25 YEARS Nabaltec

Nabaltec

ANNUAL REPORT 2019

OUR KNOW-HOW FOR YOUR SAFETY

NABALTEC GROUP

KEY FIGURES

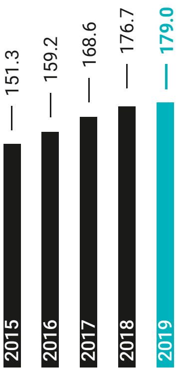
FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2019

in EUR million	2019 (IFRS)	2018 (IFRS)	Change
Revenues			
Total revenues	179.0	176.7	1.3%
thereof			
Functional Fillers	122.2	114.6	6.6%
Specialty Alumina	56.8	62.1	−8.5%
Foreign share (%)	76.4	73.8	
Earnings			
EBITDA	32.3	30.6	5.6%
EBIT	18.6	18.5	0.5%
Consolidated result after taxes	10.7	10.3	3.9%
Earnings per share (EUR)	1.22	1.17	4.3%
Financial position			
Cash flow from operating activities	22.4	16.1	39.1%
Cash flow from investing activities	−20.0	−27.1	−26.2%
Assets, equity and liabilities			
Total assets	239.6	225.9	6.1%
Equity	98.9	95.8	3.2%
Non-current assets	158.8	149.0	6.6%
Current assets	80.8	76.9	5.1%
Employees[1] (number of persons)	514	496	3.6%

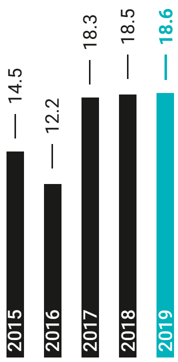
[1] *on the reporting date 31 December, including trainees*

NABALTEC AG

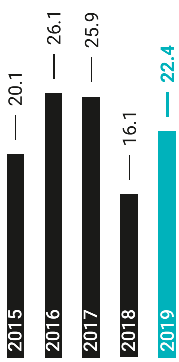
Nabaltec AG, with registered office in Schwandorf, a chemicals business which has received multiple awards for innovativeness, manufactures, develops and distributes highly specialized products based on aluminum hydroxide and aluminum oxide on an industrial scale through its product segments, “Functional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



REVENUES IN EUR MILLION



EBIT IN EUR MILLION



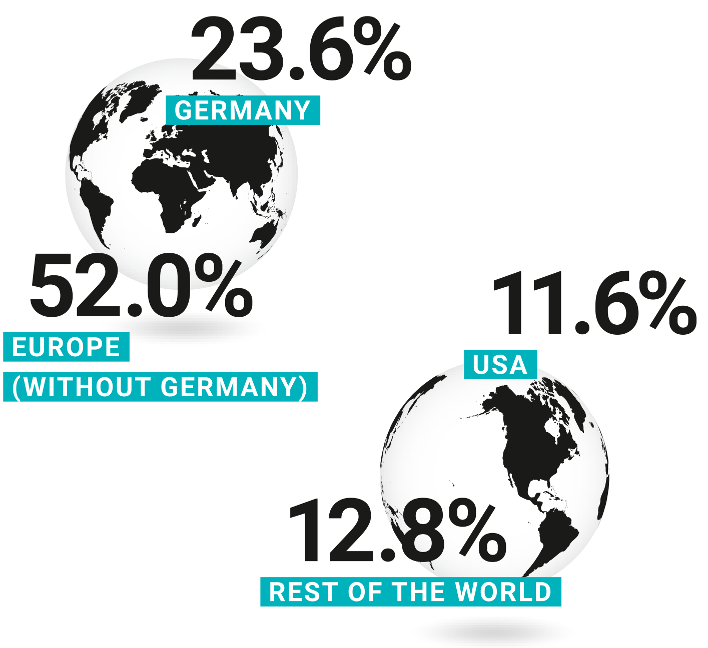
OPERATING CASH FLOW IN EUR MILLION

SUSTAINABLE PRACTICES

Nabaltec products have an extremely diverse range of applications and are the preferred choice whenever utmost quality, safety, eco-friendliness and durability are required. The combination of these characteristics creates outstanding prospects for growth for Nabaltec's various specialty chemical products and is the basis for the company's many years of steadily growing financial success.

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

REVENUE SHARES 2019



PRODUCT SEGMENTS

FUNCTIONAL FILLERS

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

EUR 122.2 MILLION
REVENUES

EUR 22.1 MILLION
EBITDA

EUR 11.9 MILLION
EBIT

SPECIALTY ALUMINA

In the product segment "Specialty Alumina," Nabaltec manufactures innovative materials for a wide variety of industries based on aluminum oxide and occupies a leading position in the global market. The company is constantly investing in optimizing its production facilities, in innovative technologies and in improving production processes in order to enable the company to consistently supply tailor-made qualities which meet customers' needs.

EUR 56.8 MILLION
REVENUES

EUR 10.3 MILLION
EBITDA

EUR 6.7 MILLION
EBIT

SUSTAINABLE PRACTICES

Nabaltec products have an extremely diverse range of applications and are the preferred choice whenever utmost quality, safety, eco-friendliness and durability are required. The combination of these characteristics creates outstanding prospects for growth for Nabaltec's various specialty chemical products and is the basis for the company's many years of steadily growing financial success.

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

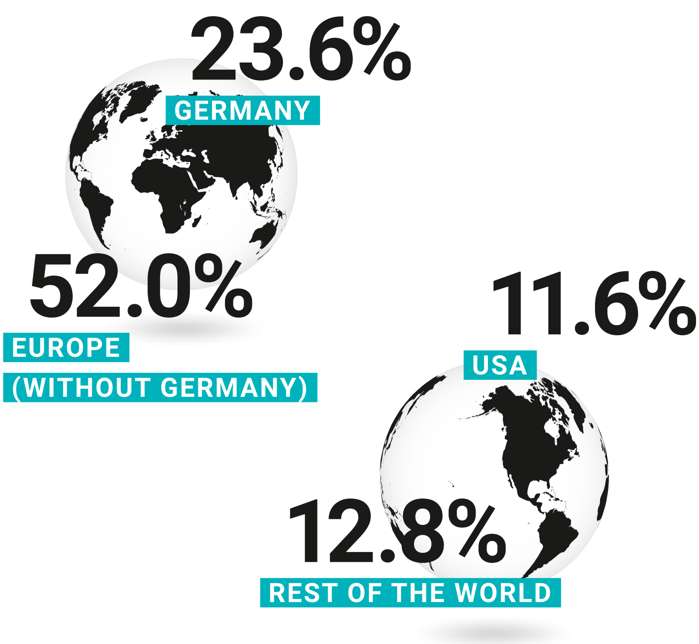
EMPLOYEES

Sustainable employee development is important to Nabaltec AG in order to be prepared for future personnel challenges and in order to position itself as an attractive employer. As a family-friendly company which has been recognized multiple times, Nabaltec is committed to promoting young talent and values work/life balance.

INNOVATIONS

Nabaltec AG is regularly awarded national and international prizes and distinctions for innovation. 2019, for example, the company received the "Axia Best Managed Companies Award" for outstandingly managed mid-sized companies, due in part to its highly innovative practices.

REVENUE SHARES 2019



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NABALTEC AG ON THE INTERNET

www.nabaltec.de

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FOREWORD
OF THE CEO

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

Ladies and Gentlemen,
Dear Shareholders and Business Partners,

Nabaltec AG was able to post moderate growth in Financial Year 2019, with revenues climbing 1.3% to EUR 179.0 million. This result was slightly lower than our 2019 revenue forecast, which called for revenues to fall in a range from EUR 181 million to EUR 184 million. We were able to meet our 2019 earnings forecast with an EBIT margin of 10.2% (EBIT as a percentage of total performance).

Thanks to its good market position, Nabaltec was able to implement price adjustments in both product segments in 2019

Revenue and earnings performance was very successful in the first three quarters of the year: in each of those quarters, the relevant performance indicators were significantly higher than in the same quarter of last year. Thanks to our strong market position, we were able to implement price adjustments in both product segments, and the fundamental drivers in our markets remained intact. Despite certain fluctuations, the long-term market outlook for eco-friendly halogen-free flame retardants and specialty alumina remains bright. In Nabaltec AG's estimation, the long-term outlook is also excellent for boehmite and its wide variety of applications, especially in electric mobility. We expect European production of lithium ion batteries to ramp up in the next two to three years. As a result, the total potential for boehmite will be realized only gradually.

Results in the fourth quarter of 2019 could not keep pace with the positive trend for the year as a whole, and results were particularly unfortunate in December. The economic slump, and especially the weakening in the European steel industry and in segments related to the automotive industry, began to have a noticeable impact on our customers and us over the course of the year. This impact was particularly noticeable in the "Specialty Alumina" segment, and especially in product areas which are strongly aligned towards the refractory industry. On the whole, we were able to compensate for these effects with room to spare in the first three quarters of the year. We believe that the significantly weaker performance in the fourth quarter was caused by an additional and temporary slump in demand on the customer side. Two factors were largely responsible for this slump:

1. The noticeable flattening in economic activity in 2019, together with disproportionate inventory reductions by our customers, caused order volume to drop significantly.
2. In addition, orders were postponed to the next year in the expectation that prices will be reduced in 2020.

In the US, we achieved some major strategic and operational milestones in 2019 with Nashtec going back online and the formation of Naprotec. Production delays and technical problems at Nashtec weighed down consolidated earnings significantly in 2019. We expect production to normalize by the end of the first quarter of 2020. The US customer structure which we have built up in recent years proved to be highly stable even as production resumed at Nashtec in 2019, providing the foundation for further growth in the US market. In addition, our new subsidiary Naprotec will begin production of ground hydrates in Chattanooga in the second quarter of 2020. We expect Naprotec's plant to have a positive impact on consolidated earnings one year after it goes online.

US subsidiary Naprotec LLC will begin production of ground hydrates in the second quarter of 2020

The boehmite product range once again posted very strong growth in 2019, with revenues up by more than 50%. We continue to supply the Asian lithium ion battery market with boehmite on a nearly exclusive basis. The construction of battery plants for electric vehicles in Europe is accelerating due to the environmental goals which have been adopted. Accordingly, we expect to see strong growth in this segment in two to three years.

Boehmite product range posted strong growth of over 50%

Looking into the future, we expect Nabaltec AG's markets to remain stable and intact. The economy is going through a weak period at the moment, which poses a challenge. The German chemicals industry does not expect a return to growth in 2020, although the slump should not be quite as severe as in 2019. In our specialized markets, the trend towards non-halogenated flame retardants continues, and is being reinforced by international legislation. In 2019, for example, the use of brominated flame retardants in the housings of electrical equipment was banned at EU level from March 1, 2021: yet another step in the right direction which promotes eco-friendly alternatives in the flame retardants market. This trend is continuing unabated in other regions as well, such as Asia and North America.

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

Nabaltec is expecting modest revenue growth in 2020

We would like to thank our whole team at Nabaltec AG for the effort they showed in 2019, and we would like to thank our shareholders and business partners for their trust. Despite the challenges we will be facing in the coming year, we believe that we are well-equipped to continue Nabaltec AG's success together with you.

Schwandorf, March 2020

Yours,

JOHANNES HECKMANN
CEO

REPORT
OF THE SUPERVISORY BOARD


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

Ladies and Gentlemen,
Dear Shareholders,

Nabaltec completed the financial year largely successfully, although a subdued global economic trend led to an adjustment of the revenue forecast in October 2019

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

The Supervisory Board was kept fully informed by the Management Board

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

All transactions requiring approval in Financial Year 2019 were decided positively

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

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

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

FINANCIAL YEAR 2019

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

The Supervisory Board had four meetings in 2019 in which all members were present

Four regular ordinary meetings of the Supervisory Board were held in the reporting year, on 9 April 2019, on 27 June 2019, following the Annual General Meeting, on 26 September 2019 and on 12 December 2019. All members were present at all meetings in 2019. No additional meetings took place in 2020 prior to the Supervisory Board meeting on 21 April 2020, in which the Board votes on adoption of the financial statements. The members of the Supervisory Board also deliberated in writing and by telephone. On four occasions in 2019, resolutions were adopted by the Supervisory Board outside of Supervisory Board meetings. Each of these resolutions was duly recorded in writing by the Supervisory Board Chairman and approved.

FOCUS OF DELIBERATIONS

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

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

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

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

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

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

2019 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, has audited the annual financial statements and management report of Nabaltec AG, which were prepared in accordance with the German Commercial Code, as well as the consolidated financial statements, which were prepared based on the IFRS (International Financial Reporting Standards) pursuant to §315e of the German Commercial Code, as well as the consolidated management report, each for 31 December 2019, and has issued an unqualified auditor's opinion.

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

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

The annual and consolidated financial statements for 31 December 2019 have been reviewed and approved by the Supervisory Board

COVID-19 PANDEMIC

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

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

Schwandorf, 21 April 2020

GERHARD WITZANY
Chairman of the Supervisory Board

NABALTEC SHARE

THE STOCK MARKET 2019

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

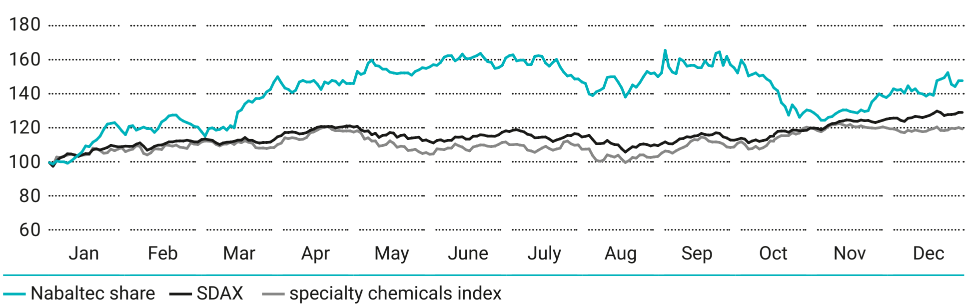
SHARE PERFORMANCE

Nabaltec share gains 52.1% in 2019 over the previous year's closing price

Nabaltec share performed very well in 2019, gaining 52.1% over the previous year's closing price. Nabaltec share bottomed out at EUR 21.90 in early January and reached its high for the year in the third quarter, trading at EUR 37.00 on 30 August 2019. It closed out the year at EUR 33.00.

