Annual Report 2010

MULTIFACETED FASCINATING STRONG

Broad Base. Best Solutions.

SGL GROUP
THE CARBON COMPANY

BUSINESS AREAS

PERFORMANCE PRODUCTS (PP)

The product portfolio of the Business Area PP encompasses carbon and graphite electrodes, cathodes and furnace linings. We supply the aluminum, the steel and other metallurgical industries with these products.

Key Figures		2010
Sales revenue	€m	762.6
EBITDA	€m	177.5
Operating profit (EBIT)	€m	144.1
Return on sales	%	18.9

GRAPHITE MATERIALS & SYSTEMS (GMS)

We supply a multitude of industries with the products from the Business Area GMS. These products are based on coarse and fine grain graphite as well as expanded natural graphite and have applications in industries such as chemical, automotive, semiconductor, LED, lithium-ion-battery as well as solar.

Key Figures		2010
Sales revenue	€m	395.9
EBITDA	€m	54.9
Operating profit (EBIT)	€m	36.9
Return on sales	%	9.3

CARBON FIBERS & COMPOSITES (CFC)

With its products, the Business Area CFC covers the entire value chain from the carbon fiber to the finished component. The products of the Business Area CFC are supplied to the aerospace and defense, the wind and the automotive industries.

KEY FIGURES		2010
Sales revenue	€m	218.5
EBITDA	€m	4.8
Operating profit (EBIT)	€m	–6.6
Return on sales	%	–3.0

TARGETS 2010

- Slight increase in sales
- Group EBIT close to 2009 level of €110 million
- Gearing approx. 0.5
- Capex approx. on previous year level of €154 million

RESULTS 2010

- Sales increase of 13% (currency adjusted 10%) to €1,382 million
- Group EBIT at €128 million 16% higher than previous year level of €111 million
- Gearing at 0.47
- Capex at €137 million 11% below previous year level

TARGETS 2011

- Sales growth more than 10%
- Group EBIT between €150 and 165 million
- Gearing approx. 0.5
- Capex up to €150 million

KEY FIGURES 2010

€m	**2010**	2009	Change
Sales revenue	1,381.8	1,225.8	12.7%
thereof outside Germany	*83%*	*80%*	–
thereof in Germany	*17%*	*20%*	–
EBITDA [1]	194.8	171.6	13.5%
Operating profit (EBIT) [1]	128.4	111.0	15.7%
Profit/loss before tax	75.7	–18.1	–
Consolidated net profit/loss for the year	52.2	–60.8	–
Earnings per share, basic (in €)	0.80	–0.93	–
Return on sales (ROS) [2]	9.3%	9.1%	0.2%-pts
Return on capital employed (ROCE) [3]	9.0%	8.2%	0.8%-pts
Total assets	2,113.3	1,891.0	11.8%
Equity attributable to shareholders of the parent company	864.4	749.4	15.3%
Equity ratio [4]	40.9%	39.6%	1.3%-pts
Net debt	410.5	367.9	11.6%
Gearing [5]	0.47	0.49	–
Capital expenditure on property, plant and equipment and intangible assets	136.9	153.9	–11.1%
Free cash flow	–38.3	–34.0	–12.6%
Number of employees (December 31)	6,285	5,976	5.2%

[1] Before impairment losses of €74.0 million in 2009
[2] EBIT (in 2009 before impairment losses) to sales revenue
[3] EBIT (in 2009 before impairment losses) to average capital employed
[4] Equity attributable to shareholders of the parent company to total assets
[5] Ratio of net debt to equity attributable to shareholders of the parent company

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We are SGL Group – The Carbon Company,
one of the worldwide leading manufacturers of carbon-based products.

We have an in-depth materials, production, applications and engineering expertise, a comprehensive graphite and carbon fiber-based product portfolio, and an integrated value chain from carbon fibers to composites.

We operate close to our customers through a global sales network and state-of-the-art production sites in Europe, North America and Asia.

This broad base enables us to offer our customers best solutions.

Broad Base. Best Solutions.

NO.1 IN CARBON

We are SGL Group – The Carbon Company. Our strength lies in our Broad Base with clearly defined core competencies, a comprehensive product portfolio and a global presence. On this basis we offer our customers Best Solutions with the help of our companywide philosophy SGL Excellence. This is how we want to reach our Vision

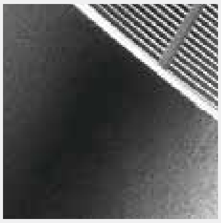
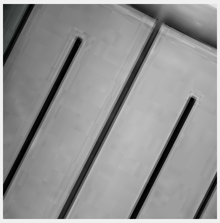
"We are the leading Carbon Company".

Our mission shows how we will reach our vision:

We will utilize our core competencies – high-temperature technologies as well as applications and engineering know-how – to leverage our broad material base.

We will exploit all opportunities to grow the Company.

We create innovative solutions jointly with our customers.

Coarse grain graphite, Fine grain graphite, Expanded natural graphite, Carbon fibers and composites

55%
BASE MATERIALS

45%
ADVANCED MATERIALS

We strive for high and sustainable earnings for our shareholders and employees.

We empower our employees to be innovative.

We create and live a leadership culture based on the principles of SGL Excellence embracing change as an opportunity.

- The properties of carbon, our broad material base and the potential applications for our products are **MULTIFACETED**.
- Carbon is **FASCINATING** as one of the most solution-orientated materials of the future which it only becomes through our efforts.
- Our corporate culture, our innovation capability and our financial base are **STRONG**.

Carbon fibers in the production process for multiaxial fabrics

MULTIFACETED

Carbon is a material with multifaceted and unique properties, e.g. high electrical and thermal conductivity, heat and corrosion resistance, stability in chemical and biological processes, self-lubrication or also lightweight with simultaneous stiffness. Carbon with these properties enables, for example, the production of solar cells, increases the efficiency of wind turbines and reduces the weight of aeroplanes and cars.

Quality control of a DIABON® tubesheet

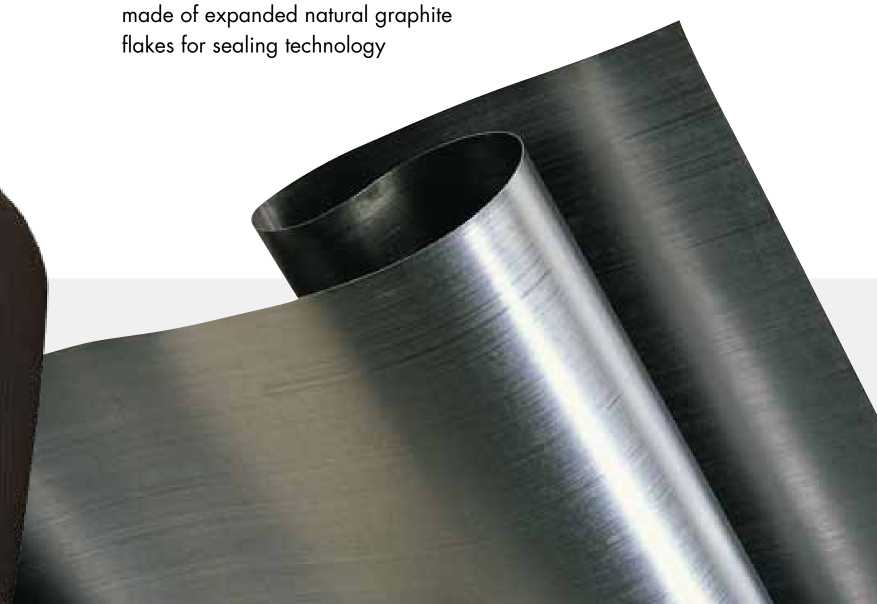
Graphite electrodes for steel production in electric arc furnaces

WE SUPPLY AROUND 40

DIFFERENT INDUSTRIES WITH OUR PRODUCTS

There is increasing demand from more and more industries for our high-performance materials and products due to the paradigm change in material use driven by energy and raw material scarcity. Carbon and graphite products are always used where other materials such as steel, aluminum, copper, plastic, wood, etc. fail due to their individual limited material properties.

Flexible graphite foil SIGRAFLEX®
made of expanded natural graphite
flakes for sealing technology



We are at home in many markets

ALUMINUM INDUSTRY

The energy efficiency and the service life of cathodes are crucial factors with regard to the economic viability of the aluminum production process.

Our comprehensive product range provides the ideal solution for all primary aluminum production technologies. Together with worldwide leading aluminum producers we are developing products, reducing power consumption and increasing the service life of cathodes.

AUTOMOTIVE INDUSTRY

Just as the car has radically changed our everyday life, the car of the future must also change radically because climate change and the associated requirements for lower energy consumption are setting new standards.

Lightweight construction materials help to reduce fuel consumption of vehicles. We are producing lightweight construction components and structural parts of carbon fiber composite materials in close cooperation with our automotive partners. SGL Group has, among others, developed the carbon ceramic brake disc and the carbon ceramic clutch plate.

