflows due to variable interest loans. In addition, to cover foreign exchange risks resulting from raw material purchases in USD, a foreign exchange contract was stipulated. The designated effective hedging relationships are accounted for in compliance with the regulations set out by IAS 39 for hedge accounting. As a result interest rate risks and foreign currency fluctuations can be controlled and volatilities of results reduced.

At the inception of the hedge, the hedging relationship is formally designated and documented, including the Group's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and a description how the Group will assess the hedging instrument's effectiveness. The hedging relationship is assessed on an ongoing basis (i.e. over the entire hedge term) and it is determined whether the hedging relationship was highly effective during the business period.

For hedging relationships accounted for under the regulations as set out in hedge accounting, IAS 39 requires, among others, that the designated hedging relationship is effective. The changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%. The effective portion of a hedge within the above presented range is recorded directly in equity whereas the ineffective portion is immediately recognized in the consolidated statement of comprehensive income.

As at 31 December 2013, the Company recognized interest rate swaps in the amount of EUR -910 thousand (PY: EUR -480 thousand) and foreign currency hedges of EUR -100 thou-

sand (PY: EUR 0 thousand) as hedge instruments as part of a cash flow hedge. Changes in the fair value of the interest swap and the foreign exchange hedge resulted in 2013 in EUR –430 thousand (PY: EUR 178 thousand) and EUR –100 thousand (PY: EUR 0 thousand), respectively, which were fully and directly recognized in equity. The cash payments secured by the cashflow hedges for interest payments relate to regular interest payments, the foreign exchange hedge results in regular payments of foreign payments of USD.

The existing profit-and-loss effective interest rate swap with a negative fair value of EUR –164 thousand (PY: EUR –260 thousand) as per 31 December 2013 resulted in a gain of EUR 96 thousand (PY: EUR –211 thousand), recognized in the line item interest and similar expenses.

In principle, there have been no changes to the risk positions compared to prior year in the risks described below.

#### Default risk

The Group is exposed to default risks primarily through its trade receivables. In order to reduce these risks, receivables are factored. Debtors' default risks are transferred by way of contractual agreements to the factor, except for a security deposit. The respective carrying amounts are therefore completely derecognized and are no longer carried as trade receivables. This does not include trade receivables which are not accepted by the factor e.g. because of exceeding a credit limit. Additionally, trade receivables are insured against default.

The amounts presented in the balance sheet are net of bad debt allowances for prospectively uncollectible receivables, which are estimated by Management on the basis of past experience and the current economic environment. Individual bad debt allowances are charged as soon as there is an indication that those receivables may be uncollectible. Such indications are based on intensive contacts maintained through the Company's credit management.

In case of counterparty default, the maximum default risk of the Group's financial assets, which comprise trade receivables, cash and cash equivalents and other assets, is equal to the carrying amounts of the corresponding instruments.

The Group is not subject to any significant concentration of default risks because they are well spread over a large number of counterparties and customers. As in prior year, the Group's assets are not subject to any restrictions on title or right of disposal.

The following table summarizes the changes in bad debt allowances on trade receivables:

(EUR '000)	2013	2012
Balance per 01/01/	490	490
Additions recognized as expenses in the income statement	0	0
Reversal	257	0
Balance per 12/31/	233	490

The age structure of trade receivables is presented in the table below:

(EUR '000)	Carrying amount	neither past due nor value-adjusted	past due, but not value-adjusted			
			< 3 months	3 – 6 months	6 – 12 months	> 12 months
12/31/2013	4,287	4,287	0	0	0	0
12/31/2012	3,411	3,411	0	0	0	0

With regard to the trade receivables which are neither value-adjusted nor past due, there were no indications at the balance sheet date that would suggest that debtors will not fulfill their payment obligations.

The amount of trade receivables neither past due nor impaired does not include any amounts of trade receivables, whose terms have been renegotiated.

No value adjustments were charged against the remaining other financial assets. At the balance sheet date, there were no past-due claims in this category.

#### Liquidity risk

The Group continually monitors the risk of liquidity shortfalls. For this purpose, the Group takes into account the maturities of financial assets and liabilities and the expected cash flows from operating activities, among others. The objective of the Group is to ensure the supply of sufficient financial resources as well as to maintain a maximum flexibility by utilizing current accounts and loans.