With the above-average performance in 2019, Nabaltec share also clearly outperformed the two relevant indices, the SDAX and the specialty chemicals index. The SDAX gained 31.6% in 2019 and the specialty chemicals index was up 21.7%.

PERFORMANCE OF NABALTEC SHARE 2019 (XETRA, INDEXED)



Nabaltec AG's market capitalization was EUR 290.40 million at the end of 2019, compared to EUR 190.96 million as of 31 December 2018.

KEY DATA FOR NABALTEC SHARE (XETRA)

	2019	2018
Number of shares	8,800,000	8,800,000
Market capitalization (cutoff date, in EUR million)	290.40	190.96
Average price (in EUR)	31.50	24.42
High (in EUR)	37.00	30.10
Low (in EUR)	21.90	21.00
Closing price (cutoff date, in EUR)	33.00	21.70
Average daily turnover (in shares)	4,454	3,105
Earnings per share (in EUR)	1.22	1.17

TRADING VOLUME

Nabaltec share's average XETRA daily trading volume was 4,454 shares in 2019, up around 43% from last year's daily trading volume of 3,105 shares. A total of about 1.1 million shares were traded on XETRA in the reporting year, representing around 30% 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. This function is currently performed by Baader Bank Aktiengesellschaft and Hauck & Aufhäuser Privatbankiers AG.

The daily average trading volume was 4,454 shares in 2019

EARNINGS PER SHARE

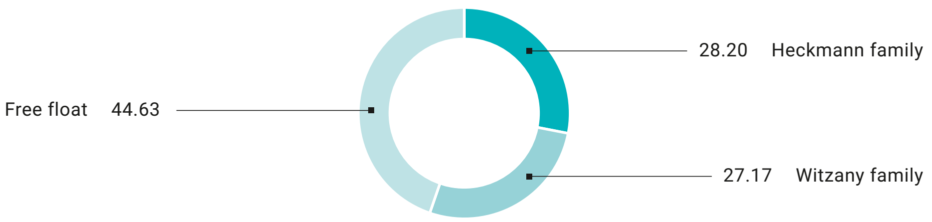
Earnings per share (EPS) came to EUR 1.22 in 2019, compared to EUR 1.17 the year before.

Earnings per share of EUR 1.22 in 2019

SHAREHOLDER STRUCTURE

The majority of Nabaltec's 8,800,000 shares continue to be held by the Heckmann and Witzany families. As of the cutoff date, the Heckmann family held 28.20% of the company's capital stock and the Witzany family held 27.17%. The remaining shares are in free float.

SHAREHOLDER STRUCTURE (IN %)



ANALYST RECOMMENDATIONS

Hauck & Aufhäuser has been analyzing Nabaltec share with research reports consistently since 2011, and published eleven studies and updates on Nabaltec share last year. Hauck & Aufhäuser issued a "buy" recommendation in each of its analyses, and set a price target of EUR 40.50 in October 2019. This price target remained unchanged through the end of 2019.

All analyses from Hauck & Aufhäuser in 2019 with a "buy" recommendation

Baader Bank Aktiengesellschaft has been reporting on Nabaltec routinely since 2013 and published 17 studies on the stock in the reporting year. In its most recent study, of 17 December 2019, Baader Bank rated Nabaltec a “buy” with a price target of EUR 37.00.

Analyst assessments of Nabaltec share can be found online in the Investor Relations section of www.nabaltec.de, share.

CAPITAL MARKET COMMUNICATIONS

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

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

Nabaltec AG continued its intensive investor relations activities in Financial Year 2019. It took part in several investor and analyst events, and was represented at roadshows in Germany and elsewhere in Europe, as well as at various investor conferences, such as the German Spring Conference, held in May 2019 in Frankfurt am Main, the Baader Investment Conference in Munich in September 2019 and the German Equity Forum in Frankfurt in late November 2019.

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

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

BASIC DATA FOR NABALTEC SHARE

ISIN (International Security Identification Number)	DE000A0KPPR7
Stock symbol	NTG
Stock exchanges	Frankfurt (Open Market), over-the-counter in Berlin, Dusseldorf, Hamburg, Munich, Stuttgart
Sector	Industrial
Industry group	Products & Services
Index membership (31 December 2019)	Scale All Share, Scale 30, Value-Stars-Deutschland-Index, DAXsector All Industrial, DAXsubsector All Industrial Products & Services

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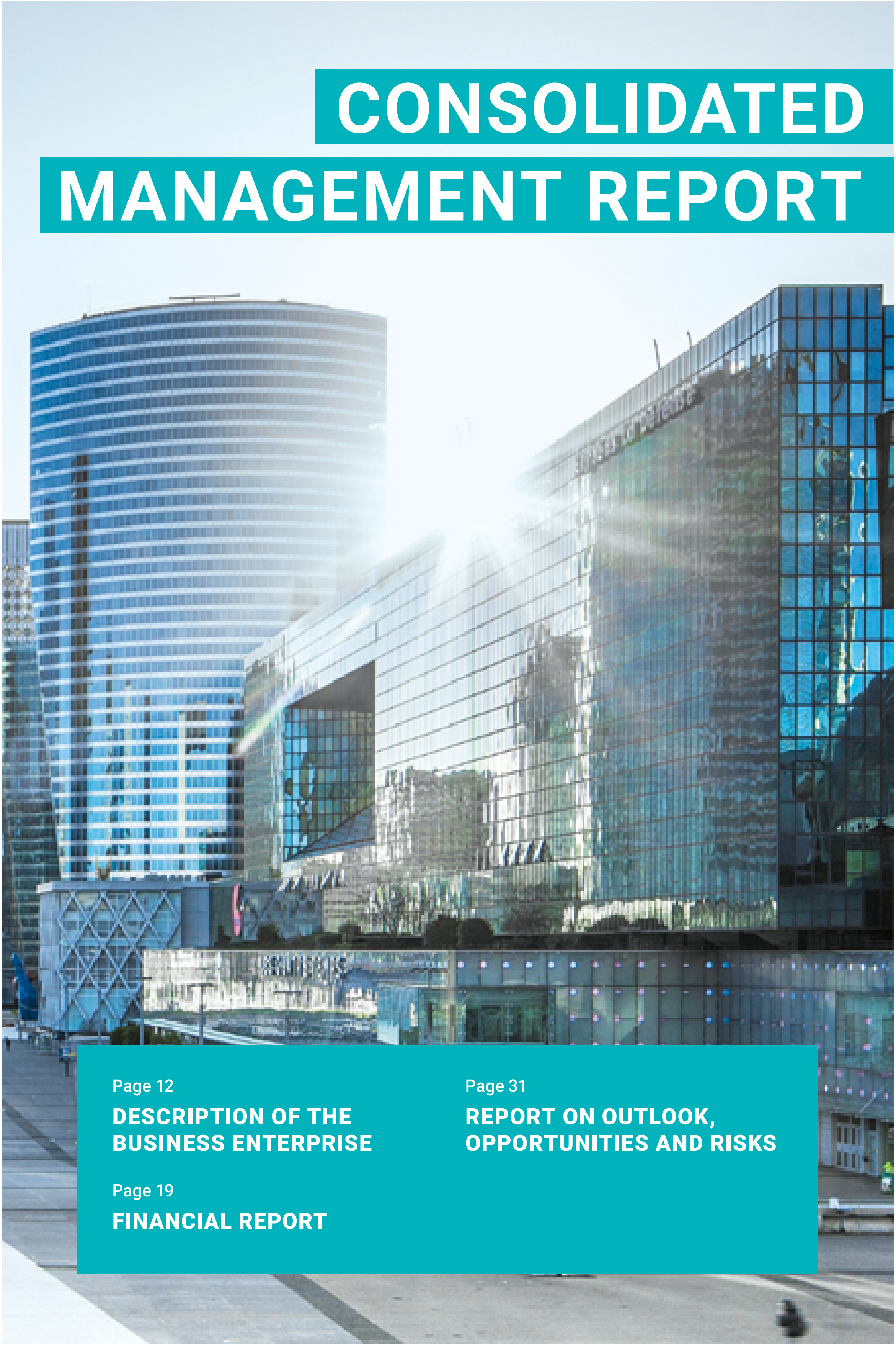

CONSOLIDATED MANAGEMENT REPORT

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FINANCIAL REPORT

Page 31
REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2019

1. DESCRIPTION OF THE BUSINESS ENTERPRISE

1.1 THE GROUP'S BUSINESS MODEL

BUSINESS OPERATIONS

Environmentally friendly and highly specialized products

Nabaltec AG develops, manufactures and distributes environmentally friendly and simultaneously highly specialized products based on mineral raw materials, in particular on the basis of aluminum hydroxide (ATH) and aluminum oxide. The company belongs to the world's leading suppliers of functional fillers and specialty alumina. The production capacity entails approximately 260,000 tons per annum (t.p.a.) with an export share of over 75%.

The range of applications of Nabaltec products is highly diversified:

- flame-retardant filling material for the plastics industry used e.g. for cabling in tunnels, airports, high-rises and electronic equipment;
- fillers and additives, e.g. as white pigments in paint or as an all-natural barrier layer in foil;
- ceramic raw materials applied in the refractory industry, in technical ceramics and abrasives industry;
- highly specialized ceramic raw materials for ballistics, microelectronics and ceramic filters.

Outstanding growth prospects for Nabaltec products

Whenever applications require a high degree of quality, safety, environmental friendliness and product duration, Nabaltec products are always preferred. It is the combination of these important characteristics that guarantee Nabaltec products outstanding growth prospects. The main drivers are the globally increased environmental consciousness, comprehensive international and national regulations and the industry's self-imposed obligation. Flame protection within the plastics and cable & wire industry will continue to grow dynamically in the years to come, which is supported by recent market research results. In order to benefit from this trend disproportionately high, production capacity in the "Functional Fillers" product segment for environmentally friendly, flame-retardant fillers was specifically expanded. Today, Nabaltec is one of the world's leading suppliers in this area.

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

Nabaltec maintains very close contacts with customers through its sales team and its technical support staff. This proximity to our clients is fundamental for the concerted, client-specific design and development of our products.

CORPORATE STRUCTURE

Nabaltec, based in Schwandorf, was formed in 1994 and, in 1995, acquired the specialty alumina division of VAW aluminium AG. In September 2006, the company was transformed into a stock corporation and has been listed in the Open Market division of the Frankfurt Stock Exchange since November 2006 and has consistently been traded in high-quality segments of the exchange, including the Scale segment as of March 2017.

Nabaltec share listed since 2006 in the Open Market division of the Frankfurt Stock Exchange

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

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

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

Naprotec LLC and Nashtec LLC bundled in Nabaltec USA Corporation

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

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

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

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

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

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

Market segments:

- Wire & Cable
- Resins & Dispersions
- Rubber & Elastomers
- Battery
- Adsorbens & Catalysis
- Refractory
- Technical Ceramics
- Polishing
- Others

1.2 OBJECTIVES AND STRATEGIES

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

1. GLOBAL GROWTH STRATEGY IN TARGET MARKETS WITH A FOCUS ON SUSTAINED DOUBLE-DIGIT EBIT MARGINS

Nabaltec is one of the leading suppliers of flame retardant fillers

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

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

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

2. STRATEGIC ALIGNMENT TOWARDS GROWTH MARKETS

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

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

Product and process development are continually optimized

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

Nabaltec continuously invests in internal research and development departments, the analysis center, its own testing facility and a pilot plant. Nabaltec has also been collaborating with various research institutions for years, as well as taking part in research consortia. Optimizing processes includes efficient energy consumption as well as comprehensive environmental protection, both aspects of which represent major competitive factors. Nabaltec has taken extensive measures in order to reduce energy consumption, operate with virtually no waste water and minimize emissions.

4. SYSTEMATIC EXPANSION OF THE PRODUCT RANGE

Nabaltec develops its own product portfolio along three dimensions:

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

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

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

Nabaltec pursues a margin oriented capacity policy

Nabaltec pursues a margin oriented capacity policy. Fluctuations in demand and changes in batch size have to be taken into account as soon as possible if production processes are to remain profitable, since production processes in the specialty chemicals sector cannot be varied without inherent delays. Therefore, Nabaltec has developed a fast-acting and highly differentiated controlling system, so that it has at its disposal the appropriate instruments so as to align costs to a large extent with fluctuations in demand and batch size.

6. SECURING FUTURE INVESTMENTS THROUGH A STRONG FINANCING BASE

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

1.3 CONTROLLING

Target agreement process defines responsibilities

Nabaltec AG has implemented a companywide incentive scheme, assigning responsibilities and defining specific objectives even for the smallest units of the company. Comprehensive earnings, cost and performance forecasts facilitate analysis for achievement of the company's objectives. Comparisons of estimates against results are available online, indicating a need for action at an early stage and promoting the process of agreement on targets. Comparisons of estimates against results are conducted on a monthly basis for all cost centers and cost units.

"Navision" ERP software is used in all commercial departments. All cost accounting at Nabaltec, including earnings statements, are presented based on the "macs complete" controlling software. Revenues and EBIT margin are the key control parameters which are used as a basis for business decisions. Performance indicators which are derived from these figures, such as ROCE, ROI, amortization terms, free cash flow and contribution margins, are also used.