CHEMICAL INDUSTRY

Efficient facilities with increasing operating safety and lower emissions are the central themes for our customers. Aggressive and volatile media must be mastered safely. We offer custom-made engineering based on our corrosion-resistant heat exchangers, columns, pumps, quenchers and bursting discs as well as systems made of apparatus-engineering graphite. Our recently developed cracking plants for hydrofluorocarbons (HFCs) will contribute to a cleaner environment. And German air quality control regulations (TA Luft) compliant seals made of expanded natural graphite provide the right response to more stringent environmental specifications and maximum safety requirements.

AEROSPACE INDUSTRY

Materials and designs for the aerospace industry must be lightweight, but at the same time reliable, rigid and strong under extreme strain. This problem is solved with carbon fiber reinforced composite materials.

For this purpose, SGL Group covers the entire value chain in its own production sites in Europe and USA. Our composite materials based floor beams for example, reduce the weight of the Boeing 787. And high-performance brake discs made of carbon fiber reinforced carbon ensure the safe landing of airplanes.

SOLAR TECHNOLOGY

Products made of high-purity fine grain graphite and carbon fiber reinforced carbon enable both silicon production as well as the manufacturing of solar wafers and cells. As a supplier and development partner over many years we make a significant contribution to product and technology innovations in the photovoltaic field.

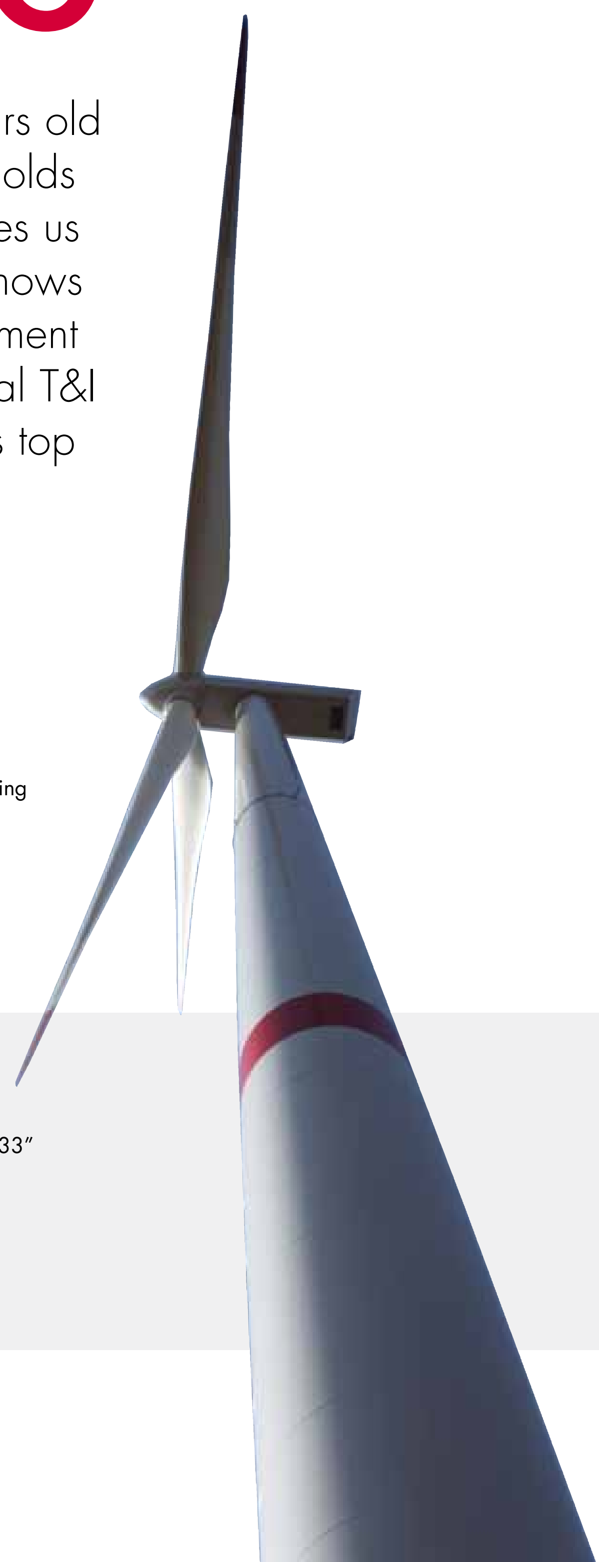
STEEL INDUSTRY

Graphite electrodes account for only some 3% of the production costs of electric steel. However, their performance significantly determines the economic viability of steel production.

We are continuously optimizing the reliability and the specific consumption of the graphite electrodes used. This directly reduces our customers' costs per ton of steel produced. With our global applications engineering competence we offer our customers enhanced opportunities to individually improve productivity during the melting process.

FASCINATING

Carbon is a fascinating material. Millions of years old and the basis for all life on earth. To this day it holds a gigantic potential for innovation. Carbon makes us creative and spurs us on because this material knows almost no boundaries. All research and development activities of SGL Group are bundled in our central T&I organization. We are constantly striving towards top quality and continuous improvement.



Rotor blades are increasingly using carbon fibers reinforced plastics

Carbon racing yacht "Knieriem 33" with a hulk made from biaxial carbon and SIGRATEX® fabrics

SGL GROUP FILED APPLICATIONS FOR 67 NEW PATENTS IN 2010

Passion for Carbon is the feeling we all share. This is what SGL Group stands for. Globally organized throughout the Company, SGL Group unites the lifestyles of the world in a common corporate culture, providing ideal conditions for the successful project work of the multicultural teams.

The construction material ECOPHIT® improves the temperature distribution in floor and ceiling heating systems and reduces their weight

Interview

FASCINATION IS THE LINK BETWEEN EMPLOYEES AND TECHNOLOGY

Carbon – this is a huge ensemble of properties combined in one element. The people at SGL Group are also in their element. With passion and know-how they ensure that this fascinating material produces trendsetting materials, products and solutions.

MR. HAAS, CARBON ENCOMPASSES A LOT OF SPECIAL PROPERTIES. WHAT DIFFERENTIATES THE PEOPLE WHO WORK FOR SGL GROUP?

SGL Group combines tradition with innovation. The corporate culture is characterised by continuity that is, for example, expressed in the very high degree of loyalty of the management and employees compared to the market. However, the real value arises in combination with the innovative spirit I feel every day. Our team exploits the sheer inexhaustible opportunities of applying our material in more and more new areas.

DOES THIS MEAN THAT THEY SHARE A COMMON VISION?

It is the sum of our shared values and characteristics that culminates in a unique feeling: the "passion for carbon". I experience this passion particularly in teamwork. Our employees pursue the objective to be the leading carbon company worldwide beyond divisional and regional boundaries. Such an emotional bond simultaneously strengthens motivation.

ONE OF THE CORE MESSAGES OF SGL GROUP IS "TRULY GLOBAL". HOW IS THAT REFLECTED WITHIN THE COMPANY?

Our global orientation and the way we work is at the core of SGL Group and ensures intercultural and interdisciplinary exchange. Many functions in our company – right up to the top management – are filled with different nationalities. Diversity and the pronounced respect for other cultures – regional as well as corporate – have been our corporate culture and essential success factors for a long time.

SGL GROUP IS INVESTING INTENSIVELY IN FUTURE TECHNOLOGIES. WHAT ARE YOU INVESTING IN YOUR TEAM?

The fact that we offer an attractive working environment is demonstrated not least in the repeated commendation as "top employer". Our concepts for targeted staff and management development take on a key function and are closely connected with the strategic orientation of our company. Carbon is the future – our growth and the demographic trend are providing excellent opportunities. Therefore, one of the most important objectives for our Company is to obtain and retain employees with good ideas.

Dietmar Haas is Vice President Human Resources and responsible for Human Resources Management of SGL Group.

Best development opportunities

The professional and personal competences of our employees are systematically promoted at SGL Group. This results in diverse career prospects within the Group. The HR instruments and processes from staff recruitment through target agreement and assessment systems to successor planning are globally orientated in the same way as the whole company. We have established important standards which make international deployment of employees easier. This gives us a head start in the recruitment market and makes us an interesting employer particularly for sought-after top managers in specialised technologies.

PASSION FOR CARBON

STRONG

Today SGL Group is one of the largest producers of carbon products. We want to be the leading carbon company worldwide. Therefore, we will further our growth and exploit the potential of this multifaceted and fascinating material for innovative future applications. How can we achieve this? We invest in our employees and technologies but also in the cooperation with our suppliers and customers. We do all this from a position of strength.

GLOBALLY, AROUND 6,300 EMPLOYEES WORK FOR THE SGL GROUP

Our success depends on the innovative spirit, the passion and the capabilities of our employees

We know our strengths …

Carbon, as the material of the future, delivers promising answers to the great challenges of our time such as climate change and the necessity to conserve the scarce energy and raw material resources. Our carbon-based products offer sustainable solutions in the fields of energy efficiency, alternative energies and lightweight construction. Together they already make up 65% of the Group turnover – with great potential for more. Because there are immense opportunities for SGL Group and the future development of the carbon business in these areas.