The following table presents the contractually agreed (not discounted) cash outflows of financial liabilities. All financial liabilities for which payments have been already contractually agreed on were included. Budget data for prospective, new liabilities are not included. Amounts denominated in foreign currencies have been translated using the spot rate as of the balance sheet date. The variable interest payments arising from financial instruments were calculated using the last interest rates fixed before the balance sheet date. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

#### CASH OUTFLOWS not discounted (EUR '000)

		Total	thereof < 1 year	thereof 1 – 5 years	thereof > 5 years
Financial liabilities arising from	12/31/2013	0	–	–	–
corporate bonds	12/31/2012	35,845	1,950	33,895	–
Payables to banks	12/31/2013	93,275	12,853	62,814	17,608
	12/31/2012	38,052	10,872	27,180	–
Profit participation capital	12/31/2013	0	–	–	–
	12/31/2012	5,110	5,110	–	–
Trade payables	12/31/2013	8,707	8,707	–	–
	12/31/2012	10,403	10,403	–	–
Other financial liabilities	12/31/2013	12,063	10,690	1,373	–
	12/31/2012	10,397	10,397	–	–
<b>Total (financial liabilities)</b>	12/31/2013	<b>114,045</b>	<b>32,250</b>	<b>64,187</b>	<b>17,608</b>
	12/31/2012	<b>99,807</b>	<b>38,732</b>	<b>61,075</b>	<b>–</b>



### Foreign currency risk

Foreign currency risk that the Group is exposed to result from its operating activities. Although Group companies mainly operate in their individual functional currency, Group companies are exposed to foreign currency risks based on planned payments in a currency other than their functional currency.

Foreign currency risks are presented by means of sensitivity analyses as required by IFRS 7. These show the effects of hypothetical changes of relevant risk parameters on profit before taxes (because of the change in the year end and subsequent valuation of financial assets and liabilities through profit and loss) and shareholders' equity as a consequence of upward revaluation and devaluation of the euro against all other foreign currencies. Financial instruments denominated in a currency that is not the functional currency and of monetary nature are included within the scope of these analyses. According to the requirements of IFRS 7, differences resulting from the translation of financial statements into the Group's prevalent EURO currency are not taken into consideration. Effects on equity are caused by changes in the fair values of foreign currency contracts to hedge future cash disbursements.

	Rate change in %	Effect on profit before taxes EUR '000	Effect on shareholders' equity* EUR '000
<b>2013</b>			
USD	+10	330	2,019
USD	-10	-330	-1,652
<b>2012</b>			
USD	+10	333	—
USD	-10	-333	—

\* disregarding the effects on profit before taxes

### Interest rate risk

Interest rate risk that the Group is exposed to results mainly from interest rate fluctuations and the related financial variable interest-bearing liabilities due to banks. The Group's interest expenses are managed through a combination of fixed interest-bearing liabilities and variable interest-bearing liabilities. For hedging purposes of the interest rate risk inherent from non-current variable interest-bearing positions, interest rate swaps are applied that switch the differences between payments subject to variable interest and payments subject to fixed interest regarding a nominal amount within agreed time intervals to the contracting party.

Interest rate risks are presented by means of sensitivity analyses as required by IFRS 7. These show the effects of hypothetical changes in market interest rates on interest payments, interest income and expense, other income components on profit before taxes and, if appropriate, on shareholders' equity (from subsequent measurement of designated interest rate derivatives in an effective cash flow hedging relationship) as follows:

	Increase/ decrease in basis points	Effect on profit before taxes EUR '000	Effect on shareholders' equity* EUR '000
<b>2013</b>			
Europe	+10	-43	232
USA	+10	-16	5
Europe	-10	44	-239
USA	-10	16	-5
<b>2012</b>			
Europe	+10	-47	5
USA	+10	-17	9
Europe	-10	49	-5
USA	-10	17	-9

\* disregarding the effects on profit before taxes

### 7.3 ADDITIONAL DISCLOSURES ON CAPITAL MANAGEMENT

Nabaltec AG conducts sound capital management enabling the Group to continue on a growth path as well as ensuring solvency. In this regard, particular emphasis is given to preserving a balanced ratio of equity to debt over the long term.