1.4 BASICS OF THE REMUNERATION SYSTEM FOR CORPORATE OFFICERS

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

THE MANAGEMENT BOARD

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

Variable remuneration system for members of the Management Board

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

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

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

THE SUPERVISORY BOARD

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

In the interest of the company, members of the Supervisory Board are covered by a company D&O insurance

In the interest of the company, the members of the Supervisory Board are covered by a company D&O insurance policy with an insured sum of up to EUR 25.0 million, and with no deductible for the insured Supervisory Board members. The insured sum was raised from EUR 20.0 million to EUR 25.0 million effective 1 January 2020 by shareholder resolution of 27 June 2019. Insurance premiums are paid by the company.

1.5 RESEARCH AND DEVELOPMENT

R&D activities play a key role in the company

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

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

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

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

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

International awards and distinctions for innovativeness

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

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

As part of the strategy development process, interdisciplinary teams comprised of employees from development, sales, plant and process development, depending on the market segment and application, analyze market data in light of identified trends. This ensures that new applications, processes and products are implemented in a timely manner, in conformance with the strategy.

R&D activities in the 2019 reporting year were once again marked in particular by challenges relating to electric mobility

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

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

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

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

Significantly expanded pilot production plant went online in Schwandorf in the third quarter of 2019

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

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

2. FINANCIAL REPORT

2.1 MACROECONOMIC AND INDUSTRY-RELATED CONDITIONS

2.1.1 MACROECONOMIC SITUATION

International Monetary Fund forecast for 2019 revised downwards several times

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

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

Germany's GDP grew by 0.5% in 2019

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

2.1.2 INDUSTRY SITUATION

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

The long-term trend of growing demand for non-halogenated flame retardant fillers remains intact

The long-term trend of growing demand for non-halogenated flame retardant fillers, and aluminum hydroxide in particular, remains intact. Independent market forecasts call for annual global demand growth of 4.2% through 2025 (ATH-based, source: Frost & Sullivan, 2019). Market growth is stimulated above all by the growing public awareness as to the need for fire safety as well as the ongoing replacement of potentially hazardous flame retardants with eco-friendly, halogen-free aluminum hydroxide. This trend has had a particularly positive effect on the fine precipitated aluminum hydroxide product segment. The long-term outlook for boehmite is also excellent, in the estimation of Nabaltec AG, with a wide variety of applications, above all in electric vehicles. We expect European production of lithium ion batteries to ramp up in the next two to three years. As a result, the total potential for boehmite will be realized only gradually.

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

2.2 COURSE OF BUSINESS

Nabaltec AG's revenue growth slowed slightly in Financial Year 2019

Nabaltec AG posted slight growth in Financial Year 2019 as its revenue growth slowed slightly. Consolidated revenues were up 1.3% over the previous year, to EUR 179.0 million (2018: EUR 176.7 million). After very strong performance in the first three quarters, with revenues up from the year before in each quarter, revenues in the fourth quarter were down sharply from the fourth quarter of 2018, by 8.7%. Especially in December, the very weak environment in some sectors of the economy combined with customers' expectations that prices will drop in 2020 resulted in an unexpected sales slump in both product segments, "Functional Fillers" and "Specialty Alumina."

Revenues in the "Functional Fillers" product segment amounted to EUR 122.2 million in 2019, up 6.6% from the previous year (2018: EUR 114.6 million). Revenues in the boehmite product area grew at an especially fast pace, climbing 54.3% from the previous year and accounting for around 6% of total revenues. Revenues in the "Specialty Alumina" product segment were down 8.5%, to EUR 56.8 million (2018: EUR 62.1 million).

Operating profit (EBIT) was up slightly, climbing by 0.5% to EUR 18.6 million (2018: EUR 18.5 million). Nabaltec posted an EBIT margin (EBIT as a percentage of total performance) of 10.2%.

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

2.3 OVERVIEW OVER THE COURSE OF BUSINESS

2.3.1 EARNINGS POSITION

Nabaltec Group earned EUR 179.0 million in revenues in Financial Year 2019, for a slight 1.3% gain from the year before (2018: EUR 176.7 million). The key revenue drivers in 2019 were the optimized product mix and price effects which the company was able to successfully implement.

The first three quarters of 2019 were up substantially from the same quarters of the previous year

The quarterly results show that revenues weakened significantly in the fourth quarter. Revenues in each of the first three quarters of 2019 were up substantially from the same quarter of the previous year. Revenues in the first quarter of 2019 were EUR 48.5 million, up 7.3% from the already very strong value of EUR 45.2 million posted in the same quarter of the previous year. Revenues in the second quarter amounted to EUR 49.0 million, up from the same quarter of the previous year (by 5.4%) and from the previous quarter as well. Revenues in the third quarter came to EUR 43.9 million, for a slight 0.9% gain over the same period of the previous year. But in the fourth quarter of 2019, revenues were down significantly from the same quarter of the previous year, falling by 8.7% to EUR 37.8 million.

The export ratio was up on the year, climbing from 73.8% in the previous year to 76.4% in 2019. While growth in Germany weakened slightly, revenue growth was higher in the rest of Europe especially.

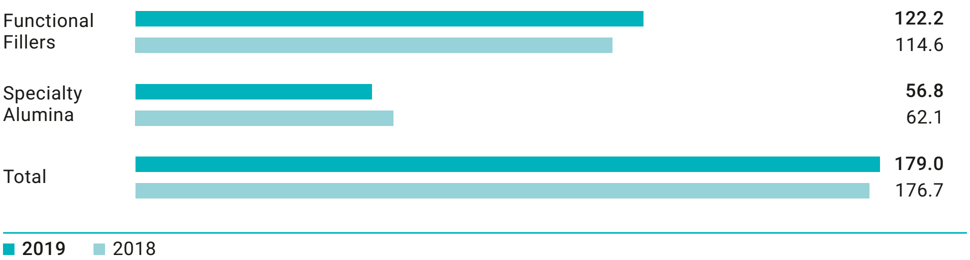
Incoming orders amounted to EUR 162.3 million for the year as a whole, compared to EUR 172.7 million in the previous year. Nabaltec ended the year 2019 with EUR 35.9 million in orders on hand, compared to EUR 52.6 million in the year before. This change reflected the fact that customers have been placing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

"Functional Fillers" product segment up 6.6% from the previous year

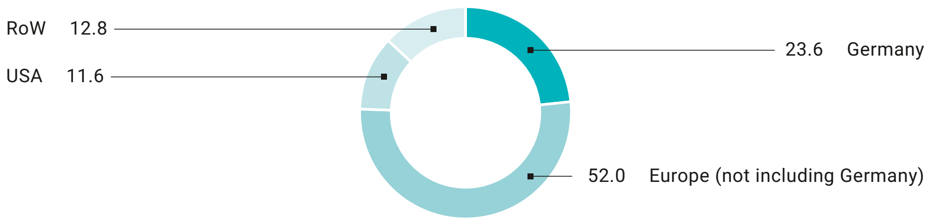
Revenues in the "Functional Fillers" product segment amounted to EUR 122.2 million in Financial Year 2019, up 6.6% from the previous year, when revenues came to EUR 114.6 million. This growth is largely attributable to an optimized product mix, as well as price increases. Revenues in the boehmite product area were up throughout the year, as revenues were up 54.3% over the previous year, an especially fast pace (Boehmite revenues accounted for around 6% of total revenues).

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

REVENUES BY PRODUCT SEGMENT, 2019 (IN EUR MILLION)



REVENUES BY REGION, 2019 (IN %)



Total performance up 2.4% in 2019

Nabaltec AG's total performance was up 2.4% in 2019, from EUR 177.4 million to EUR 181.7 million. This growth is primarily attributable to revenue growth and increases in inventories.

Other operating income decreased from EUR 3.1 million in the previous year to EUR 1.5 million in 2019 and consisted primarily of exchange rate gains and other income from services and deliveries to third parties. The EUR 0.9 million payment for the restructuring of Nashtec LLC, which was included in other operating income in 2018, was no longer included in 2019.

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

	2019	2018
Cost of materials	46.5	48.6
Personnel expenses	19.6	18.6
Other operating expenses	17.0	17.3

Gross earnings up EUR 4.5 million from the year before

The cost of materials ratio (cost of materials as a percentage of total performance) decreased to 46.5% (2018: 48.6%). The gross earnings ratio (gross earnings as a percentage of total performance) was up slightly, from 53.2% to 54.4%, driven primarily by price increases in Financial Year 2019 and improvements in the product mix. In absolute terms, gross earnings amounted to EUR 98.8 million, up EUR 4.5 million from last year's value of EUR 94.3 million.

The personnel expense ratio (personnel expenses as a percentage of total performance) increased from 18.6% in the previous year to 19.6% in 2019. The number of Group employees increased from 496 on 31 December 2018 to 514 on 31 December 2019.

Other operating expenses increased slightly, from EUR 30.7 million to EUR 30.9 million, due primarily to repair costs. The ratio of other operating expenses to total performance decreased slightly, from 17.3% in the previous year to 17.0%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were up 5.6%, from EUR 30.6 million to EUR 32.3 million.

Adjusting for EUR 13.7 million in depreciation and amortization in Financial Year 2019, Nabaltec's operating profit (EBIT) came to EUR 18.6 million, compared to EUR 18.5 million in the year before.

EBIT (IN EUR MILLION)

Earnings before taxes (EBT) amounted to EUR 15.9 million in the reporting year (2018: EUR 15.8 million). This includes net interest income of EUR –2.7 million in 2019, with EUR 2.8 million in interest expenses and EUR 0.1 million in interest income. In the previous year, net interest income was at the same level.

Tax expenses came to EUR 5.2 million in Financial Year 2019 (2018: EUR 5.5 million) and include EUR –1.0 million in deferred taxes (2018: EUR –0.7 million).

Consolidated earnings came to EUR 10.7 million last year, compared to EUR 10.3 million the year before. Earnings per share increased from EUR 1.17 in 2018 to EUR 1.22 in the reporting year.

Earnings per share was EUR 1.22

Segment report: developments in the product segments

FUNCTIONAL FILLERS (IN EUR MILLION)

	2019	2018
Revenues	122.2	114.6
EBITDA	22.1	19.1
EBIT	11.9	10.5
Investments	15.3	23.5

Revenues in the "Functional Fillers" product segment were up 6.6% in 2019, to EUR 122.2 million. The fundamental market drivers for Nabaltec products remained intact in Financial Year 2019 and offer excellent prospects for the future. Non-halogenated flame retardant fillers remain on the rise worldwide due to their eco-friendly nature.

The fundamental market drivers for Nabaltec products were intact in 2019

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

EBITDA increased by 15.7% in the reporting year, from EUR 19.1 million to EUR 22.1 million.

“Functional Fillers” product segment was the focus of investments in 2019

The “Functional Fillers” product segment was the focus of investments within Nabaltec Group in 2019, accounting for around 77% of total investments, which were made primarily for the construction of production facilities at Naprotec LLC in the US, increasing capacity in the boehmite product area, further optimizing production processes, improving infrastructure and replacement investments at the Schwandorf site.

SPECIALTY ALUMINA (IN EUR MILLION)

	2019	2018
Revenues	56.8	62.1
EBITDA	10.3	11.5
EBIT	6.7	8.0
Investments	4.7	3.6

Revenues in the “Specialty Alumina” product segment decreased by 8.5% in the reporting year, from EUR 62.1 million to EUR 56.8 million. This change was particularly attributable to the downturn in the European steel industry and the resulting weakening in the refractory industry.

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

EBITDA in the "Specialty Alumina" product segment was down 10.4% from the year before, from EUR 11.5 million to EUR 10.3 million.

Around 23% of total investments went into the "Specialty Alumina" product segment, primarily into expanding capacity for high value-added products and optimizing production processes.

2.3.2 LIQUIDITY POSITION

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

Fluctuations in exchange rates are neutralized in most cases

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

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

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

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

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

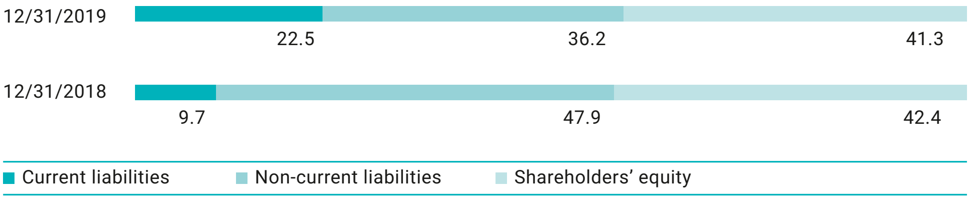
2.3.2.1 CAPITAL STRUCTURE

Equity ratio of 41.3%

Nabaltec AG's capital stock is EUR 8.8 million. Consolidated shareholders' equity increased to EUR 98.9 million as of 31 December 2019, up from EUR 95.8 million on 31 December 2018. The equity ratio was 41.3% on 31 December 2019. This represents a very strong capital base by industry standards.

Non-current liabilities amounted to EUR 86.7 million on 31 December 2019, compared to EUR 108.3 million at the end of 2018. Current liabilities increased from EUR 21.8 million on 31 December 2018 to EUR 53.9 million. This was due to the reclassification of non-current liabilities as current liabilities in light of the fact that the first tranche of the 2015 loan against borrower's note, in the amount of EUR 31.0 million, is due for repayment in April 2020.

LIABILITIES STRUCTURE (IN %)



Other off-balance sheet financing instruments

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

2.3.2.2 INVESTMENTS

Nabaltec made EUR 20.0 million in investments in 2019

Nabaltec Group made EUR 20.0 million in investments last year, compared to EUR 27.1 million the year before. Around 40% of the investments went towards projects in the US, with a clear focus on building production capacity at Naprotec LLC, and to Nashtec LLC to compensate for losses due to operational difficulties. Around 60% of investments went to the Schwandorf site, particularly in technical equipment and machinery for capacity expansion, infrastructure, process optimization and replacement investments.