CORE COMPETENCES

- raw material know-how
- production know-how
- applications know-how
- engineering know-how

BROAD TECHNOLOGY AND PRODUCT PORTFOLIO

- based on graphite
- based on carbon fibers

… and we know how to use them

Structurally we are already optimally positioned for this: Our comprehensive sales and service network as well as modern production sites in Europe, North America and Asia enable proximity to our customers and intensive partnerships around the globe. Financially, we are also on solid ground. Due to our financial independence we are in a position to react flexibly and rapidly to market requirements. The best preconditions for profitable growth! Therefore, SGL Group is and will remain a strong solutions provider with a broad range of products and competences – and therefore an attractive investment.

GLOBAL PRESENCE

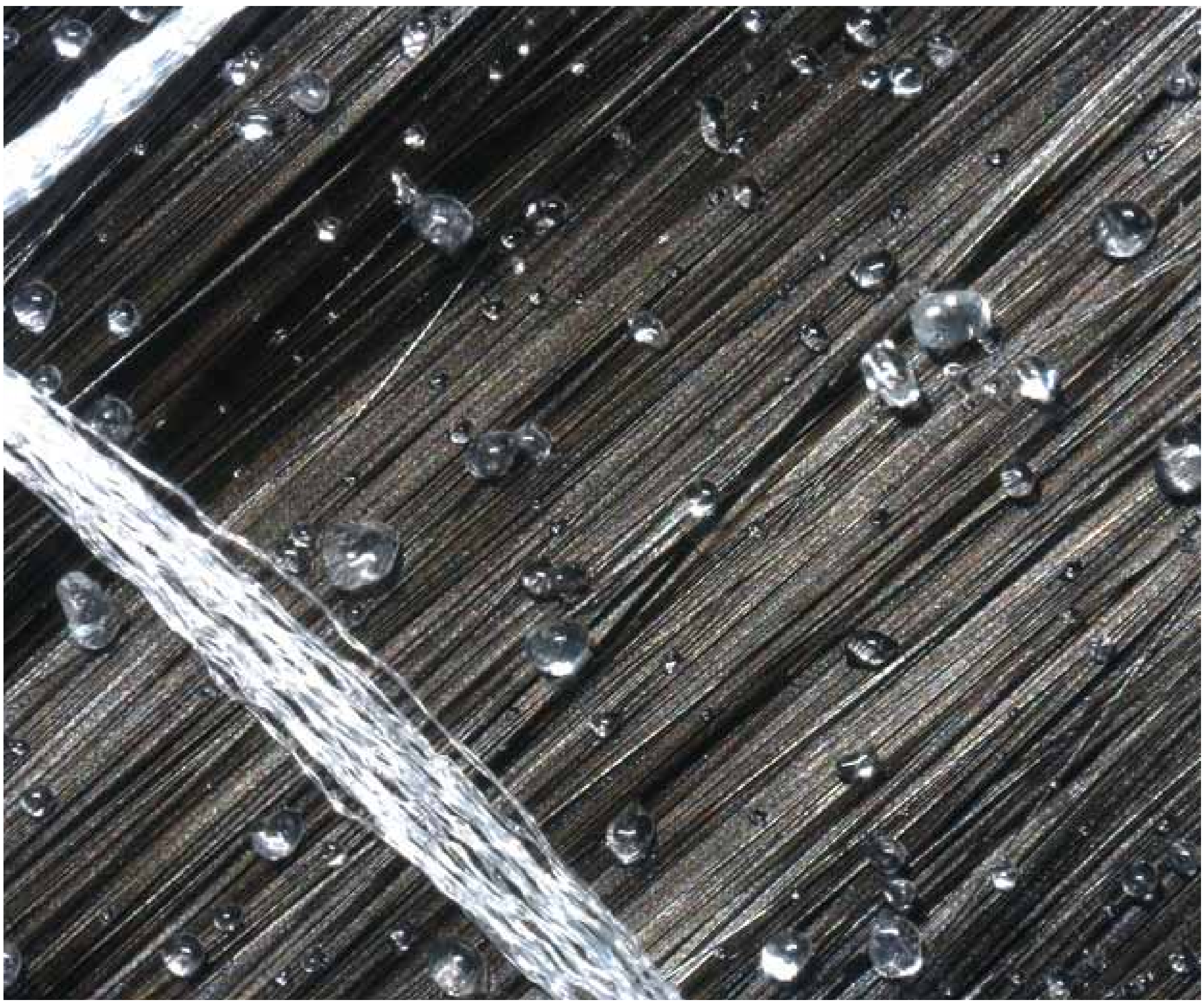
- more than 40 production sites in Europe, North America and Asia
- global sales network

FINANCIAL STRENGTH

- equity ratio of 41%
- gearing (net debt to equity) at 0.47
- €285 million available liquidity
- corporate financing seccured long-term

THIS IS WHAT WE MEAN BY BEST SOLUTIONS.

Best Solutions have a story to tell.



CARBON CONQUERS CAR CONSTRUCTION
Trendsetting Joint Venture between SGL Group and BMW Group

Clean, quiet, efficient: The automotive future lies in the electric car. SGL Group is actively participating in shaping it – and has set up a joint venture with BMW for this purpose. The car manufacturer is planning the serial production of the Megacity Vehicle in 2013. This battery-driven electric vehicle will for the first time use carbon fiber components comprehensively and in large scale. For good reason, as this innovative material provides decisive advantages over traditional materials: carbon fibers are enormously strong, fatigue resistant, corrosion free – and, above all, lightweight. Lightweight construction plays a key role in sustainable mobility as it reduces fuel consumption and CO_2 emissions. In addition, cruising range and performance can also be maximized.

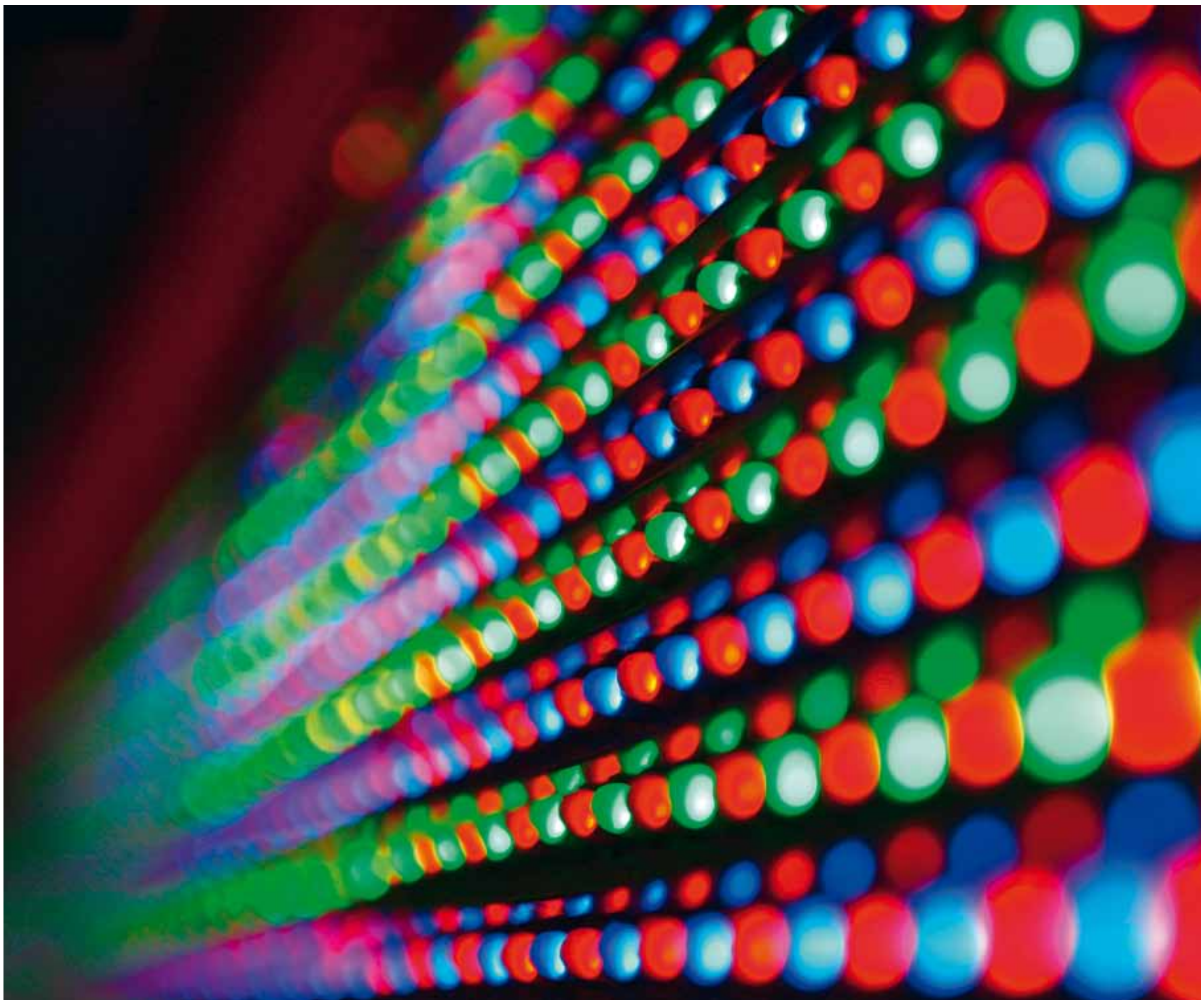
State-of-the-art technology – sustainable production

Within the framework of the joint venture we will exclusively supply BMW with semi-finished products for carbon-fiber reinforced plastic (CFRP) components. The approach of uniting as many stages of the value chain as possible under one common umbrella is completely new. The carbon fibers will be produced at our new facility in Moses Lake in Washington State (USA), which has been under construction since July 2010 and should commence operations in third quarter 2011. This represents a milestone for the use of carbon fibers on an industrial scale in automobile construction.