The equity and debt positions of Nabaltec AG at 31 December 2013 and 2012, monitored for purposes of the Group's capital management, are presented in the table below:

	12/31/2013 EUR '000	12/31/2012 EUR '000	Change in %
<b>Equity</b>	<b>50,369</b>	<b>47,488</b>	<b>6.07</b>
in % of total capital	36.35	37.80	-3.84
Non-current financial liabilities	70,583	54,880	28.61
Current financial liabilities	17,605	23,254	-24.29
<b>Debt*</b>	<b>88,188</b>	<b>78,134</b>	<b>12.87</b>
as % of total capital	63.65	62.20	2.33
<b>Total capital for capital management purposes</b>	<b>138,557</b>	<b>125,622</b>	<b>10.30</b>

\* The Group defines debt as financial liabilities arising from corporate bonds, payables to banks, liabilities from profit participation capital, and liabilities due to non-controlling shareholders.

In the financial year, equity increased by EUR 2,881 thousand to EUR 50,369 thousand in principle due to the profit incurred by the Group.

Borrowed capital increased by EUR 10,054 thousand to EUR 88,188 thousand in the financial year due primarily to raising bank debt including promissory note bonds.

In total, the capital measures conducted in 2013 decreased the equity ratio (as a percentage of total capital) to 36.35% compared to prior year 37.80%. The ratio of debt to total capital, according to the definition applied for capital management purposes, rose from 62.20% as of 31 December 2012 to 63.65% as of 31 December 2013.

Within the Company's continued development, the Group optimizes its financial management, accompanied by continuous monitoring and management of its equity ratio.

The objective of this financial management is to improve the Company's solvency in regards to Nabaltec AG's business partners and optimize its capital costs.

Nabaltec AG is not subject to any capital requirements imposed by its Articles of Incorporation. Regarding covenants from loan agreements please refer to Note 6.10 Current and non-current liabilities.

#### 7.4 RELATED PARTY TRANSACTIONS

According to IAS 24 Related Party Disclosures, related parties are composed of those companies and persons that possess the ability directly or indirectly to control the other party or to exercise significant influence or joint control over the other party.

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

- Members of the Management Board (see Note 7.8 Governing bodies of the Company) and their family members;
- Members of the Supervisory Board (see Note 7.8 Governing bodies of the Company) and their family members;
- Companies that are controlled directly or indirectly by members of the Management Board or Supervisory Board.

Members of the Management Board received short term compensation of EUR 1,019 thousand (PY: EUR 1,086 thousand) in the financial year 2013. In addition, post-employment expenditures of EUR 305 thousand (PY: EUR 297 thousand) were incurred.

Members of the Supervisory Board received short term compensation of EUR 49 thousand (PY: EUR 42 thousand) in the financial year 2013.

At 31 December 2013 and 2012, there were receivables due from and payables due to related parties as follows:

(EUR '000)	Receivables		Payables	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Entities controlled by members of the Supervisory Board	0	0	0	0
Entities controlled by members of the Management Board	17	19	0	0

At 31 December 2013 provisions for doubtful receivables, respectively, expenses for bad debt for uncollectible receivables or bad debt due from related parties amounted to EUR 8 thousand (PY: EUR 0 thousand).

In 2013 and 2012, the following expenses and income with related parties were recognized in addition to compensation granted to the members of the Management Board:

(EUR '000)	Income		Expenses	
	2013	2012	2013	2012
Entities controlled by members of the Supervisory Board	0	0	5	5
Entities controlled by members of the Management Board	74	111	14	18

Transactions with entities controlled by members of the Management Board comprise services related to human resources management as well as other services (income amounting to EUR 74 thousand; PY: EUR 111 thousand), plant design (expenses amounting to EUR 10 thousand; PY: EUR 12 thousand) and other services (expenses amounting to EUR 4 thousand; PY: EUR 6 thousand). Expenses incurred for members of the Supervisory Board resulted from the research and development activities regarding ceramic process engineering performed by one member.

In connection with the corporate bonds issued in the financial year 2010 with a nominal value of EUR 30,000 thousand, the Company had payables due to the Management Board of nominally EUR 0 thousand (PY: EUR 904 thousand) as at the balance sheet date 31 December 2013. With regard to the members of the Supervisory Board, the payable amounts to a nominal value of EUR 0 thousand (PY: EUR 405 thousand).

The corporate bonds with a nominal value of EUR 30,000 thousand and original term up to 14 October 2015 were terminated early and on due prescribed and repaid including pro rate interest on 31 December 2013.