2.3.2.3 CASH FLOW

Nabaltec Group's operating cash flow increased sharply in 2019, from EUR 16.1 million to EUR 22.4 million. This was particularly attributable to the increase in depreciation and changes in working capital, as well as the stable earnings trend. The decrease in trade receivables and other assets and the increase in trade payables and other liabilities had the effect of increasing cash flow. The increase in inventories, due above all to the resumption of production in the US, had the opposite effect.

Spending on investments decreased from EUR 27.1 million in the year before to EUR 20.0 million. Around one third of the total went towards investments in Naprotec LLC in the US. Various projects at the Schwandorf site were also a focus of investment in 2019.

A dividend payout in the amount of EUR 1.8 million took place in 2019

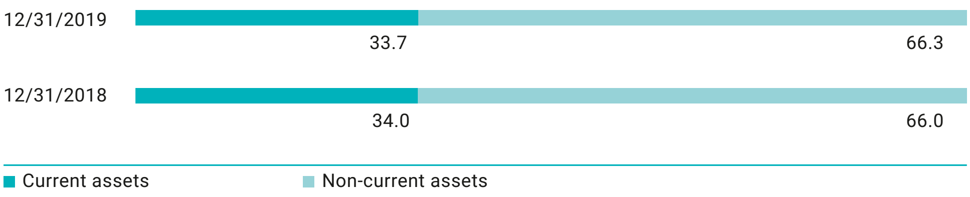
Net cash flow from financing activity was EUR –3.7 million in 2019, compared to EUR –4.6 million in 2018. As planned, no amortization payments were made in 2019. A dividend payout in the amount of EUR 1.8 million took place in the year just closed. Interest paid in the reporting year amounted to EUR 2.0 million.

Nabaltec Group's total funds, consisting of the sum of cash and cash equivalents, amounted to EUR 29.0 million on 31 December 2019, compared to EUR 30.3 million on the reporting date of the year before.

2.3.2.4 FINANCIAL POSITION

Total assets increased from EUR 225.9 million on 31 December 2018 to EUR 239.6 million.

ASSET STRUCTURE (IN %)



As part of assets, property, plant and equipment increased to EUR 155.6 million, up from EUR 148.4 million the year before. Total non-current assets amounted to EUR 158.8 million in 2019, accounting for 66.3% of total assets as of 31 December 2019, while current assets amounted to 33.7% of total assets.

2.4 FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.4.1 FINANCIAL PERFORMANCE INDICATORS

Revenue growth and EBIT margin are used as key performance indicators

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

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

Other ratios used by Nabaltec AG:

RETURN ON SALES AND CAPITAL (IN %)

	2019	2018
Return on equity	10.8	10.8
Return on capital employed (ROCE)	9.9	10.6

Return on equity, consisting of the ratio of Group profit to equity, amounted to 10.8% in the reporting year, on par with the year before.

Return on Capital Employed (ROCE) is the ratio of EBIT to capital employed (non-current assets + working capital). In the reporting period, this figure amounted to 9.9%, compared to 10.6% in the previous year.

2.4.2 NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Trainee ratio of 10.3% in 2019, well above the industry average

At the end of 2019, Nabaltec Group had a total of 514 employees (31 December 2018: 496), of whom 498 work in Germany (31 December 2018: 485). This figure also includes 53 trainees (31 December 2018: 56). Nabaltec sets a high value on good training. In 2019 as well, the trainee rate represented a remarkably large share of the workforce, 10.3%. This rate again exceeded the industry average significantly in 2019. Nabaltec's trainees are regularly among the best of their class. Training positions are currently available for industrial clerks, IT clerks, chemical laboratory technicians, chemists, electrical mechanics specialists and industrial mechanics specialists, as well as for chemicals production workers.

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

Customer Relations

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

Distribution subsidiary in Shanghai generates initial sales in the reporting year

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

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

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

Nabaltec products are deliberately developed to meet customer needs

A basic prerequisite for Nabaltec’s market success is products which are specifically developed and optimized to meet customers’ requirements, and which are supplied in the needed quantities over long periods of time in stable to consistently optimal quality. Joint development projects often result in long-term supply contracts and lasting relationships. Particularly for new products, Nabaltec often undergoes long and intensive approval procedures with its customers. In most cases, the successful conclusion of these procedures results in long-term supply agreements. Nabaltec confronts customer requirements in the fields of e-mobility and lithium ion battery applications with a high density of communications, e.g. in its subsidiaries, and through the quick deployment of working groups, which take on a variety of tasks in close cooperation with customers, such as quality management, ensuring reliable delivery and optimizing products. Process development and approval procedures continue to be expedited in order to promote the successful development of e-mobility operations in particular.

Management Systems

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

Nabaltec introduced a certified energy management system in 2010

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

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

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

Environmental Protection

Conservation of natural resources is a major concern for Nabaltec

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

Technical ceramics materials are recycled and reintroduced into the production process, a practice which contributes to the sustainable use of raw materials. In addition, a very substantial percentage of Nabaltec's energy requirements are met through renewable energy in collaboration with the Schwandorf special-purpose association for waste recycling. By obtaining thermal energy from the neighboring waste-to-energy plant in the form of steam and electricity, Nabaltec AG is doing its part to reduce CO_2 emissions.

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

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

Capital Market

Nabaltec's access to the capital market is intact

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

3. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

3.1 OUTLOOK

OVERALL STATEMENT ON THE PROSPECTIVE DEVELOPMENT

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

Nabaltec foresees largely intact sales markets for its own products in 2020

ECONOMIC AND SECTOR CONDITIONS

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

But production growth in the industrialized economies will continue to be modest. Although an expansive monetary policy and a rebound in global trade will have a positive economic impact, particularly in the Euro zone and Japan, production growth will be diminished somewhat when the fiscal stimulus in the US expires. Conditions for international trade continue to pose a risk to economic performance: if these conditions continue to get noticeably worse, investments may be weighed down as a result. The International Monetary Fund expects growth in the Euro zone to pick up slightly, with the growth rate climbing by 0.1 percentage points to 1.3%.

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

GDP GROWTH FORECAST OVER PRIOR YEAR (IN %)

	2020	2021
World	3.1	3.4
USA	1.5	1.7
Euro zone	1.2	1.5
Germany	0.7	1.5
France	1.4	1.4
Italy	0.6	0.8
United Kingdom	0.6	1.4
Japan	0.8	1.1
China	5.9	5.7
India	6.3	6.6

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

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

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

OUTLOOK ON THE COURSE OF BUSINESS

Starting in the second quarter of 2020, Naprotec LLC will begin production of ground hydrates with a capacity of 30,000 tons per year

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

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

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

EXPECTED EARNINGS, NET ASSETS AND FINANCIAL POSITION

Nabaltec is expecting modest revenue growth in 2020

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

Macroeconomic risks lie primarily in the as yet unforeseeable development and the measures to contain coronavirus

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

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

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

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

Nabaltec expects investments in 2020 to be down from the year before. The priority will be investments in the completion of Naprotec LLC, process optimization and improvements to infrastructure in Schwandorf, as well as measures to increase capacity at certain points.

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

NOTE WITH RESPECT TO UNCERTAINTIES IN THE OUTLOOK

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

3.2 RISKS AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

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

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

Nabaltec is constantly working to develop the company's risk management system. The continuous optimization of risk prevention tools in all areas enables the early identification and elimination of business risks. Integral elements include risk management as an ongoing process, risk controlling, extensive communication and documentation processes, as well as an internal monitoring system. All discernable internal and external risks are identified, documented, assessed and included in a risk matrix as efficiently as possible. This risk matrix represents the basic framework for the assessment of potential risks and for the identification of key risks.

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

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

Risk management also includes routinely reviewing the efficiency of applied hedging instruments and the reliability of controlling systems. There is insurance coverage for casualty and liability risks, thus limiting the financial consequences for the company's liquidity, financial position and earnings as well as preventing situations that could jeopardize the continued existence of the company.

SALES MARKET

The 2008/2009 international economic crisis showed that a shock in demand such as was seen then can have far-reaching consequences in Nabaltec AG's target markets as well. In spite of greater flexibility and adjustments in cost structures and capacities, such high fluctuations in demand can implicate noticeable volume and margin risks. Additional sales risks include the potential loss of significant key accounts, loss of market share due to technological innovation and new advances by competitors. Due to Nabaltec's strong position as an innovation leader and reliable supplier, as well as continuous monitoring of target markets, such risks can be confined and the relevant market mechanisms can, at the same time, be used as an opportunity within global competition.

PROCUREMENT MARKET

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

Nabaltec monitors its suppliers' economic situation very closely and deliberately builds up alternatives for all products. Nabaltec AG uses mid- and long-term supply agreements for its supply of raw materials. Supply of the energy sources which are most important for the production process, such as electricity, gas and steam, is secured by long-term agreements. The certification of the energy management system in accordance with ISO 50001 supports these efforts. In addition, efforts are constantly being made to optimize production processes in order to reduce specific energy usage. An additional risk is an excessive increase in logistics costs. Nabaltec AG can counter this risk by passing on logistics costs to customers and by finding a balanced logistical mix. For example, Nabaltec AG has its own railway siding, which makes transport by rail very attractive.

FINANCIAL MARKET

Swaps are used to hedge against changes in interest rates

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

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

PERSONNEL

Intensive continuing education and management training programs

Particularly the fluctuation of employees in key positions gives rise to personnel risks. Nabaltec minimizes these risks through intensive training/education and management trainee programs to enhance the qualification of employees, performance-based remuneration, employee substitution arrangements that govern the temporary replacement of key employees, and early advance plans for successors. The company also offers good career opportunities and advancement possibilities. Nabaltec's market position, the reputation it has earned in the industry, its high reliability and its familiar strong focus on research and development make Nabaltec an attractive employer within its market segments and region.

PRODUCTION, PROCESSES AND IT

Production-specific risks are clear and manageable

Nabaltec has an integrated quality management system with ISO 9001 accreditation that is implemented companywide. Therefore, Nabaltec considers production-specific risks clear and manageable. For IT applications that are critical for the business, Nabaltec AG relies on standard programs and the redundantly designed high-quality hardware. Through regular verification of the access structure, data protection is guaranteed; data security is therefore based on generally established procedures. Compliance with data protection policies based on the legal requirements is ensured at all times within the company and is additionally monitored by an external data protection officer.

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

ENVIRONMENTAL PROTECTION

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

TECHNOLOGICAL DEVELOPMENT

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

LEGAL FRAMEWORK

Statutory conditions at the moment are creating additional market opportunities

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

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

CORONAVIRUS

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

OVERALL ASSESSMENT

Group-risks are well managed

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

Schwandorf, 23 March 2020

Nabaltec AG
The Management Board

JOHANNES HECKMANN | GÜNTHER SPITZER | DR. MICHAEL KLIMES

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2019	1/1/ – 12/31/2018
Revenues	5.1	179,034	176,743
Change in inventories of finished goods and work in progress		1,877	0
Own work capitalized	5.2	772	706
Total performance		**181,683**	**177,449**
Other operating income	5.3	1,543	3,072
Cost of materials	5.4	–84,433	–86,267
Gross earnings		**98,793**	**94,254**
Personnel expenses	5.5	–35,596	–32,989
Depreciation	5.7	–13,713	–12,121
Other operating expenses	5.8	–30,856	–30,677
Operating profit (EBIT)		**18,628**	**18,467**
Interest and similar income	5.10	132	111
Interest and similar expenses	5.11	–2,817	–2,816
Earnings before taxes (EBT)		**15,943**	**15,762**
Taxes on income	5.12	–5,242	–5,476
Net after-tax earnings		**10,701**	**10,286**
Earnings per share (in EUR)[1]	7.5	**1.22**	**1.17**

[1] *also see 6.8*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	See Notes	1/1/ – 12/31/2019	1/1/ – 12/31/2018
Net after-tax earnings		**10,701**	**10,286**
Items which may be reclassified to profit and loss in the future			
Currency translation (after taxes)		704	1,334
Net income from hedge accounting (after taxes)		388	198
Total		**1,092**	**1,532**
Items which will not be reclassified to profit and loss in the future			
Actuarial gains and losses (after taxes)		−6,875	1,012
Total		**−6,875**	**1,012**
Other comprehensive income		**−5,783**	**2,544**
Total comprehensive income		**4,918**	**12,830**

CONSOLIDATED BALANCE SHEET

FOR 31 DECEMBER 2019

ASSETS

in TEUR	See Notes	12/31/2019	12/31/2018
Non-current assets		**158,831**	**148,964**
Intangible assets			
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets (including advance payments)	6	502	509
Property, plant and equipment		155,563	148,377
Land, leasehold rights and buildings, including buildings on unowned land	6.2	47,237	38,641
Technical equipment and machinery	6.2	90,902	71,158
Other fixtures, fittings and equipment	6.2	4,079	3,657
Advance payments and assets under construction	6.2	13,345	34,921
Financial assets		78	78
Shares in affiliated companies	6.3	78	78
Deferred tax assets	5.12	2,688	0
Current assets		**80,761**	**76,915**
Inventories		40,502	34,624
Raw materials and supplies	6.4	23,871	20,609
Work in process	6.4	1,029	880
Finished goods and merchandise	6.4	15,602	13,135
Other assets and accounts receivable		11,275	12,002
Trade receivables	6.5	5,582	4,459
Other assets	6.6	5,693	7,543
Cash and cash equivalents	6.7	28,984	30,289
TOTAL ASSETS		**239,592**	**225,879**