The sustainability focus lies also on the production process. Thanks to ultra-modern technology, the facility in Moses Lake will be the most cost-efficient and the most environmentally friendly of its type. Since we can source the energy required for the production at this site in the North West USA from hydropower and therefore CO_2-friendly, the new production facility will receive certification to the "LEED Gold Environmental Standard". It will be supplemented by the second facility in Wackersdorf where we manufacture semi-finished textile products.

Know-how transfer on the highest level

Setting new standards – that is the declared aim of the cooperation between two companies constantly striving for innovations. The combination of our know-how with that of BMW enables the large scale production of carbon fiber based components at competitive costs. With the cooperation on the Megacity Vehicle, we are together taking a revolutionary step on the path to develop serially producible electric vehicles. In this way we are already now creating the preconditions for optimally benefiting from this market in the future.



LED TECHNOLOGY ON THE ADVANCE
Solutions for a high growth market

They are found in televisions, notebooks, mobile phones, traffic lights, car headlights: light-emitting diodes (LEDs) are already an everyday technology. However, the possibilities for small, lightweight and low energy consuming lamps have not been exhausted by a long way. Worldwide demand is continuing to grow due to new private and commercial applications. Experts forecast annual growth rates of over 20% until 2020.

The LED industry faces great challenges in this respect. Luminous power is to be increased further, production costs must decrease and production capacity must be expanded in order to meet the rapidly growing demand. SGL Group, a successful supplier and partner to this industry for many years, has recognised these market trends and reacted accordingly.

Improvements in material and coating

The improvement in the semiconductor coating process (epitaxy) is a significant step with regard to the required performance and cost targets. It represents the most significant production step in LED production.

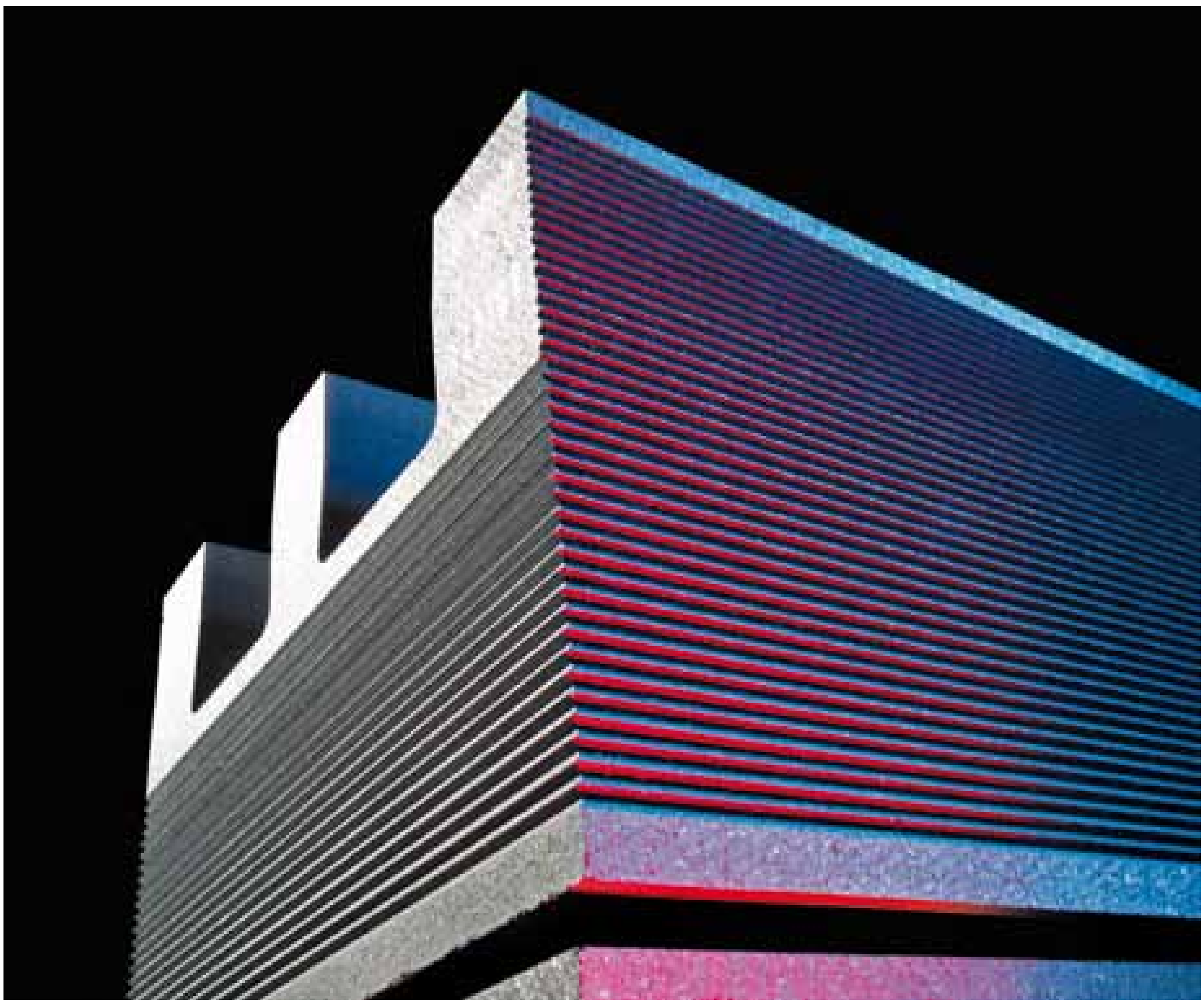
Our wafer carriers made from silicon carbide coated isostatic graphite provide maximum material purity and optimised thermal distribution in order to achieve better control of the epitaxy process and higher LED wafer output.

Supply chain optimization

We have adapted our supply chain due to the rapidly increasing customer demand. We were able to improve our proccesses and reduce delivery times through the use of Six Sigma methods. However, these measures were not sufficient to meet the rapidly growing demand.

Capacity expansion

SGL Group wishes to remain the preferred partner of the LED industry also in the future. Therefore, we will increase our efforts and in 2011 put additional coating capacities into operation in our facility in St. Marys (USA). Over the next three years will invest a total of more than 75 million euro in the expansion of our overall production chain for isostatic graphite, from green manufacturing through to silicon carbide coating. With this investment, we will not only be able to continue to accompany our customers in the LED industry but also in other strongly growing markets such as solar and semiconductors, as well as to strengthen our global market presence.



ENERGY SAVINGS FROM NEW CATHODE BLOCKS
SGL Group's innovations optimize aluminum production

The basic technology for aluminum production was invented 125 years ago and has since been continuously developed further. It is an electrolysis process by which aluminum oxide is converted into aluminum with the aid of electric current. Cathode blocks, on the one hand, provide the feed for electrical energy, and on the other hand, make up the base in the construction of the electrolysis cell. They are replaced after an average service life of five to seven years.

Energy efficiency is of strategic significance to our customers. Energy costs account for approx. 30% of the total aluminum production costs. The cathode block, as one of the structural components, contributes directly and indirectly to the energy efficiency of the production process. SGL Group is working intensively on value adding solutions: in 2010 we started with the market launch of three new developments. They testify to the innovative strength of SGL Group even in business areas which serve mature markets.

Cathode block material with dual benefits

Cathode block materials require good electrical properties and long service life. However, these two requirements often counteract each other. SGL Group has been able to combine them in one material successfully. The result: reduced energy consumption and longer running times for the electrolysis cell. The longer cell life reduces both the replacement costs as well as the disposal costs of contaminated components of the electrolysis cell.

Improved contact

Cast iron is used for the electrical connection between the cathode block and the system. There are electrical losses in the transition from the cathode block to the cast iron. The solution developed and recently patented [1] by SGL Group minimizes these losses through the use of Sigraflex® graphite foil. Our customers benefit twofold from this concept: on the one hand, the energy consumption in the electrolysis system is decreased, on the other hand the risk of the cathode being damaged by thermal shock during insertion of the hot cast iron is reduced.

More uniform distribution of the current density

Very strong electric currents pass through the cathode block during the electrolysis process. Usually, the current density distribution through the cathode is heterogeneous. SGL Group solves this problem with a patented [2] optimization of the slot for the collector bar. Energy consumption and also service life can be positively affected by the significantly more uniform current density.