## 7.5 EARNINGS PER SHARE

The number of shares outstanding showed the following changes during the financial year:

	2013	2012
Common shares outstanding at 01/01/	8,000,000	8,000,000
There were no transactions in the financial year.		
Common shares outstanding at 12/31/	8,000,000	8,000,000
<b>Undiluted weighted average number of common shares outstanding</b>	<b>8,000,000</b>	<b>8,000,000</b>

For calculating the undiluted earnings per share, the profit or loss attributable to the holders of the Company's common shares are divided by the weighted average number of common shares in circulation during the financial year.

In accordance with IAS 33 Earnings per Share, the effects of potential common shares are also taken into account for determining the diluted earnings per share. No dilutive effects apply for Nabaltec AG. Thereby, the undiluted earnings per share are equal to the diluted earnings per share for 2013 and 2012.

Earnings per share, so calculated, are presented in the table below:

	2013	2012
Consolidated earnings after tax		
– Shareholders of Nabaltec AG (EUR '000)	2,646	2,055
Undiluted weighted average number of common shares outstanding	8,000,000	8,000,000
Earnings per share (EUR)	0.33	0.26

For additional information, we refer to Note 6.8 Equity.

## 7.6 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows indicates the sources and uses of funds. In accordance with IAS 7 Statement of Cash Flows, the cash flows from operating activities, investing and financing activities are presented separately.

The net funds from financing activities presented in the consolidated statement of cash flows comprise the item of cash and cash equivalents presented in Note 6.7.

Deviations between additions shown in the consolidated statement of changes in non-current assets and cash expenditures for investments in technical equipment, plant and machinery result from unsettled invoices due to related purchases and the offsetting of received investment grants with the additions shown in the consolidated statement of changes in non-current assets.

The paid, respectively, received interest and income tax are directly evident from the consolidated statement of cash flows.

## 7.7 SEGMENT INFORMATION

Business segments represent the primary format for the Group's segment reporting. Risks and the internal organizational and reporting structures of the Group are determined mainly by the distinctions between the products produced.

### Business segments

Nabaltec is divided into two business segments; "Functional Fillers" and "Technical Ceramics". Each segment represents a strategic business division, the products and markets of which differ from those of the other.

The "Functional Fillers" segment produces and distributes non-halogenated flame retardant fillers for the plastics- and the cable & wire industry as well as additives.

The "Technical Ceramics" segment produces and distributes ceramic raw material and ceramic bodies for numerous applications in technical ceramics as well as the refractory industry.

The column "Other" includes assets and liabilities that cannot be matched to the individual segments.

Transfer prices applied between business segments are fundamentally determined on the basis of the prevailing market terms that would be charged in an arm's-length transaction. The segment income, expenses and result include transfers between the business divisions, which are eliminated as part of the consolidation process. In the financial years 2013 and 2012, no intersegment transactions between the business divisions were incurred.

### FINANCIAL YEAR ENDED 31 DECEMBER 2013 (EUR '000)

	Functional Fillers	Technical Ceramics	Other	Nabaltec Group
<b>Revenues</b>				
Third party revenue	90,596	42,338	–	132,934
<b>Segment result</b>				
EBITDA	13,401	6,361	–	19,762
EBIT	6,746	3,785	–	10,531
<b>Assets and liabilities</b>				
Segment assets	103,269	42,964	30,041	176,274
Segment liabilities	10,092	5,149	110,664	125,905
<b>Other segment information</b>				
Capital expenditures				
– Property, plant and equipment	2,317	3,399	–	5,716
– Intangible assets	35	24	–	59
Depreciation and amortization				
– Property, plant and equipment	6,618	2,550	–	9,168
– Intangible assets	37	26	–	63

## FINANCIAL YEAR ENDED 31 DECEMBER 2012 (EUR '000)

	Functional Fillers	Technical Ceramics	Other	Nabaltec Group
<b>Revenues</b>				
Third party revenue	89,932	39,281	—	129,213
<b>Segment result</b>				
EBITDA	14,758	4,069	—	18,827
EBIT	8,320	1,701	—	10,021
<b>Assets and liabilities</b>				
Segment assets	105,072	41,405	15,023	161,500
Segment liabilities	10,070	4,261	99,681	114,012
<b>Other segment information</b>				
Capital expenditures				
– Property, plant and equipment	5,331	3,322	—	8,653
– Intangible assets	52	34	—	86
Depreciation and amortization				
– Property, plant and equipment	6,393	2,327	—	8,720
– Intangible assets	45	41	—	86

## Information by region

The geographical regions are defined as Germany, Rest of Europe, USA and Rest of World (RoW).