LIABILITIES

in TEUR	See Notes	12/31/2019	12/31/2018
Shareholders'equity		**98,945**	**95,787**
Subscribed capital	6.8	8,800	8,800
Capital reserve	6.8	47,029	47,029
Earnings reserve	6.8	9,699	9,699
Profit carry-forward		40,391	31,865
After-tax earnings		10,701	10,286
Other changes in equity with no effect on profit and loss	6.8	−17,675	−11,892
Non-current liabilities		**86,711**	**108,326**
Pension reserves	6.9	46,373	36,052
Other provisions	6.9	1,378	1,153
Accounts payable to banks	6.10	38,960	70,417
Deferred tax liabilities	5.12	0	704
Current liabilities		**53,936**	**21,766**
Accounts payable from income taxes	6.10	3,122	2,183
Other provisions	6.9	187	185
Accounts payable to banks	6.10	31,924	529
Trade payables	6.10	13,395	12,643
Other accounts payable	6.10	5,308	6,226
TOTAL LIABILITIES		**239,592**	**225,879**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

CONSOLIDATED CASH FLOW STATEMENT

in TEUR		See Notes	1/1/ – 12/31/2019	1/1/ – 12/31/2018
Cash flow from operating activity				
Earnings before taxes			**15,943**	**15,762**
+	Depreciation of fixed assets	5.7	13,713	12,121
–/+	Other income/expenses with no effect on cash flow		0	–926
–/+	Income/loss from the disposal of assets		8	1
–	Interest income	5.10	–132	–111
+	Interest expenses	5.11	2,817	2,816
Net operating income before changes in working capital			**32,349**	**29,663**
+/–	Increase/decrease in provisions		184	147
–/+	Increase/decrease in trade receivables and other assets not attributable to investment or financing activity		727	–2,437
+/–	Increase/decrease in inventories		–5,878	–1,621
+/–	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity		272	–3,749
Cash flow from operating activity before taxes			**27,654**	**22,003**
–	Income taxes paid		–5,286	–5,948
Net cash flow from operating activity			**22,368**	**16,055**

CONSOLIDATED CASH FLOW STATEMENT

in TEUR		See Notes	1/1/ – 12/31/2019	1/1/ – 12/31/2018
Cash flow from investment activity				
+	Payments received from the disposal of property, plant and equipment		0	10
–	Payments made for investments in property, plant and equipment	6.2	–19,854	–26,906
–	Payments made for investments in intangible assets	6.1	–168	–218
Net cash flow from investment activity			**–20,022**	**–27,114**
Cash flow from financing activity				
–	Payments made for dividends		–1,760	–1,584
–	Payments made for the amortization of loans	6.10	0	–1,000
–	Interest paid		–2,036	–2,080
+	Interest received		63	43
Net cash flow from financing activity			**–3,733**	**–4,621**
Net change in cash and cash equivalents			**–1,387**	**–15,680**
Change in funds due to changes in exchange rates			**82**	**52**
Funds at start of period		6.7	30,289	45,917
Funds at end of period		6.7	**28,984**	**30,289**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholders' equity attributable to shareholders of Nabaltec AG		
in TEUR	Subscribed capital	Capital reserve	Earnings reserve
1 January 2018	**8,800**	**47,029**	**9,721**
Dividend payments	–	–	–
Other changes in equity with no effect on profit and loss	–	–	–22
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	**–**	**–**	**–**
31 December 2018	**8,800**	**47,029**	**9,699**
1 January 2019	**8,800**	**47,029**	**9,699**
Dividend payments	–	–	–
Actuarial gains and losses	–	–	–
Currency translation	–	–	–
Net income from hedge accounting	–	–	–
Other comprehensive income	–	–	–
Net income after taxes	–	–	–
Net income	**–**	**–**	**–**
31 December 2019	**8,800**	**47,029**	**9,699**

Profit carry-forward	Other changes in equity with no effect on profit and loss	Consolidated shareholders' equity
33,449	**–14,436**	**84,563**
–1,584	–	–1,584
–	–	–22
–	1,012	1,012
–	1,334	1,334
–	198	198
–	2,544	2,544
10,286	–	10,286
10,286	**2,544**	**12,830**
42,151	**–11,892**	**95,787**
42,151	**–11,892**	**95,787**
–1,760	–	–1,760
–	–6,875	–6,875
–	704	704
–	388	388
–	–5,783	–5,783
10,701	–	10,701
10,701	**–5,783**	**4,918**
51,092	**–17,675**	**98,945**

STATEMENT OF CONSOLIDATED FIXED ASSETS

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

	Cost of acquisition/production					
in TEUR	1/1/2019	Additions	Disposals	Reclassification	Currency differences	12/31/2019
Intangible assets	3,242	**168**	**0**	**0**	**0**	3,410
Concessions, proprietary rights and similar rights and assets, as well as licenses to such rights and assets	3,133	120	0	60	0	3,313
Advance payments	109	48	0	–60	0	97
Property, plant and equipment	265,687	**19,854**	**21**	**0**	**1,230**	286,750
Land, leasehold rights and buildings, including buildings on unowned land	54,030	831	0	9,714	181	64,756
Technical equipment and machinery	164,913	7,919	8	22,234	381	195,439
Other fixtures, fittings and equipment	11,823	1,173	13	209	18	13,210
Advance payments and assets under construction	34,921	9,931	0	–32,157	650	13,345
Financial assets	78	**0**	**0**	**0**	**0**	78
Shares in affiliated companies	78	0	0	0	0	78
Total fixed assets	269,007	**20,022**	**21**	**0**	**1,230**	290,238

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2018

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

Depreciation					Book value	
1/1/2019	Additions	Disposals	Currency differences	12/31/2019	12/31/2019	12/31/2018
2,733	**175**	**0**	**0**	**2,908**	**502**	**509**
2,733	175	0	0	2,908	405	400
0	0	0	0	0	97	109
117,310	**13,538**	**14**	**353**	**131,187**	**155,563**	**148,377**
15,389	2,049	0	81	17,519	47,237	38,641
93,755	10,530	1	253	104,537	90,902	71,158
8,166	959	13	19	9,131	4,079	3,657
0	0	0	0	0	13,345	34,921
0	**0**	**0**	**0**	**0**	**78**	**78**
0	0	0	0	0	78	78
120,043	**13,713**	**14**	**353**	**134,095**	**156,143**	**148,964**

Depreciation					Book value	
1/1/2018	Additions	Disposals	Currency differences	12/31/2018	12/31/2018	12/31/2017
2,562	**171**	**0**	**0**	**2,733**	**509**	**462**
2,562	171	0	0	2,733	400	384
0	0	0	0	0	109	78
104,615	**11,950**	**36**	**781**	**117,310**	**148,377**	**131,677**
13,457	1,751	0	181	15,389	38,641	37,834
83,929	9,268	1	559	93,755	71,158	76,125
7,229	931	35	41	8,166	3,657	3,455
0	0	0	0	0	34,921	14,263
0	**0**	**0**	**0**	**0**	**78**	**78**
0	0	0	0	0	78	78
107,177	**12,121**	**36**	**781**	**120,043**	**148,964**	**132,217**

CONSOLIDATED NOTES

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

1. GENERAL

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

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

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

The present consolidated financial statements were approved by the Management Board on 23 March 2020.

2. ACCOUNTING POLICIES

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

2.1 PRINCIPLES OF ACCOUNTING

The consolidated financial statements for 31 December 2019 (including disclosures for the year before as of 31 December 2018) were prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU, as well as the provisions of the German Commercial Code which are to be observed additionally in accordance with §315e (1) of the German Commercial Code. The IFRS include the International Financial Reporting Standards and International Accounting Standards (IAS) published by the International Accounting Standards Board, as well as the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the consolidated financial statements of Nabaltec AG. All valid standards adopted by the EU were applied for Financial Year 2019.

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

The consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position.

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

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

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

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

2.2 ACCOUNTING STANDARDS APPLIED

All accounting standards whose application is mandatory for annual periods beginning on 1 January 2019 were applied for Financial Year 2019. This particularly includes the following standards and interpretations, which were to be applied for the first time:

- **IFRS 16, "Leases,"** was adopted into European law by the European Union on 31 October 2017 and its application is mandatory as of 1 January 2019. IFRS 16 contains a complete model for the classification and recognition of leases for the lessor and the lessee. IFRS 16 is generally applicable to all leases. Under the Standard, a lease exists if the lessor grants the lessee the right to control an identified asset over a defined period of time in exchange for the payment of consideration by the lessee. For lessees, the former classification of leases as operating and finance leases no longer applies. Instead, lessees will be required in the future to recognize a "right-of-use" (or RoU) asset for all leases, along with a corresponding lease liability. Exceptions to this rule only apply for short-term leases and leases involving low-value assets. The RoU asset is initially recognized in the amount of the lease liability minus lease incentives plus any initial direct costs incurred by the lessee, as well as the cost of disassembling and removing the asset. In subsequent periods, the RoU asset is measured at amortized cost. The lease liability is measured as the present value of lease payments made over the term of the lease. In subsequent periods, the carrying amount of the lease liability is compounded using the discount rate and lease payments made by the lessee are subtracted. Changes in lease payments result in remeasurement of the lease liability.

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

  Nabaltec generally applies IFRS 16 using the modified retrospective approach. Consistent with this approach, comparative financial information was not adjusted. In view of the relative insignificance of leases to Nabaltec Group other than short-term leases or leases of low-value assets, no leases were capitalized as RoU assets and no corresponding lease liabilities were recognized. As a result, there were no changes to the previous lease accounting. Accordingly, adoption of the new Standard did not lead to any adjustments in the statement of comprehensive income or the balance sheet.

- **Amendments to IFRS 9, "Prepayment features with negative compensation":** The amendments relate to a limited adjustment in the relevant criteria for the classification of financial assets. In certain cases, financial assets containing a prepayment feature with negative compensation may be recognized at amortized cost or at fair value through other comprehensive income rather than at fair value through profit and loss. Adoption of the new Standard did not lead to any adjustments in the statement of comprehensive income or the balance sheet.

- **IFRIC 23 "Uncertainty over income tax treatments":** The tax treatment of certain matters and transactions may depend on future recognition by tax courts and authorities. IAS 12 ("income taxes") defines rules for the recognition of actual and deferred taxes. IFRIC 23 supplements the rules in IAS 12 with regard to taking into account uncertainties concerning the income tax treatment of matters and transactions. It had no impact on the consolidated financial statements.

- **Amendments to IAS 19:** The amendments to IAS 19 state that, if a defined-benefit pension plan is amended, curtailed or settled in the future, the current service cost and the interest for the remainder of the year must be remeasured using the actuarial assumptions which were used for remeasurement of the net liability. The IASB has further clarified the impact of a plan amendment, curtailment or settlement on the asset ceiling. Given the scope of application, these amendments had no impact on the consolidated financial statements.

- **Various: Improvements to the International Financial Reporting Standards (2015 – 2017):** The Annual Improvements to IFRSs (2015 – 2017) amended four IFRSs. In IFRS 3, it is clarified that an entity which obtains control over a business in which it had previously held an interest as part of a joint operation is required to apply the principles for business combinations achieved in stages. Previously held interests in the business are remeasured. In IFRS 11, it is stated that, if a party obtains joint control over a business in which it previously held an interest as part of a joint operation, the previously held interest is not remeasured. IAS 12 is amended in order to clarify that the income tax consequences of dividends are to be recognized in the same way as the income on which the dividends are based. Finally, in IAS 23, it is clarified that, if an entity borrows generally for the acquisition of qualifying assets, the cost of borrowings which were undertaken specifically for the acquisition of qualifying assets is not taken into account in calculation of the capitalization rate until their completion. Given the scope of application, these amendments had no impact on the consolidated financial statements.

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

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

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

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

- **Amendments to IFRS 9, IAS 39 and IFRS 7:** On 26 September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 7. In particular, the amendments ease certain requirements with respect to hedge accounting rules and their application is mandatory for all hedges affected by the reform of the IBOR reference interest rate. The amendments are to be applied in reporting periods beginning on 1 January 2020. The Group does not expect these amendments to have a material impact on the consolidated financial statements.

2.3 SUBSIDIARIES AND CONSOLIDATED COMPANIES

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

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

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

NUMBER OF COMPANIES

	2019	2018
Nabaltec AG and fully consolidated subsidiaries		
Domestic	1	1
Foreign	4	4
Unconsolidated subsidiaries		
Foreign	1	1

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

SUBSIDIARIES

			Share of capital and voting rights	
Name of subsidiary	Main business	Registered office	12/31/2019 in %	12/31/2018 in %
Nashtec LLC	Production	Corpus Christi, USA	100.00	100.00
Nabaltec USA Corporation	Administration and distribution	Corpus Christi, USA	100.00	100.00
Naprotec LLC	Production	Chattanooga, USA	100.00	100.00
Nabaltec (Shanghai) Trading Co., Ltd.	Marketing and distribution	Shanghai, China	100.00	100.00

There has been no change to the consolidation base since the consolidated financial statements for 31 December 2018.

In the previous year, Nabaltec AG acquired land and buildings in Chattanooga, Tennessee, for the construction of a production plant for refined hydroxide. Naprotec LLC was formed as a production company for this purpose. The shares in Naprotec LLC were contributed into the newly formed subsidiary Nabaltec USA Corporation in Financial Year 2018. The shares in Nashtec LLC were also contributed into Nabaltec USA Corporation.

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

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

SUBSIDIARIES

Name of subsidiary	Main business	Registered office	Share of capital and voting rights 12/31/2019 in %	Share of capital and voting rights 12/31/2018 in %
Nabaltec Asia Pacific K.K.	Marketing and sales	Tokyo, Japan	100.00	100.00

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

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

2.4 CONSOLIDATION METHODS

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

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

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

2.5 CURRENCY TRANSLATION

The consolidated financial statements are prepared in Euros.

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

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

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

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

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

3. USE OF ASSUMPTIONS AND ESTIMATES

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

These assumptions and estimates relate primarily to the following:

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

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

- **Pensions** and other **post-employment employee benefits**: pension plans are measured based on actuarial calculations. Actuarial measurement is performed based on assumptions with regard to discount rates, expected income from plan assets, future increases in wages and salaries, mortality and future pension increases. Such estimates are subject to considerable uncertainty in view of the long-term nature of these plans. Provisions for pensions and similar obligations amounted to TEUR 46,373 on 31 December 2019 (year before: TEUR 36,052). Further details are presented in Section 6.9, "Other current and non-current provisions."