[1] Patent No. PCT/EP 2006/012310
[2] Patent No. WO 2007/118510

AT THE FOREFRONT WITH BROAD BASE.

Lightweight automotive construction, advanced wafer and efficient cathode technology – these are only three of many examples from our broad range of solutions which manifest the success of SGL Group. Again this is the result of productive teamwork, visionary research and development efforts and, last but not least, a high degree of passion which we use to advance the potential applications of carbon. Our future course is set. We will pursue this systematically with quality focus and innovative strength.

ROBERT J. KOEHLER
Chairman/Chief Executive Officer
Responsibilities:
- Corporate Development
- Corporate Communications
- Internal Revision
- Legal
- Management Development
- Asia

THEODORE H. BREYER
Deputy Chief Executive Officer
Responsibilities:
- Carbon Fibers & Composites
- Engineering
- Corporate Security and Environmental Protection, Safety and Health at work, Technical Audits
- Purchasing
- North and South America

ARMIN BRUCH
Responsibilities:
- Performance Products
- SGL Excellence
- Europe and Russia
- Corporate Marketing & Advertising

JÜRGEN MUTH
Chief Financial Officer
Responsibilities:
- Group Controlling
- Group Treasury
- Group Accounting
- Financial Reporting
- Human Resources
- Information Technology
- Taxes

DR. GERD WINGEFELD
Responsibilities:
- Graphite Materials & Systems
- Technology & Innovation

Letter from the Board of Management

Dear Shareholders,

In terms of general economic developments, 2010 has exceeded our positive expectations. The world economy has recovered rapidly, and to a greater extent than anticipated, from the shock of the 2009 crisis and has returned to the growth track – supported by the industrial sector. This recovery in economic activity can be seen most clearly in the steel industry, the chemical industry, mechanical engineering and the automotive sector. In addition to the developing economies in Asia and Latin America, whose economic dynamism has lost nothing of its momentum, the countries which are benefitting most from the upturn are those with a strong base in the manufacturing industry and a high export ratio. The effects of recovery have also been seen in investments, purchasing volumes and inventories.

OUR OWN EXPECTATIONS FOR 2010 EXCEEDED

The activities of SGL Group have also benefited from this development and with a dynamism which was not foreseeable at the beginning of the year. Due to the low visibility, we originally assumed only moderate growth in turnover and at best an operating result close to the previous year's EBIT of €110 million. The general economic scepticism was accompanied by some certain trends and cycles specific to our business. These included the anticipated investment pause in the aluminum industry, affecting the demand for our cathodes and the inadequate price level for carbon fibers, triggered by high inventory levels which still persisted at the beginning of the year. It is therefore all the more pleasing that we have been able to increase our own forecasts for 2010 twice during the course of the year, and have achieved considerably better sales and profits in the full year compared to the previous year. Group sales improved by approximately 13% to €1.4 billion. The operating result (EBIT) increased by almost 16% to €128 million. The return on sales grew to more than 9%.

All three Business Areas have contributed to this success. In the Business Area Performance Products, restocking demand in the steel industry led to significantly higher sales of graphite electrodes. Demand recovery was most evident in the Business Area Graphite Materials & Systems, where our order book again reached the high pre crisis levels – and even exceeded it in some specific applications. In the Business Area Carbon Fibers & Composites we achieved further improvements in efficiency and productivity, and strengthened our competitive position, despite the still difficult market environment which was marked by low prices and major project delays. With these developments we have created the prerequisites for profitable participation in the accelerating demand growth in certain areas in 2011.

In this context we should highlight our joint venture with the BMW Group, established at the end of 2009 for the manufacturing of carbon fibers and fabrics. This joint venture has attracted much attention from the automotive sector. The use of light carbon fiber reinforced plastics on a serial scale in the BMW Group's new Megacity Vehicle represents a milestone in lightweight automotive construction.

Our success is also the result of a multi year investment program securing the sustainability of the Group, with which we have consistently aligned SGL Group's activities with growth markets. We adhered to this strategy even during the crisis and in 2010 again invested over 10% of sales in new technologies and innovations which were mainly funded from our operational cash flow. This enabled us to maintain our gearing of 0.47 within our target of approximately 0.5 and improve our equity ratio to 41%.

2011 – FURTHER GROWTH IN SALES AND PROFITS

Our company has emerged stronger from the crisis, helped by our broad base in technologies, know-how and products and our global orientation. Reacting early to changed conditions is now paying off for us. In addition to the proven measures from the SGL Excellence Initiative, we have also advanced our new organization. For the current financial year 2011 we expect the growth dynamic to normalize. Major uncertainties continue to exist, due in particular to the high debt levels in the industrialized western world, the threat of currency instabilities accompanied by increasing protectionism. Therefore it is even more important today to be present in growth regions, in order to be able to serve these markets from own local production sites.

Assuming a continuing recovery in the world economy, we are forecasting an increase in sales of at least 10% and a significant rise in the operating result (EBIT) to €150 –165 million.

VISION 2015 – GROUP SALES OF €2.5 BILLION AND SIGNIFICANTLY IMPROVED QUALITY OF RESULT

With our investments in new technologies – key words being lightweight construction, alternative energies, electric mobility and energy efficiency – we have created the basis for future growth. We are assuming that we will be able to grow organically over the next five years by more than 10% per year in terms of sales. For 2015 we expect an increase in turnover for SGL Group to around €2.5 billion, which will be mainly driven by high growth rates in our Business Areas GMS and CFC. This excludes the at-equity consolidated joint ventures, whose turnover in 2015 could reach the 500 million Euro mark. At the same time the quality of the sales and operating result of the Group will substantially improve, as they will rest on a broader base.

Our thanks is directed to all employees in SGL Group for their commitment, without which our return to profitable growth would not have succeeded. And not least, our customers and suppliers have also contributed to our success. At the same time we wish to thank our shareholders for the confidence they have shown in us.

An exciting future lies ahead of SGL Group. We are entering a new growth and development phase in the company. For this purpose we have set ourselves ambitious targets which we will pursue consistently.

Yours sincerely,

The Board of Management of SGL Group

Robert J. Koehler **Theodore H. Breyer** **Armin Bruch**

Jürgen Muth **Dr. Gerd Wingefeld**

Report of the Supervisory Board

Dear Shareholders,

After the crisis year 2009, the global economy recovered more quickly and more robustly than expected in 2010. The businesses of SGL Group benefited from this economic upturn. We originally expected that our operating result in 2010 would at best equal that of 2009. The recovery of the global economy led to a satisfactory increase in Group EBIT of almost 16% and our sales revenue also grew double digit.

The Supervisory Board of SGL Carbon SE during the year under review intensively focused on the development of the Company. We supported the Board of Management with advice throughout this process and closely monitored the management of the business. The Board of Management kept us informed regularly, timely and comprehensively. Where legislation or the Articles of Incorporation required the Supervisory Board to make decisions concerning individual transactions and actions of the Board of Management, we were involved at an early stage and passed the corresponding resolutions.

The Supervisory Board met four times in the year under review, on March 16, April 30, September 9 and December 10. Prior to these meetings, the Board of Management conducted in-depth discussions with the representatives of both the shareholders and the employees. Additionally, the Board of Management provided regular reports on material transactions, quarterly financial statements, and the response in the media and financial markets. I myself was in regular dialogue with the chairman of the Board of Management concerning specific developments and issues. The chairmen of the Supervisory Board committees also held discussions with their colleagues on the Supervisory Board and members of the Board of Management in preparation for the committee meetings.

KEY ISSUES

The Company's financial situation and the outlook for the following quarter and the rest of the year were discussed in all of these meetings. This included in particular trends in the operational and financial KPIs of the Group and the individual businesses as well as the status of the risk management system with its risk management measures.

In addition to the 2009 annual financial statements, items discussed in the March meeting included the final budget for 2010 and the notice and agenda for the Annual General Meeting on April 30. Moreover, the Supervisory Board was provided a summary review of the development of SGL Group joint ventures.

In the April meeting, we were primarily informed about the current business situation and the Board of Management's assessment of the further business development for the remainder of 2010.

The September meeting took place near Salzburg, Austria. A visit to the production facility of our Benteler-SGL joint venture in Ried im Innkreis, Austria and discussions with the local management provided the Supervisory Board with the opportunity to personally observe the production of carbon fiber composite components for the automotive industry. Furthermore, the Supervisory Board was provided information concerning the operational planning assumptions and it discussed strategic options on the Group and business level.

Operational planning for 2011 as well as medium-term was extensively discussed in the December meeting. Moreover, we were informed about individual projects, for example, potential cooperations in Asia.

CORPORATE GOVERNANCE

With respect to the further development of the German Corporate Governance Code as revised on May 26, 2010, we updated the corporate governance principles of SGL Carbon SE in the December meeting.