## FINANCIAL YEAR ENDED 31 DECEMBER 2013 (EUR '000)

	Germany	Rest of Europe	USA	RoW	Total
<b>Revenues</b>					
Third party revenue	40,915	63,606	14,431	13,982	132,934
<b>Other segment information</b>					
Segment assets	157,326	—	18,948	—	176,274
Capital expenditures					
– Property, plant and equipment	5,478	—	238	—	5,716
– Intangible assets	59	—	—	—	59

## FINANCIAL YEAR ENDED 31 DECEMBER 2012 (EUR '000)

	Germany	Rest of Europe	USA	RoW	Total
<b>Revenues</b>					
Third party revenue	40,023	59,988	14,774	14,428	129,213
<b>Other segment information</b>					
Segment assets	141,199	–	20,301	–	161,500
Capital expenditures					
– Property, plant and equipment	8,553	–	100	–	8,653
– Intangible assets	86	–	–	–	86

In 2013, one customer accounted for more than 10% of total revenues. Revenue from this customer amounts to EUR 15,298 thousand and is included in the 'Functional Fillers' segment. Similarly, in 2012, one customer accounted for more than 10% of total revenues (EUR 14,361 thousand).

The non-current assets of the Group are located in Germany and the United States. Non-current assets are defined as assets that are used for operating activities and are expected to remain within the Company for longer than 12 months. The location of the respective assets determined the allocation.

## 7.8 GOVERNING BODIES OF THE COMPANY

### Management Board

- Mr. Johannes Heckmann (Engineering)
- Mr. Gerhard Witzany (Business Administration)

### Supervisory Board

- Mr. Dr. Leopold von Heimendahl (Chairman)
- Mr. Dr. Dieter J. Braun (Vice Chairman)
- Mr. Prof. Dr.-Ing. Jürgen G. Heinrich

## 7.9 VOLUNTARY DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT REGARDING THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and the Supervisory Board of Nabaltec AG have voluntarily issued and made available to shareholders the Declaration on the German Corporate Governance Code in compliance with Section 161 of the German Stock Corporation Act required from listed entities. The declaration is published on the Company's website [www.nabaltec.de](http://www.nabaltec.de) under "Investor Relations/Corporate Governance".

## 7.10 SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to the balance sheet date.



#### 7.11 AUDITOR'S FEES AND SERVICES PURSUANT TO SECTION 314 OF THE GERMAN COMMERCIAL CODE

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

Schwandorf, 3 March 2014

Nabaltec AG  
The Management Board



JOHANNES HECKMANN



GERHARD WITZANY

# INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, statement of changes in non-current assets, and notes, as well as the group management report prepared by Nabaltec AG, Schwandorf, for the financial year from 1 January to 31 December 2013. Preparation of the consolidated financial statements and group management report in accordance with the IFRS, as endorsed by the EU, and the supplementary provisions of German commercial law pursuant to Section 315a Paragraph 1 HGB ("German Commercial Code") are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on our audit findings, the consolidated financial statements of Nabaltec AG comply with the IFRS as adopted by the EU, the supplementary provisions of German commercial law pursuant to Section 315a Paragraph 1 HGB and give a true and fair view of the Group's net assets, results of operations and financial position in accordance with these requirements. The group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position, as well as the risks and opportunities of future development.

Nuremberg, 7 March 2014

Deloitte & Touche GmbH  
Wirtschaftsprüfungsgesellschaft



(Thiermann)  
Auditor



(Fischer)  
Auditor

# ANNUAL FINANCIAL STATEMENTS NABALTEC AG

(GERMAN COMMERCIAL CODE, SHORT VERSION)

## ANNUAL FINANCIAL STATEMENTS NABALTEC AG (GERMAN COMMERCIAL CODE, SHORT VERSION)

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## BALANCE SHEET

AS OF 31 DECEMBER 2013

## ASSETS (in EUR '000)

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

**EQUITY & LIABILITIES** (in EUR '000)

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

# INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 THROUGH 31 DECEMBER 2013

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

## APPROPRIATION OF DISTRIBUTABLE PROFIT

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

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

Schwandorf, April 2014

The Management Board



JOHANNES HECKMANN



GERHARD WITZANY

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**FINANCIAL CALENDAR 2014**

Interim Report 1/2014	27 May 2014
Annual General Meeting	26 June 2014
Interim Report 2/2014	26 August 2014
Interim Report 3/2014	25 November 2014

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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.