- Measurement of **other provisions**: provisions are measured using management's best estimate of the amount necessary to settle the current obligation as of the reporting date. As of 31 December 2019, the book value of recognized other provisions was TEUR 187 (year before: TEUR 185). We refer to the explanations in Section 6.9, "Other current and non-current provisions," for further statements and information.

- Recognition of **deferred taxes**: in assessing the realizability of deferred taxes, the Management Board ascertains the likelihood that all deferred tax assets will be realized. The ability to realize deferred tax assets is ultimately contingent upon whether sufficient taxable income is earned in the periods in which temporary differences are deductible. If that is not the case, the deferred tax assets are not used and are therefore not recognized. Deferred tax assets as of 31 December 2019 (prior to netting out with deferred tax liabilities) amounted to TEUR 12,300 (year before: TEUR 7,899).

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

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

4. MAJOR ACCOUNTING POLICIES

4.1 REVENUE REALIZATION

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

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

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

For more detailed information, please see Section 5.1, "Revenues."

4.2 REALIZATION OF EXPENSES

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

4.3 RESEARCH AND DEVELOPMENT COSTS

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

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

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

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

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

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

No development costs were capitalized as of 31 December 2019 (year before: TEUR 0).

4.4 INTANGIBLE ASSETS

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

The depreciation term is as follows:

- IT software 4 – 5 years

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

Intangible assets with an indefinite useful life do not exist.

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

4.5 PROPERTY, PLANT AND EQUIPMENT

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

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

The depreciation terms are as follows:

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

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

4.6 BORROWING COSTS

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

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

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

4.7 GOVERNMENT GRANTS

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

4.8 LEASES WITH THE GROUP AS LESSEE

As of 1 January 2019, the Group makes an evaluation upon the commencement of each contract to determine whether the contract establishes or contains a lease. That is the case if the contract entitles a party to control use of an identified asset in exchange for payment of a fee over a defined period of time.

In accordance with IFRS 16, the Group recognizes right-of-use assets and corresponding lease liabilities at present value, provided those assets or liabilities are material. Exercising the option in accordance with IFRS 16.4, the Group does not apply the new rules to leases of intangible assets.

Nabaltec has resolved to take advantage of the exemption and not to recognize rights of use and lease liabilities based on low-value assets or for short-term leases. The Group recognizes lease payments accruing in connection with leases in straight-line fashion over the term of the lease. Accordingly, the Group recognized no right-of-use assets or corresponding lease liabilities as of 31 December 2019 due to materiality considerations.

The Group applied the accounting methods in accordance with IAS 17 and IFRIC 4 through 31 December 2018. The determination as to whether an agreement is or contains a lease was made based on the economic content of the agreement and required an assessment as to whether performance of the contractual agreement was contingent upon the use of a specific asset or assets and whether the agreement granted a right to use the asset. Finance leases in which all risks and opportunities associated with ownership of the transferred essentially pass to the Group at the start of the lease were recognized at the fair value of the leased object or the present value of minimum lease payments, whichever is lower. When capitalizing a lease asset, finance lease liabilities were recognized in the same amount. No finance lease liabilities existed as of 31 December 2018. Leases in which beneficial ownership cannot be attributed to the Group were classified as operating leases. Operating lease expenses were recognized in the consolidated income statement in straight-line fashion over the term of the lease.

4.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

4.10 FINANCIAL ASSETS

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

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

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

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

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

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

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

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

All financial assets not held at amortized cost or at fair value through other comprehensive income (FVOCI) are recognized at fair value through profit and loss (FVTPL). This includes all derivative financial assets as well as financial instruments held for trading which are voluntarily designated as financial assets at fair value through profit and loss (FVTPL).

INITIAL MEASUREMENT

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

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

SUBSEQUENT MEASUREMENT

Financial assets at amortized cost (AC)

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

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

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

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

In some cases, trade receivables are sold to a factor in order to secure early payment. The affected receivables are derecognized at the time of the sale, since all risks and opportunities associated with ownership of the receivables are transferred to the buyer. The security deposit charged by the factoring partner is recognized under other current financial assets, consistent with the general rules of IFRS 9.

4.11 IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

4.12 INVENTORIES

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

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

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

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

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

4.13 CASH AND CASH EQUIVALENTS

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

4.14 TAXES

Actual taxes on income

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

Deferred taxes

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

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

Deferred tax assets and liabilities were netted out where possible.

4.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING INSTRUMENTS

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

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

4.16 SHAREHOLDERS’ EQUITY

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

4.17 OTHER PROVISIONS

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

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

4.18 PENSION RESERVES

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

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

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

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

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

4.19 FINANCIAL LIABILITIES

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

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

Financial liabilities at fair value through profit and loss

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

Other liabilities

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

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

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

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

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 REVENUES

Revenues are mainly earned from supplying customers with aluminum hydroxide- and aluminum oxide-based products. No other services are provided to customers. Contracts typically come about through individual customer orders. In other words, the contracts consist exclusively of a single performance obligation, i.e. the delivery of goods. A combination of contracts or contractual modifications would not be relevant.

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

Nabaltec has no contracts with multiple performance obligations. Accordingly, there is no need to allocate the transaction price based on stand-alone selling prices.

Revenue is realized at a specific point in time. In particular, no products exist which have no alternative use for the company due to practical or contractual limitations. The point in time at which control over the delivered goods is transferred typically conforms to the time of delivery and/or the contractual date for passage of risk.

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

5.2 OWN WORK CAPITALIZED

Own work in the amount of TEUR 772 (year before: TEUR 706) was capitalized in Financial Year 2019 for various technical equipment and machinery, including capitalized interest in the amount of TEUR 137 (year before: TEUR 199).

5.3 OTHER OPERATING INCOME

Other operating income is comprised as follows:

OTHER OPERATING INCOME

in TEUR	2019	2018
Currency gains	614	824
Payments in kind	227	230
Analysis Center services	183	145
Rent and lease payments	157	152
Supply of industrial water	150	149
Other	76	418
Insurance indemnities	58	152
Warehouse and scrap sales	49	35
HR services	26	25
Siding and track work	3	3
Income from the reversal of other accounts payable	0	926
Government grants	0	6
Income from the disposal of property, plant and equipment	0	5
Allowances on accounts receivable	0	2
Total	**1,543**	**3,072**

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

5.4 COST OF MATERIALS

Cost of materials is comprised as follows:

COST OF MATERIALS

in TEUR	2019	2018
Cost of raw materials, supplies and purchased goods	81,601	83,635
Cost of purchased services	2,832	2,632
Total	**84,443**	**86,267**

5.5 PERSONNEL EXPENSES

Personnel expenses are comprised as follows:

PERSONNEL EXPENSES

in TEUR	2019	2018
Wages and salaries	29,754	27,429
Social security contributions	4,934	4,615
Expenses for pension obligations	713	754
Other pension expenses	195	191
Total	**35,596**	**32,989**

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

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

The company's share of statutory pension insurance contributions, in the amount of TEUR 2,109 (year before: TEUR 1,960), are included in social security contributions, which are paid monthly.

5.6 EMPLOYEES

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

EMPLOYEES

	2019	2018
Industrial workers	258	247
Employees	197	184
Minimally employed workers	4	4
Total	**459**	**435**

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

5.7 DEPRECIATION

Depreciation of fixed assets is evident from the above presentation of the "Statement of Consolidated Fixed Assets".

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

Impairment tests did not indicate a need to write down assets in Financial Year 2019.

5.8 OTHER OPERATING EXPENSES

Other operating expenses are comprised as follows:

OTHER OPERATING EXPENSES

in TEUR	2019	2018
Freight	12,915	12,886
Outside services	7,835	8,082
Sales commissions	3,440	3,294
Lease payments	1,018	987
Insurance	951	842
Other	842	682
Other administrative costs	785	960
Ancillary personnel expenses	617	543
Other taxes	578	401
Travel expenses	563	595
Legal and consulting expenses	525	695
Advertising expenses	402	356
Currency losses	368	348
Losses from the disposal of fixed assets	9	6
Allowances on accounts receivable	8	0
Total	**30,856**	**30,677**

5.9 RESEARCH AND DEVELOPMENT

All research and development costs for the year, in the amount of TEUR 4,106 (year before: TEUR 3,755), were recognized as expenses.

5.10 INTEREST AND SIMILAR INCOME

Interest and similar income is shown in the following table:

INTEREST AND SIMILAR INCOME

in TEUR	2019	2018
Income from plan assets (pension liability insurance)	70	67
Interest income from bank balances	62	44
Total	**132**	**111**

5.11 INTEREST AND SIMILAR EXPENSES

Interest and similar expenses are shown in the following table:

INTEREST AND SIMILAR EXPENSES

in TEUR	2019	2018
Interest expenses to banks	1,140	1,162
Interest expenses from interest rate swaps	898	902
Interest expenses from compounding of provisions	733	707
Interest expenses from other compounding	36	37
Commission on bank guarantees	10	8
Total	**2,817**	**2,816**

5.12 TAXES ON INCOME

Taxes on income break down as follows:

TAXES ON INCOME

in TEUR	2019	2018
Actual taxes:		
Tax expense for current year	6,190	6,072
Tax expense for prior years	45	76
Deferred taxes:		
Accrual and reversal of temporary differences	−3,403	320
Recognized in other comprehensive income not through profit and loss	2,410	−992
Recognized in the capital reserve not through profit and loss	0	0
Total	**5,242**	**5,476**

Taxes on income for Financial Year 2019 consist of current trade and corporate income tax plus the solidarity mark-up.

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

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

	Before taxes		Deferred taxes		After taxes	
in TEUR	2019	2018	2019	2018	2019	2018
Foreign currency translation	961	1,829	–257	–495	704	1,334
Net income from hedge accounting	547	279	–159	–81	388	198
Actuarial gains and losses	–9,701	1,428	2,826	–416	–6,875	1,012
Total	**–8,193**	**3,536**	**2,410**	**–992**	**–5,783**	**2,544**

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

TAX RECONCILIATION OF THE EXPECTED TAX EXPENSE

	2019	2018
Tax rate	**29.13%**	**29.13%**
in TEUR		
Earnings before taxes	**15,943**	**15,762**
Expected tax expense	**4,644**	**4,591**
Deviations		
1. Different foreign tax rate	445	476
2. Adjustments to actual taxes from prior years	46	76
3. Losses in current year for which no deferred taxes were claimed	39	559
4. Non-deductible expenses	69	43
5. Tax effects of consolidation measures	0	–269
6. Other	–1	0
Tax expense recognized in the consolidated income statement	**5,242**	**5,476**

Deferred tax assets and liabilities are as follows:

	Consolidated balance sheet		Consolidated income statement	
in TEUR	**12/31/2019**	**12/31/2018**	**2019**	**2018**
Deferred tax assets				
Other assets	536	526	10	9
Pension reserves	8,790	5,951	2,839	–353
Other provisions	221	171	50	–5
Loss carry-forward	2,311	650	1,661	502
Other	442	601	–159	–62
Gross total, deferred tax assets	**12,300**	**7,899**	**4,401**	**91**
Netting	–9,612	–7,899	0	0
Net total, deferred tax assets	**2,688**	**0**	**4,401**	**91**
Deferred tax liabilities				
Fixed assets	8,356	7,649	–707	108
Inventories	485	426	–59	–41
Other	771	528	–232	–490
Gross total, deferred tax liabilities	**9,612**	**8,603**	**–998**	**–423**
Netting	–9,612	–7,899	0	0
Net total, deferred tax liabilities	**0**	**–704**	**–998**	**–423**

The deferred tax asset in the form of the loss carry-forward is attributable in its entirety to Nabaltec USA Corporation. In general, the tax loss carry-forwards in the US, in the amount of TEUR 11,006 (year before: TEUR 3,096), can be carried forward without limitation for the purposes of federal tax due to a change in tax law.

Such loss carry-forwards are deductible up to 80% of current taxable income.

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

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 INTANGIBLE ASSETS

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

Intangible assets largely consist of IT software and proprietary rights.

No intangible assets had been transferred by way of security as of 31 December 2019, as was the case in the prior year as well.

Material obligations to acquire intangible assets did not exist.

6.2 PROPERTY, PLANT AND EQUIPMENT

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

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

A total of TEUR 137 in borrowing costs were capitalized in Financial Year 2019 (year before: TEUR 199) for the long-term manufacture of various technical equipment, buildings and operating equipment. The average capitalization rate used for the calculation of capitalizable borrowing costs was 2.60% (year before: 2.60%).

6.3 FINANCIAL ASSETS

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

6.4 INVENTORIES

Inventories are comprised as follows:

INVENTORIES

in TEUR	12/31/2019	12/31/2018
Raw materials and supplies	23,871	20,609
Work in process	1,029	880
Finished goods and merchandise	15,602	13,135
Total	**40,502**	**34,624**

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

The impairment of inventories, which is recognized as an expense, amounted to TEUR 475 (year before: TEUR 186).

6.5 TRADE RECEIVABLES

Trade receivables are as follows:

TRADE RECEIVABLES

in TEUR	12/31/2019	12/31/2018
Gross trade receivables	5,738	4,607
Individual allowances	−156	−148
Total	**5,582**	**4,459**

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

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

6.6 OTHER ASSETS

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

OTHER FINANCIAL ASSETS

in TEUR	12/31/2019	12/31/2018
Accounts receivable from factoring	2,691	4,303
Other	943	1,808
Other financial assets	**3,634**	**6,111**

OTHER NON-FINANCIAL ASSETS

in TEUR	12/31/2019	12/31/2018
VAT receivable	1,906	1,248
Accrued assets	153	184
Other non-financial assets	**2,059**	**1,432**
Total	**5,693**	**7,543**

The accounts receivable from factoring recognized as of 31 December 2019, in the amount of TEUR 2,691 (year before: TEUR 4,303), consist primarily of security deposits in connection with factoring arrangements.