The primary change in the principles is the objective provided in the Code as an obligatory recommendation aiming for diversity in the composition of the supervisory board and in the filling of executive positions as well as an appropriate consideration of women. For more information, please refer to the Corporate Governance Report on pages 32-37.

The declaration of compliance adopted in December pursuant to Section 161 of the German Stock Corporation Act (AktG) contains three exceptions to the obligatory recommendations of the German Corporate Governance Code. The declaration is included in the Corporate Governance and Compliance Report in this Annual Report and has also been published on the Company's website.

ACTIVITIES OF THE COMMITTEES

The Supervisory Board has set up a total of four committees in order to ensure the efficient discharge of its duties. The members of these committees are listed in the Corporate Governance Report (page 33). At the plenary sessions of the Supervisory Board, the committee chairmen reported in detail on the work of the committees.

In its April meeting, the Supervisory Board adopted to combine the Strategy and the Technology Committees into one committee. In its meeting of September 8, this committee focused on the portfolio of SGL Group and its further development.

The Audit Committee is informed of the Company's financial results on a quarterly basis prior to their publication. Within the context of its review of the quarterly financial statements, the Audit Committee also discussed ongoing issues relating to reporting and internal audit, as well as any other special topics of current interest. The meetings in March and December were also attended by the auditors in order to discuss the audit procedures, key audit issues, and material findings in a timely manner. The chairman of the committee was kept constantly informed verbally and in writing regarding the status and progress of the audit, and with regard to the documentation and validation of the core processes for the internal control system. In addition to the annual financial statements and consolidated financial statements, the Audit Committee focused on the Company's risk identification and management system, the efficiency of the internal control system, the audit fees for 2010, the audits carried out in 2010, and the key findings of the internal audit department together with the audit plan for 2011, as well as the status and development of the Group's pension obligations. Furthermore, the Audit Committee was continuously provided with information regarding the tax situation as well as the status and management of derivative financial instruments. It participated actively in the establishment of global compliance management and received a direct report on this matter from the Chief Compliance Officer.

The Personnel Committee met a total of three times in the year under review. The core topics for consultation and adoption of resolutions were agreements with the Board of Management, reappointments of members of the Board of Management and the introduction of a deductible in D&O insurance policies and the objective with regard to diversity, which is described in further detail on page 33 of the Corporate Governance Report.

In June 2010, the Nominating Committee unanimously approved the succession of Dr. Claus Hendricks by Mr. Edwin Eichler.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2010

Both in the Audit Committee as well as in the full meeting on March 15 and 16, 2011, the Supervisory Board verified that the books and records, the financial statements of the SGL Carbon SE parent company and the consolidated financial statements for the period ended December 31, 2010, and the management reports of SGL Carbon SE and of the Group have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, and were issued with an unqualified auditors' opinion. The Supervisory Board is satisfied as to the independence of the audit company as well as the persons acting for the audit company, and issued the audit mandate in accordance with the resolution of the Annual General Meeting of April 30, 2010. We received the audit reports for the consolidated and single-entity financial statements promptly. The Audit Committee examined these documents in detail, and they were also examined by the full meeting of the Supervisory Board. No objections were raised, either by the Audit Committee or from our own examination. The Supervisory Board has approved the financial statements prepared by the Board of Management; the annual financial statements are thereby adopted. We concur with the Board of Management's recommendation for the appropriation of profits.

In its meeting on March 16, 2011, the Supervisory Board also discussed the disclosures in the notes to the financial statements pursuant to section 315 (4) of the German Commercial Code (HGB). We refer to the corresponding disclosures in the management report (page 90). The Supervisory Board has examined the disclosures and is satisfied that they are complete.

COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

On April 8, 2010 our longest serving member of the Supervisory Board, Dr. Claus Hendricks, passed away unexpectedly at the age of 72 after a short, severe illness. He had been a member of the Supervisory Board since April 1996 and was the chairman of the Technology Committee since 2003. We consistently held Dr. Hendricks in high regard because of his professional competency and personal warmth, which he also demonstrated to many employees of the Company. Through his constructive work in the Supervisory Board, he contributed significantly to the Company's development. We will remember him with gratitude.

With the decision of the competent registry court on July 29, 2010, Mr. Edwin Eichler was appointed as a member of the Supervisory Board of SGL Carbon SE to succeed Dr. Hendricks. The election by the Annual General Meeting will take place in May 2011. After taking over the Board position on short notice, Mr. Eichler could in the fiscal year 2010 participate in less than half of the Supervisory Board meetings.

In April 2010, the Supervisory Board elected Ms. Susanne Klatten to succeed Mr. Andrew Simon in the Personnel Committee.

In September 2010, the Supervisory Board unanimously agreed to the reappointment of Mr. Theodore H. Breyer and Mr. Jürgen Muth as members of the Board of Management of SGL Carbon SE for a term of three years, from July 1, 2011 to June 30, 2014. Furthermore, Mr. Breyer was confirmed as Deputy Chairman of the Board of Management.

In December 2010, the Supervisory Board unanimously decided to reappoint Mr. Armin Bruch and Dr. Gerd Wingefeld for an additional three-year term from October 1, 2011 to September 30, 2014 as members of the Board of Management of SGL Carbon SE.

In February 2011, the Supervisory Board unanimously reappointed Mr. Robert J. Koehler as Chairman of the Board of Management of SGL Carbon SE for a period of three years from January 1, 2012 to December 31, 2014.

The Supervisory Board would like to thank the Board of Management, the employees and the employee representatives of all Group companies for their work, without which the strong performance of the SGL Group in 2010 would not have been possible.

Wiesbaden, March 16, 2011

The Supervisory Board

Max Dietrich Kley
Chairman

Corporate Governance and Compliance Report

Responsible Corporate Governance

The term "corporate governance" refers to a responsible and transparent corporate management and control focused on long-term value creation. These principles have long formed the basis of all our decision-making and control processes. Corporate management and control at SGL Carbon SE is structured around the relevant legal provisions, in particular, stock corporation and capital markets law, the Articles of Incorporation, the Rules of Procedure for the Supervisory Board and the Board of Management in SGL Carbon SE's Corporate Governance Principles, and the German Corporate Governance Code.

Objectives for Composition of the Supervisory Board

In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board defined the following objectives in December 2010:

Part of good corporate governance practice is to ensure that the company's governing bodies appropriately correlate with the company's structure. In this spirit the Supervisory Board is to be composed of members who, as a group, possess the required knowledge, skills and professional experience to duly perform the Supervisory Board's responsibilities.

The age limit for Supervisory Board members is generally 72. Each member shall ensure that he or she has sufficient time to fulfill his or her mandate. Supervisory Board members who also sit on the management board of a publically traded company shall not accept memberships of more than three supervisory boards in publically traded companies outside the Group and on supervisory bodies of companies with comparable requirements.

All members of the Supervisory Board shall be able to duly perform the duties of their office. At least one member shall be a financial expert with experience in the fields of financial accounting and/or financial auditing to ensure that all responsibilities associated with the Company's financial accounting are carried out properly. The Supervisory Board shall include members from different countries to reflect the corporate structure of SGL Group. Members of the Supervisory Board shall have experience in the business areas of SGL Group, such as in the steel industry or with a technology company. The number of members with experience in technical fields (in particular the fields of chemistry and engineering) and the number of members with commercial backgrounds shall be well balanced. Furthermore, the Supervisory Board shall always have a sufficient number of independent members.

The Supervisory Board shall continue to make efforts to ensure that the number of women on the Board is appropriate. Currently, the Supervisory Board has one female member. The Supervisory Board has set itself the goal to increase the share of women on the Board.

The objectives recorded here shall be taken into account when candidates are proposed to the responsible election committees (incl. employee representatives) for the election of Supervisory Board members. The Supervisory Board shall report routinely on the status of achieving these goals in the Corporate Governance Report.

Members of the Supervisory Board shall disclose any conflicts of interest to the chairman and/or deputy chairmen of the Supervisory Board. Any significant conflicts of interest on the part of a Supervisory Board member that are not merely temporary in nature shall lead to that member's resignation from the Board.

Close Cooperation between the Board of Management and the Supervisory Board

The Board of Management and the Supervisory Board of SGL Carbon SE work closely together in the interest of the Company and pursue the common goal of sustainably increasing the Company's enterprise value. The Board of Management regularly, comprehensively, and promptly reports all relevant developments within the Company to the Supervisory Board. Such developments primarily include current business developments, planning as well as risk and compliance management. It is the Supervisory Board's responsibility to monitor the fundamental business decisions made by the Board of Management and advise it on business matters. The Supervisory Board is directly involved in decisions of fundamental importance to the Company. Such decisions may include, for example, the commencement of new business operations, discontinuation of existing business operations, or issuance of bonds. The Supervisory Board of SGL Carbon SE consists of six shareholder and six employee representatives. All members of the Supervisory Board are appointed by the Annual General Meeting, which is required to vote for the candidates for employee representative proposed by the employees. In accordance with the Articles of Incorporation of SGL Carbon SE, in the case of a split resolution the chairman of the Supervisory Board or, if the chairman is unable to participate in a resolution vote, the deputy chairman representing the shareholders, has the casting vote. No conflicts of interest occurred among the members of the Board of Management or the Supervisory Board in the reporting period. The Company has taken out liability insurance for the members of the Board of Management and the Supervisory Board (D&O insurance). The deductible stipulated by the German Management Board Compensation Act (VorstAG) will be introduced when board member contracts are extended. There were no contracts for advisory or other services between Supervisory Board members and the Company.

Committees Support the Work of the Supervisory Board

The Supervisory Board has established a total of four committees, all of which operate in compliance with the requirements of the German Corporate Governance Code and the German Stock Corporation Act (AktG). These committees are as follows:

PERSONNEL COMMITTEE

The Personnel Committee, chaired by Max Dietrich Kley, advises the Supervisory Board principally on matters relating to the legal relationship between the Company and current and former members of the Board of Management. It reviews the remuneration of the members of the Board of Management and submits proposals to the plenary sessions of the Supervisory Board for their final decisions (see remuneration of the Board of Management described below). In addition, the committee submits proposals for the appointment of new members of the Board of Management to help prepare the respective Supervisory Board decisions. The committee's other members are Josef Scherer and Andrew Simon (until April 30, 2010), and Susanne Klatten (as of April 30, 2010).

NOMINATING COMMITTEE

The task of the Nominating Committee is to draw up a list of proposed candidates for election to the Supervisory Board as shareholder representatives at the Annual General Meeting. All shareholder representatives on the Supervisory Board are members of this committee, which is chaired by Max Dietrich Kley. After the passing of Claus Hendricks, the committee deliberated on who should succeed him and proposed the appointment of Edwin Eichler to the Supervisory Board by the court until the 2011 Annual General Meeting. The court appointed Edwin Eichler as member of the Supervisory Board.

AUDIT COMMITTEE

The Audit Committee consists of four members and is chaired by Andrew Simon. The other members are Max Dietrich Kley, Michael Pfeiffer, and Josef Scherer. The responsibilities of the committee include the Company's financial accounting, risk management, compliance, and consequently its internal control system. In addition, it is in charge of carrying out its own review of the consolidated financial statements of SGL Group and the annual financial statements of SGL Carbon SE. Furthermore, the committee is in charge of the relationship between the Company and its independent auditors. In this context, its main responsibility is to prepare the Supervisory Board's proposal to the Annual General Meeting for the appointment of the auditor. In doing so, it must ensure that the auditor is both qualified and independent. The committee also defines key audit issues, agrees on audit fees, and performs the preparatory work related to appointing the auditor.

STRATEGY/TECHNOLOGY COMMITTEE

The Technology Committee, which was chaired by Claus Hendricks, was merged with the Strategy Committee as a result of a Supervisory Board resolution. This joint committee discusses fundamental corporate strategy and important technological issues such as the Company's research and development portfolio. Chaired by Hubert Lienhard, the Strategy/Technology Committee also includes Helmut Jodl and Heinz Will along with all shareholder representatives.

Systematic Risk Management

Since a responsible approach to risk is an integral part of all good corporate governance practices, SGL Group developed an appropriate risk management system early on. The system ensures that the Company's risk management and control procedures are adequate and effective. The concept is to identify any business or financial risks as early as possible so that appropriate countermeasures can be taken. The Company is working to enhance the system on an ongoing basis and adapt it to reflect changing circumstances. The Board of Management reports at regular intervals to the Supervisory Board and in particular to the Audit Committee on existing risks and their development. Further information on the risk management system can be found in the risk report on pages 84-89.

Updated Declaration of Compliance

On December 10, 2010, the Board of Management and the Supervisory Board approved and signed the current version of the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (AktG). SGL Carbon SE meets the recommendations of the German Corporate Governance Code, as amended, with only a few exceptions.

Statement of the Board of Management and Supervisory Board of SGL Carbon SE pursuant to section 161 of the German Joint Stock Corporation Act on the German Corporate Governance Code

The Board of Management and the Supervisory Board declare that the Company is in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" („Regierungskommission Deutscher Corporate Governance Kodex") (version as of May 26, 2010) as published by the Federal Ministry of Justice in the section of official notices of the electronic Federal Gazette (publication as of July 2, 2010) with the following exceptions:

- Code section 3.8 (2): The liability insurance taken out by the Company for the Board of Management (D&O Insurance) does not contain any deductible in the current contracts. However, a deductible will be introduced for the Board of Management within the framework of the contract extensions in 2011.
- Code section 4.2.3 (4): The payment cap in case of the premature termination of an Board of Management member's contract without serious cause is, in our view, inappropriate with respect to the current contract- and compensation structure.
- Code section 5.4.6 (2): The articles of association of SGL Carbon SE provide for fixed remuneration for Supervisory Board members and additional remuneration for their work in committees. We are of the view that this rule is appropriate to our company, it has proven to be useful in the past and that it should thus be maintained for the foreseeable future.

The Board of Management and the Supervisory Board further declare that the Company had been in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the section of official notice of the electronic Federal Gazette since the delivery of the last statement on December 3, 2009 apart from the named deviations.

The Corporate Governance Principles of SGL Carbon SE furthermore satisfy almost without exception the non-obligatory suggestions of the Corporate Governance Code.

The statement is also published on the website www.sglcarbon.com

Active and Transparent Shareholder Communication

One of the primary objectives of the Board of Management is to report comprehensively to all target groups, in particular to our shareholders, and to communicate the same information at the same time. A calendar of regular events (such as the Annual General Meeting and conference calls with analysts and investors) is published on the Company's website, as are annual and interim reports, presentations for the Annual General Meeting, press releases, and ad hoc notifications.

Fixed and Variable Components of Board of Management Remuneration

In compliance with the German management board compensation act (VorstAG), the members of the Board of Management receive a total remuneration that comprises both fixed and variable components. The fixed component consists of a monthly salary, additional benefits and pension commitments.

The variable component consists of a short-term cash compensation, a medium-term cash compensation, and the SAR Plan. Furthermore, the Matching Shares Plan will be continued in its current form.

VARIABLE CASH COMPENSATION

The variable cash compensation comprises an annual bonus (60% of the variable cash compensation) and a multi-year component (40% of the variable cash compensation). 10% of the pre-tax bonus under the variable cash compensation shall be invested in SGL Carbon SE shares which are subject to a lock-up period of 24 months.

ANNUAL BONUS

A maximum bonus amount has been established for each member of the Board of Management (to be paid if 100% of target is achieved). The bonus payment depends on whether certain targets – defined by the Supervisory Board – are achieved as well as an evaluation of the overall performance of the Board of Management, which the Supervisory Board conducts (weighting: 30%). The Supervisory Board reserves the right to review the appropriateness of the targets and specify new ones. Currently the Supervisory Board has set defined earnings before tax (EBT) targets (weighting: 35%) and free cash flow targets (weighting: 35%). Both the EBT and free cash flow targets correspond to the Company's annual planning. As part of the overall evaluation of the Board of Management's performance, the Supervisory Board determines an amount to be paid between 0% and 100% of the target bonus amount defined for the Board of Management's performance. The performance evaluation shall be based on pre-defined evaluation criteria.

MULTI-YEAR COMPONENT

The multi-year component is determined based on the average attainment of annual return on capital employed (ROCE) targets within a three-year period. The Supervisory Board sets the ROCE target and threshold values each year.

STOCK APPRECIATION RIGHTS (SAR PLAN)

In addition to the base remuneration and the variable cash compensation, the Company has a SAR Plan. For further details on the SAR Plan, please refer to the notes on the management and employee bonus plans and the Remuneration Report in the notes to the consolidated financial statements (**Note 31** and **Note 32**, respectively).

The Supervisory Board regularly reviews the appropriateness of Board of Management remuneration. The appropriateness of the Board's remuneration is based on various criteria, including the responsibilities of the individual members of the Board of Management, their personal performance, the performance of the Board of Management as a whole as well as the financial situation, the performance, and the future prospects for SGL Group. Please refer to the Remuneration Report in the notes to the consolidated financial statements for further information on the participation programs and the remuneration received by each individual member of the Board of Management in 2010.

Supervisory Board Remuneration Regulated by the Articles of Incorporation

The remuneration of the members of the Supervisory Board, which is determined by the Annual General Meeting, is governed by section 12 of the Articles of Incorporation. Under these provisions, all members of the Supervisory Board receive a fixed base remuneration plus reimbursement of their out-of-pocket expenses. Each committee member also receives additional remuneration for attending a committee meeting. Please refer to the notes to the consolidated financial statements (**Note 32**) for further information on the remuneration received by each member of the Supervisory Board.

Directors' Dealings

Pursuant to section 15a of the German Securities Trading Act (WpHG), the members of the Board of Management and the Supervisory Board are obliged to disclose the purchase or sale of securities in SGL Carbon SE if the total value of these transactions exceeds €5,000 within a calendar year. The following table provides a summary of all transactions involving members of the Board of Management and the Supervisory Board as well as persons closely affiliated to them of which we were notified during the year under review. The respective notifications were immediately posted on SGL Group's website.