As in the previous year, other assets have a residual term of less than one year.

6.7 CASH AND CASH EQUIVALENTS

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

CASH AND CASH EQUIVALENTS

in TEUR	12/31/2019	12/31/2018
Bank balances	28,982	30,287
Cash on hand	2	2
Total	**28,984**	**30,289**

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

For the purposes of the consolidated cash flow statement, there are no differences in cash and cash equivalents as of 31 December 2019.

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

6.8 SHAREHOLDERS' EQUITY

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

Subscribed capital

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

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

Authorized capital

The Management Board, with the Supervisory Board's approval, is authorized by resolution of the shareholders of 30 June 2016 to raise the capital stock through 31 May 2021 once or multiple times by up to TEUR 4,000 by issuing up to 4,000,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions, with the stipulation that the number of shares is to be increased in the same proportion as the capital stock. The Management Board may decide to exclude subscription rights with the approval of the Supervisory Board (Authorized Capital 2016/I).

Following the partial use in 2017 described above, Authorized Capital 2016/I now amounts to TEUR 3,200.

Conditional capital

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

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

No such bonds have been issued to date.

Capital reserve

As of 31 December 2019, the capital reserve amounted to TEUR 47,029 (year before: TEUR 47,029). The capital reserve results in part from the capital increase executed in September 2017. With an issue price of EUR 23.00 per share, the capital increase generated a premium in the amount of TEUR 17,600. At the same time, transaction costs in the amount of TEUR 335 (after taxes) were subtracted from shareholders' equity. The capital reserve also includes a premium from the IPO, which took place in 2006. This resulted from the issuance of 2,000,000 shares at a price of EUR 15.50 per share, with each share representing EUR 1.00 of the capital stock, so that a premium of EUR 14.50 was charged per share, for a total of TEUR 29,000.

Earnings reserves

As of 31 December 2019, earnings reserves amounted to TEUR 9,699 (year before: TEUR 9,699).

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

The Management Board will propose a dividend payout in the amount of EUR 0.20 per share for Financial Year 2019 from Nabaltec AG's distributable profit, determined based on the principles of German commercial law, for a total distribution of TEUR 1,760.

Other changes in equity with no effect on profit and loss

Differences arising from currency translation, changes in the market value of derivative financial instruments for which hedge accounting is used, actuarial gains and losses from pension reserves and from corresponding deferred taxes are recognized separately in shareholders' equity under "other changes in equity with no effect on profit and loss." As of 31 December 2019, other changes in equity with no effect on profit and loss amounted to a cumulative total of TEUR –17,675 (year before: TEUR –11,892).

6.9 OTHER CURRENT AND NON-CURRENT PROVISIONS

The development of provisions is shown in the tables below:

FINANCIAL YEAR 2019

in TEUR	1/1/2019	Transfer	Use	Reversal	12/31/2019
Provisions for personnel expenses	1,153	258	33	0	1,378
Other provisions	185	180	178	0	187
Total	**1,338**	**438**	**211**	**0**	**1,565**

FINANCIAL YEAR 2018

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

Provisions for personnel expenses, in the amount of TEUR 1,378 (year before: TEUR 1,153), consist of anniversary pay obligations. These obligations were measured using the projected unit credit method, in which anniversary pay obligations are funded by single premiums for the annual growth in vested rights, with due regard for trend assumptions. As a biometric foundation for the calculation, the 2018 G benchmark tables of Prof. Dr. Klaus Heubeck were used. The measurement was also based on the assumption of an actuarial interest rate of 0.80%, a salary trend of 2.75% and a fluctuation rate of 1.00%.

Pension reserves

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

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

PENSION EXPENSES

in TEUR	2019	2018
Current service cost	713	754
Net interest expense	678	657
Pension expenses	**1,391**	**1,411**
Actual income from plan assets	57	56

The net interest expense is comprised of the interest expense, in the amount of TEUR 712 (year before: TEUR 688), less expected income from plan assets in the amount of TEUR 34 (year before: TEUR 31). The interest share of the funds transferred to pension reserves and income from plan assets is recognized in net interest income. Actuarial gains and losses are recognized in other comprehensive income and have developed as follows:

DEVELOPMENT OF ACTUARIAL GAINS/LOSSES

in TEUR	
Actuarial gains/losses on 1 January 2018	–16,598
Gains from changes in biometric and financial assumptions	536
Experience gains	868
Income from plan assets	24
Actuarial gains/losses on 31 December 2018	**–15,170**
Losses from changes in biometric and financial assumptions	–9,226
Experience losses	–497
Income from plan assets	22
Actuarial gains/losses on 31 December 2019	**–24,871**

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

DEFINED BENEFIT OBLIGATIONS

in TEUR	
Defined benefit obligations on 1 January 2018	38,580
Interest expense	688
Current service cost	754
Benefits paid	–759
Actuarial gains/losses	–1,404
Defined benefit obligations on 31 December 2018	**37,859**
Interest expense	712
Current service cost	713
Benefits paid	–795
Actuarial gains/losses	9,723
Defined benefit obligations on 31 December 2019	**48,212**

Of the TEUR 48,212 in defined benefit obligations as of 31 December 2019 (year before: TEUR 37,859), a sum in the amount of TEUR 15,561 (year before: TEUR 12,586) is covered by pension liability insurance with a premium reserve of TEUR 1,839 (year before: TEUR 1,807).

Pension payments in the amount of approximately TEUR 819 are expected in Financial Year 2020 and TEUR 835 in Financial Year 2021.

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

FAIR VALUE OF PLAN ASSETS

in TEUR	
Fair value of plan assets on 1 January 2018	1,776
Employer contributions	36
Benefits paid	–60
Expected returns	31
Actuarial gains/losses	24
Fair value of plan assets on 31 December 2018	**1,807**
Employer contributions	36
Benefits paid	–60
Expected returns	34
Actuarial gains/losses	22
Fair value of plan assets on 31 December 2019	**1,839**

Plan assets consist of the asset value of a pension liability insurance policy, which is to be treated as part of plan assets pursuant to IAS 19.7 (b). The Group expects contributions to plan assets to total TEUR 36 in Financial Year 2020.

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

in TEUR	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Fair value of plan assets	1,839	1,807	1,776	1,746	1,616
Present value of defined benefit liability	48,212	37,859	38,580	39,822	29,567
Pension reserves	46,373	36,052	36,804	38,076	27,951

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

in %	2019	2018
Discount rate	0.80	1.90
Salary trend	2.75	2.75
Pension trend	2.00	2.00
Fluctuation	1.00	1.00

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

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

PENSION LIABILITY

in TEUR	+25 BP	–25 BP
Discount rate	45,861	50,736
Salary trend	48,680	47,753
Pension trend	50,078	46,443

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

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

6.10 CURRENT AND NON-CURRENT ACCOUNTS PAYABLE

BOOK VALUES

in TEUR		Book value	thereof term < 1 year	thereof term 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2019	70,884	31,924	38,960	0
	12/31/2018	70,946	529	70,417	0
Trade payables	12/31/2019	13,395	13,395	–	–
	12/31/2018	12,643	12,643	–	–
Accounts payable from income taxes	12/31/2019	3,122	3,122	–	–
	12/31/2018	2,183	2,183	–	–
Other accounts payable	12/31/2019	5,308	5,308	–	–
	12/31/2018	6,226	6,226	–	–
Total	**12/31/2019**	**92,709**	**53,749**	**38,960**	**0**
	12/31/2018	**91,998**	**21,581**	**70,417**	**0**

Accounts payable to banks

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

Nabaltec AG’s loan contracts are subject to covenants which are measured by leverage coverage ratios such as equity ratio. If the covenants are breached, the lender has the option of raising the interest margins or it may exercise its right of extraordinary termination. None of the covenants in effect as of 31 December 2019 were breached in the 2019 reporting year.

The first tranche of the 2015 loan against borrower’s note, in the amount of TEUR 31,000, will be due for repayment in April 2020. The Group secured its ability to repay this loan by entering into an agreement in the fourth quarter of 2019 for a bilateral loan with a volume of TEUR 20,000, to be paid out in April 2020, and by extending its overdraft lines by TEUR 20,000.

Trade payables

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

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

Accounts payable from income taxes

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

Other accounts payable

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

OTHER ACCOUNTS PAYABLE

in TEUR	12/31/2019	12/31/2018
Negative market values from interest rate swaps	1,448	1,996
Other	101	244
Professional association	31	198
Financial statements and auditing	196	129
Other current financial accounts payable	**1,776**	**2,567**

in TEUR	12/31/2019	12/31/2018
Bonuses and other performance-based compensation	1,813	1,929
Outstanding vacation claims	875	1,025
Amounts owed to the tax office	346	351
Other excise duties	404	259
Social expenses owed	44	43
Inventor compensation	35	35
Demographic Contribution II	15	17
Other current non-financial accounts payable	**3,532**	**3,659**
Other current accounts payable (total)	**5,308**	**6,226**

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

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

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

7. OTHER DISCLOSURES

7.1 OTHER FINANCIAL LIABILITIES

Liabilities arising from leases with the Group as lessee

The Group has financial liabilities arising from lease agreements. As of the reporting date, 31 December 2019, no lease agreements existed for various technical equipment and machinery within the context of a sale-and-leaseback transaction. The residual terms of all contracts are largely between 1 and 5 years.

A total of TEUR 1,018 (year before: TEUR 987) in expenses arising from leases (including short-term leases and leases of low-value assets) were recognized in the current year.

Total future lease payments (including short-term leases and leases of low-value assets) have the following maturities:

in TEUR	12/31/2019	12/31/2018
Lease payments within 1 year	785	601
Lease payments, 1 – 5 years	626	530
Lease payments, over 5 years	4	0
Total	**1,415**	**1,131**

Contingent liabilities and guarantees

No material contingent liabilities, guarantees or other material litigation existed as of the reporting dates for which provisions have not yet been set aside. As of 31 December 2019, there were a total of TEUR 3,897 in obligations (year before: TEUR 2,776) arising from investment orders.

Nabaltec AG has made a written commitment to continue to support Nashtec LLC and Naprotec LLC by providing necessary funding through 31 December 2020.

Nabaltec AG has issued Nashtec a payment guarantee in the amount of TUSD 1,300 to secure its supply of raw materials.

In the Management Board's estimation, the risk that claims will be asserted based on this guarantee and based on Nabaltec's obligations towards Nashtec LLC and Naprotec LLC is low, as the Management Board expects both companies to perform well in 2020.

7.2 DISCLOSURES CONCERNING FINANCIAL INSTRUMENTS

Book value, measurement and fair value by measurement category

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

in TEUR	Measurement category pursuant to IFRS 9	Book value 2019	Book value 2018	Fair value 2019	Fair value 2018
Financial assets					
Trade receivables	AC	5,582	4,459	5,582	4,459
Other assets and accounts receivable					
Other non-derivative accounts receivable and financial assets	AC	3,634	6,111	3,634	6,111
Cash and cash equivalents	AC	20,984	30,289	20,984	30,289
Financial liabilities					
Financial liabilities at amortized cost					
Accounts payable to banks	AC	70,884	70,946	70,884	70,946
Trade payables	AC	13,395	12,643	13,395	12,643
Other financial liabilities					
Other non-derivative financial liabilities	AC	328	571	328	571
Negative market values of interest rate derivatives (designated in effective cash flow hedges)	–	1,448	1,996	1,448	1,996

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

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

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

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

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

Net income by measurement category

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

MEASUREMENT CATEGORY PURSUANT TO IFRS 9

			From subsequent measurement			
in TEUR		From interest	At fair value	Currency translation	Impairment	Net income 2019
Amortized cost	AC	62	–	274	–8	328
Fair Value through Other Comprehensive Income – debt instrument	FVOCI (debt)	–	–	–	–	–
Fair Value through Other Comprehensive Income – equity instrument	FVOCI (equity)	–	–	–	–	–
Fair Value through Profit and Loss	FVTPL	–	–	–	–	–
Other Liabilities	AC	–1,176	–	–24	–	–1,200
Total 2019		**–1,114**	**–**	**250**	**–8**	**–872**

MEASUREMENT CATEGORY PURSUANT TO IFRS 9

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

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

The total interest expense for the loan against borrower’s note, calculated using the effective interest method, was TEUR 1,176 (year before: TEUR 1,199).

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

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

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

Fair value hierarchy

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

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

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

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

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

12/31/2019

in TEUR	Level 1	Level 2	Level 3	Total
Assets				
Positive market values of currency derivatives	0	0	0	0
Liabilities				
Negative market values of interest rate derivatives	0	1,448	0	1,448
Negative market values of currency derivatives	0	0	0	0

12/31/2018

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

No assets or liabilities were reclassified between the measurement levels in Financial Year 2019.

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

Hedging transactions

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

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

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

As of 31 December 2019, the Group recognized interest rate derivatives with a market value of TEUR –1,448 (year before: TEUR –1,996), which served to hedge against interest rate risks associated with loans against borrower's notes, which are recognized under accounts payable to banks (book value: TEUR 70,000). No currency derivatives were used in the reporting year (year before: also TEUR 0). Realization of the fair value of the interest rate and currency derivative, with no effect on profit and loss, resulted in changes in value in Financial Year 2019 of TEUR 548 (year before: TEUR 278), the full amount of which was recognized in shareholders' equity. The cash flow hedges are designed to hedge cash flows in the form of routine interest payments, in the case of the interest rate derivatives. Interest rate derivatives amount to a total of TEUR 70,000, with TEUR 31,000 maturing through 2020 and TEUR 39,000 maturing through 2022. The interest rate derivatives secure Nabaltec a fixed interest rate of between 0.95% and 1.07% depending on maturity.

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

Default risk

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

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

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

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

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

in TEUR	2019	2018
1 January	**148**	**150**
Transfers	8	0
Reversals	0	2
31 December	**156**	**148**

The age structure of trade receivables is as follows:

			Overdue but not impaired			
in TEUR	Book value	Neither overdue nor impaired	< 3 months	3 – 6 months	6 – 12 months	> 12 months
12/31/2019	5,582	5,582	0	0	0	0
12/31/2018	4,459	4,459	0	0	0	0

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

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

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

Liquidity risk

The Group routinely monitors the risk of a liquidity shortage, taking into account e.g. the terms to maturity of financial assets and liabilities as well as expected cash flows from business activities. The Group's goal is to use bank overdrafts and loans to continually meet liquidity requirements while at the same time ensuring utmost flexibility. The Group had existing unutilized credit limits in the amount of TEUR 2,250 as of 31 December 2019 (year before: TEUR 2,250).

The first tranche of the 2015 loan against borrower's note, in the amount of TEUR 31,000, will be due for repayment in April 2020. The Group secured its ability to repay this loan by entering into an agreement in the fourth quarter of 2019 for a bilateral loan with a volume of TEUR 20,000, to be paid out in April 2020, and by extending its overdraft lines by TEUR 20,000.

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

CASH FLOWS undiscounted

in TEUR		Total	thereof term < 1 year	thereof term 1 – 5 years	thereof term > 5 years
Accounts payable to banks	12/31/2019	73,692	33,319	40,373	–
	12/31/2018	75,614	2,431	73,183	–
Trade payables	12/31/2019	13,395	13,395	–	–
	12/31/2018	12,643	12,643	–	–
Other financial liabilities	12/31/2019	1,776	1,776	–	–
	12/31/2018	2,567	2,567	–	–
Total (financial liabilities)	**12/31/2019**	**88,863**	**48,490**	**40,373**	**–**
	12/31/2018	**90,824**	**17,641**	**73,183**	**–**

Foreign exchange risk

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

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

	Rate change in %	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity * in TEUR
2019			
USD	+10	539	0
USD	–10	–539	0
2018			
USD	+10	680	0
USD	–10	–680	0

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

Interest rate risk

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

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

	Increase/ decrease in basis points	Impact on pre-tax earnings in TEUR	Impact on shareholders' equity * in TEUR
2019			
Europe	+10	0	268
USA	+10	0	0
Europe	−10	0	−280
USA	−10	0	0
2018			
Europe	+10	0	155
USA	+10	0	0
Europe	−10	0	−157
USA	−10	0	0

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

7.3 ADDITIONAL DISCLOSURES CONCERNING CAPITAL MANAGEMENT

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

Nabaltec AG's shareholders' equity and debt items recognized in connection with capital management as of 31 December 2019 and 2018 are shown below:

	12/31/2019 in TEUR	12/31/2018 in TEUR	Change in %
Shareholders' equity	**98,945**	**95,787**	**3.30**
as % of total capital	58.26	57.45	1.40
Non-current financial debt	38,960	70,417	–44.67
Current financial debt	31,924	529	–
Debt *	**70,884**	**70,946**	**–0.09**
as % of total capital	41.74	42.55	–1.90
Total capital for capital management purposes	**169,829**	**166,733**	**1.86**

* *The company defines debt as accounts payable to banks.*

Equity increased by TEUR 3,158 last year, to TEUR 98,945, largely due to consolidated earnings in the amount of TEUR 10,701.

Debt decreased by TEUR 62 last year, to TEUR 70,884, largely due to changes in overdrafts.

Together, these effects resulted in an increase in the equity ratio (shareholders' equity as a percentage of total capital) to 58.26% in 2019, up from 57.45% in the previous year. The ratio of debt to capital for capital management purposes decreased from 42.55% on 31 December 2018 to 41.74% on 31 December 2019.

The first tranche of the 2015 loan against borrower's note, in the amount of TEUR 31,000, will be due for repayment in April 2020. The Group secured its ability to repay this loan by entering into an agreement in the fourth quarter of 2019 for a bilateral loan with a volume of TEUR 20,000, to be paid out in April 2020, and by extending its overdraft lines by TEUR 20,000.

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

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

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

7.4 TRANSACTIONS WITH RELATED PARTIES

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

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

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

The members of the Management Board received short-term remuneration in the total amount of TEUR 2,170 in Financial Year 2019 (year before: TEUR 2,153). An additional TEUR 4 was transferred to provisions for service anniversaries (year before: TEUR 3). In addition, a total of TEUR 564 was spent on post-employment benefits (year before: TEUR 601).

The members of the Supervisory Board received a total of TEUR 56 in remuneration in Financial Year 2019 (year before: TEUR 56).

The following accounts receivable and payable existed on 31 December 2019 and 2018 vis-a-vis related parties:

	Accounts receivable		Accounts payable	
in TEUR	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**
Companies controlled by Supervisory Board members	0	0	0	0
Companies controlled by Management Board members	3	14	4	0

In addition to Management and Supervisory Board compensation, the following transactions with related parties were recognized in Financial Years 2019 and 2018:

	Deliveries and services performed and other income		Deliveries and services received and other expenses	
in TEUR	**2019**	**2018**	**2019**	**2018**
Companies controlled by Supervisory Board members	0	0	5	9
Companies controlled by Management Board members	26	26	3	61

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

7.5 EARNINGS PER SHARE

The number of outstanding shares changed as follows over the financial year:

NUMBER OF SHARES

	2019	2018
Outstanding common shares as of 1 January	8,800,000	8,800,000
No transactions took place in these years.	0	0
Outstanding common shares as of 31 December	8,800,000	8,800,000
Average undiluted number of outstanding common shares	**8,800,000**	**8,800,000**

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

In accordance with IAS 33, "Earnings per share," the calculation of diluted earnings per share must also take into account the effects of potential common shares. Dilutive effects on the earnings of Nabaltec AG do not exist. Accordingly, the undiluted earnings per share is equal to the diluted earnings per share for Financial Years 2019 and 2018.

Earnings per share are therefore as follows:

EARNINGS PER SHARE

	2019	2018
Consolidated after-tax earnings (TEUR)	10,701	10,286
Average undiluted number of outstanding common shares	8,800,000	8,800,000
Earnings per share (EUR)	**1.22**	**1.17**

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

7.6 DISCLOSURES CONCERNING THE CASH FLOW STATEMENT

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

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

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

The changes in accounts payable to banks, which are attributable to financing activity, result from changes in overdrafts in the amount of TEUR –98 as well as from the compounding of original transaction costs in the amount of TEUR 36.

7.7 SEGMENT REPORTING

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

Business segments

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

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

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

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

Transfer prices between the business segments are generally determined based on typical market conditions in accordance with the arm's length principle. Segment revenues, expenses and earnings include transfers between business units which are eliminated over the course of consolidation. No transactions between the business segments took place in the 2019 and 2018 Financial Years.

FINANCIAL YEAR ENDING ON 12/31/2019

in TEUR	Functional Fillers	Specialty Alumina	Others	Nabaltec Group
Revenues				
Revenues from non-Group customers	122,187	56,847	–	179,034
Segment earnings				
EBITDA	22,076	10,265	–	32,341
EBIT	11,902	6,726	–	18,628
Assets and liabilities				
Segment assets	156,336	51,584	31,672	239,592
Segment liabilities	13,998	6,269	120,380	140,647
Other segment data				
Investments				
– Property, plant and equipment	15,214	4,640	–	19,854
– Intangible assets	102	66	–	168
Depreciation				
– Property, plant and equipment	10,077	3,461	–	13,538
– Intangible assets	97	78	–	175

FINANCIAL YEAR ENDING ON 12/31/2018

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

Regional data

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

FINANCIAL YEAR ENDING ON 12/31/2019

in TEUR	Germany	Rest of Europe	USA	Rest of world	Total
Revenues					
Revenues from non-Group customers	42,221	92,990	20,809	23,014	179,034
Other segment data					
Segment assets	181,100	–	57,588	904	239,592
Investments					
– Property, plant and equipment	11,852	–	8,002	–	19,854
– Intangible assets	168	–	–	–	168

FINANCIAL YEAR ENDING ON 12/31/2018

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

More than 10% of total revenues in Financial Year 2019 were earned from a single customer. The revenues from this customer amounted to TEUR 21,083 and are included in the results for the “Functional Fillers” division. In Financial Year 2018 as well, more than 10% of revenues were earned from a single customer (TEUR 19,165).

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

7.8 CORPORATE OFFICERS

Management Board

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

Supervisory Board

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

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

On 1 March 2019, the Management Board and Supervisory Board of Nabaltec AG voluntarily issued the prescribed declaration for publicly traded companies for 2019 in accordance with §161 of the German Stock Corporation Act and have made this declaration available to its shareholders on the company's website. The declaration is posted on the company's website, "www.nabaltec.de," under "Investor Relations/Corporate Governance."

Nabaltec AG has discontinued its former practice of voluntarily issuing a declaration of conformity in accordance with §161 of the German Stock Corporation Act and a corporate governance report and will no longer be issuing a declaration of conformity and a corporate governance report on a voluntary basis starting in Financial Year 2020.

7.10 MAJOR EVENTS OCCURRING AFTER THE REPORTING DATE

The outbreak of coronavirus in China and the subsequent spread of the disease are beginning to have a global impact. Macroeconomic risks are currently posed by the unpredictability of the situation as well as by measures to curb the spread of coronavirus. This could have a negative impact on global economic growth and therefore on Nabaltec's course of business. At this point in time it is not possible to give a concrete indication of the negative financial impact. For further information, please refer to our comments in the management report.

7.11 AUDITOR'S FEES

The auditor's fee for auditing services (including the 2019 consolidated financial statements) amounts to TEUR 104. The auditor received a fee in the amount of TEUR 10 for other assurance services, a fee of TEUR 24 for tax advisory services and a fee of TEUR 0 for other services.

Schwandorf, 23 March 2020

Nabaltec AG
The Management Board

JOHANNES HECKMANN **GÜNTHER SPITZER** **DR. MICHAEL KLIMES**

INDEPENDENT AUDITOR'S REPORT

To Nabaltec AG, Schwandorf

AUDIT OPINIONS

We have audited the consolidated financial statements of Nabaltec AG, Schwandorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2019 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In accordance with the German legal requirements, we have not audited the content of the "Voluntary Declaration Pursuant to §161 of the German Stock Corporation Act on the German Corporate Governance Code", which is referenced to in the notes to the consolidated financial statements. In addition, we have audited the management report of Nabaltec AG for the financial year from 1 January to 31 December 2019.

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

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019. Our audit opinion does not cover the content of the abovementioned "Voluntary Declaration Pursuant to §161 of the German Stock Corporation Act on the German Corporate Governance Code".
- the accompanying management report as a whole provides an appropriate view of the Group's position. In all material respects, this management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

BASIS FOR THE AUDIT OPINIONS

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

OTHER INFORMATION

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

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

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

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

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

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

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

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the management report – whether due to fraud or error – design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code HGB).
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Nuremberg, 27 March 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

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

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

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APPROPRIATION OF DISTRIBUTABLE PROFIT

BALANCE SHEET

FOR 31 DECEMBER 2019

ASSETS

in TEUR	12/31/2019	12/31/2018
A. Non-current assets		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	318	318
2. Advance payments	97	109
	415	**427**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on non-freehold land	26,682	25,294
2. Technical equipment and machinery	46,500	47,081
3. Other fixtures, fittings and equipment	3,526	3,437
4. Advance payments as well as plant and machinery under construction	5,386	5,499
	82,094	**81,311**
III. Financial assets		
1. Shares in affiliated companies	10,367	10,367
2. Loans to affiliated companies	55,061	42,946
	65,428	**53,313**
	147,937	**135,051**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	18,459	16,818
2. Finished goods and purchased products	14,325	12,973
	32,784	**29,791**
II. Accounts receivable and other assets		
1. Trade receivables	5,519	4,460
2. Receivables from affiliated companies	749	101
3. Other assets	5,177	6,682
	11,445	**11,243**
III. Cash and cash equivalents	**27,429**	**29,124**
	71,658	**70,158**
C. Prepaid expenses	**129**	**169**
TOTAL ASSETS	**219,724**	**205,378**

EQUITY & LIABILITIES

in TEUR	12/31/2019	12/31/2018
A. Shareholders' equity		
I. Subscribed capital (conditional capital: EUR 4,000 thousand)	8,800	8,800
II. Capital reserve	48,424	48,424
III. Accumulated profits	40,445	30,754
	97,669	**87,978**
B. Non-current assets investments grants	**2**	**3**
C. Provisions		
1. Retirement benefit obligation and similar provisions	30,564	26,716
2. Accrued taxes	3,122	2,183
3. Other provisions and accrued liabilities	6,445	6,936
	40,131	**35,835**
D. Accounts payable		
1. Payables to banks	70,931	71,029
2. Trade payables	9,575	9,649
3. Payables to affiliated companies	929	277
4. Other payables – thereof relating to taxes: EUR 345 thousand (PY: EUR 351 thousand) – thereof relating to social securities: EUR 40 thousand (PY: EUR 39 thousand)	487	607
	81,922	**81,562**
TOTAL EQUITY & LIABILITIES	**219,724**	**205,378**

INCOME STATEMENT

FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

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

APPROPRIATION OF DISTRIBUTABLE PROFIT

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

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

Schwandorf, April 2020

The Management Board

JOHANNES HECKMANN **GÜNTHER SPITZER** **DR. MICHAEL KLIMES**

FINANCIAL CALENDAR 2020

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

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Statements relating to the future
This annual report contains statements relating to the future which are based on the Management Board's current estimations and prognosis as well as on information currently available. These statements relating to the future are not to be understood as guarantees of the predicted future developments and results.

The future developments and results are rather dependent on a number of risks and uncertainties and are based on assumptions which possibly may prove to be false. We do not accept any obligation to update these statements relating to the future.

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

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