At year-end 2010, the members of the Board of Management neither directly nor indirectly held more than 1% of the outstanding shares in the Company. According to the latest notification the Supervisory Board member Susanne Klatten holds 22.25% of the outstanding shares through SKion GmbH.

Director's Dealings

Date of transaction	Name of person	Type of security/right	International Securities Identification Number (ISIN)	Type of transaction	Price/ currency	Quantity	Total amount traded
November 19, 2010	Robert J. Koehler	SGL Shares	723530/DE0007235301	Sale	€27.51	20,000	550,117.40 €
April 1, 2010	Robert J. Koehler	SGL Shares	723530/DE0007235301	Purchase	€21.67	9,967	215,984.89 €
April 1, 2010	Theodore H. Breyer	SGL Shares	723530/DE0007235301	Purchase	€21.67	7,647	165,710.49 €
April 1, 2010	Armin Bruch	SGL Shares	723530/DE0007235301	Purchase	€21.67	5,482	118,794.94 €
April 1, 2010	Jürgen Muth	SGL Shares	723530/DE0007235301	Purchase	€21.67	4,386	95,044.62 €
April 1, 2010	Dr. Gerd Wingefeld	SGL Shares	723530/DE0007235301	Purchase	€21.67	5,482	118,794.94 €

Compliance as Part of our Management and Corporate Culture

SGL Group introduced its Code of Business Conduct and Ethics five years ago. The Code underscores the obligation of SGL Group and its employees to comply with the law and internal guidelines and sets standards for ethical and law-abiding conduct. These principles reflect the common values that define SGL Group's corporate culture and business conduct. At SGL Group, compliance represents a fundamental responsibility of the Board of Management. The Board of Management does not tolerate any violation of the Code of Conduct and promotes a corporate culture in which issues relating to integrity can be openly discussed with superiors, the legal department, and compliance officers. All employees are personally responsible for ensuring that their actions and conduct are in line with the SGL Group Code of Business Conduct and Ethics and in compliance with the regulations of their respective work areas. In this context, management is expected to serve as an example when fulfilling its responsibilities relating to personnel and leadership.

SGL Group introduced and implemented specific compliance programs and measures many years ago. Our compliance programs are regularly reviewed and adjusted as required. In view of the increased requirements, and to further develop a standardized compliance approach, the Board of Management established the Group Compliance department in September 2009. Its task is to define the required comprehensive organizational, communications, and control structures for SGL Group worldwide. The objective is to set up a compliance management system that is preventive and that is improved continuously based on a constant influx of new experiences and insights. Effective compliance goes beyond merely ensuring the adherence to legal and formal requirements and structures, and must become an integral part of value-oriented corporate management.

In addition, SGL Group's compliance organization was further completed in 2010. First, the Compliance Committee was created, which is made up of the chief compliance officer, the head of Group compliance, the compliance officers from the three business areas and the corporate functions. The Compliance Committee has an advisory role. It met twice in the reporting period. Second, the SGL Group compliance network was completed with the appointment of regional and local compliance officers. A local compliance officer was named for each company and location within SGL Group. This officer will act as the "local face of compliance" and ensure that compliance is an integral part of on-site business practices. The local compliance officers in Europe have undergone comprehensive training to prepare for their responsibilities. Their training included learning about the revised code of conduct, the whistleblower system and a guideline for handling gifts and invitations. The local compliance officers in North America and Asia will receive the same training during the first half of 2011.

The reporting structure for compliance was implemented in 2010. The Supervisory Board's Audit Committee addressed the Company's compliance activities in detail at its meeting in December 2010.

A comprehensive, global antitrust compliance program was introduced at SGL Group already in 2001. Regularly scheduled training sessions are an integral part of the compliance program. All new employees of the respective target group participate in a personal training session, after which refresher courses take place at least every two years. Since the program was introduced, more than 135 training sessions have been conducted worldwide with approximately 2,400 employees. In 2010, roughly 200 employees took part in the personal training. Furthermore, the antitrust compliance program was supplemented by an interactive e-learning module, in which some 90 employees in Europe and Asia participated.

Other measures relate to, for example, capital markets law and compliance with the respective Group guidelines, which regulate trading in SGL Carbon SE securities for members of the Board of Management, the Supervisory Board and the Company's employees, the proper handling of potential insider information, and the maintenance of insider lists, to name a few. An Ad-hoc Committee has been in place for years now. The committee consists of representatives of a number of company functions who examine potential ad-hoc issues and ensure that potential insider information is handled in accordance with legal provisions. Our compliance program for export control was expanded to include an IT-based compliance module that supports the efficient monitoring of relevant export transactions. Since it was introduced in 2009, the compliance module for export control was expanded to all European sites in 2010 as well as to our facility in Banting (Malaysia). Furthermore, training sessions and workshops on export control compliance are held regularly.

Corporate Social Responsibility

SGL Group believes that the awareness for corporate social responsibility is not only a corporate obligation to society but also an important prerequisite for financial success and for safeguarding the competitiveness of our sites.

Along with socially responsible behavior, SGL Group's sustained effort is to identify and evaluate risks and opportunities – and take appropriate action – in the areas of environmental protection and occupational, product and process safety.

Consequently, sustainability for us means developing effective and consistent solutions and applying them to specific environmental, health and safety programs (EHS), which focus on finding a balance between environmental and commercial issues, leading to a sustainable competitive edge.

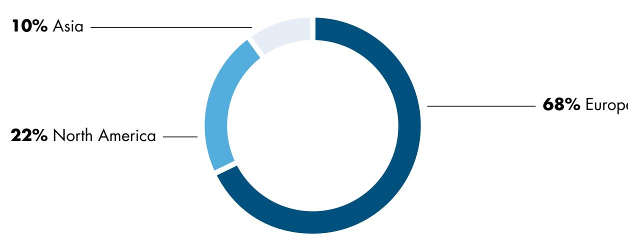
Our central objective is to be proactive and well prepared as we look ahead to the future.

Headcount Mirrors Economic Development

SGL Group's headcount reflects the unexpectedly rapid recovery in the reporting year as much as they did the 2008/2009 economic crisis. After peaking at approximately 6,500 employees at year-end 2008, the Group's workforce totaled 5,976 a year later, rising back to 6,285 by the end of 2010 – a year-on-year increase of 5.2%.

Our European employees once again accounted for the largest share at 68%, with our staff of 2,480 in Germany representing 40% of the total workforce and 58% of the European workforce. North America's share in the Group's headcount rose slightly to 22% (2009: 20%), while Asia's share remained constant at approximately 10%.

Employees by region



The proportion of women in the workforce has been increasing for years. Currently it lies at 13%, which is relatively typical for our industry. Notably, the proportion of women among our top executives (14%) mirrors the proportion in our workforce.

Training is an Investment in the Future

Throughout the economic crisis, SGL Group continued its training program for young people. The Group had a total of 162 apprentices at seven German facilities, with the majority located at our Meitingen (89) and Bonn (42) sites. Our apprenticeships include process mechanics, machine and plant operators, lathe operators, industrial technicians, mechatronic technicians, electronic technicians, industry specialists, IT specialists, office communications specialists, warehouse logistics specialists and warehouse managers. Every competent apprentice who completes his or her training with SGL Group can look forward to attractive future career opportunities.

Accepting Responsibility for Environment and Climate Protection

Climate protection, scarce resources, rising energy costs and their impact on the competitiveness of our products all require early identification and sustainable action in the areas of environment, health and safety for our employees, customers, products and processes.

SGL Group sets course for a sustainable and environmentally sound future by taking forward-looking, ecologically responsible action. We concentrate on improving our resource and energy efficiency in order to maximize environment related cost savings potential.

One of the central responsibilities of our Corporate EHSA Organization is the strategic alignment, realization and implementation of environmental protection measures in our operations, production and planning. Setting and implementing corporate-wide EHSA standards together with the local EHS officers are basic prerequisites for our success.

By monitoring, assessing and implementing the required measures, SGL Group makes a contribution to safeguarding the trends in the area of environmental protection and climate change, which result from developments at the EU and national levels for the good of society. We took great care to account for the required CO_2 emissions certificate trading data and statistics and submitted this information on time.

Best Possible Technologies for Environmental Protection

We take a clear, uniform approach to environmental protection: employing the best possible technology. This enables all business units, subsidiaries, and facilities to work together to achieve and maintain our corporate objectives.

With an eye toward cost-effectiveness, we structure our operations to meet the legal requirements and to have minimal impact on the environment. It goes without saying that the health and safety of our workforce take precedence over economic advantages.

Steady and sustainable improvement of environmental protection and occupational safety as well as early identification of process risks with potential effects on our employees and the environment are always at the forefront of our actions. Effective environmental protection and technological advancement as the foundation for sustainable economic success involve resource conservation and efficient energy management as corporate priorities.

Priorities in 2010 included:

- Targeted investments in environmental protection facilities
- Registration completion of REACH-relevant chemicals (substances > 1000 t)
- Sustainable integration of new sites and incorporation of their activities into our CSR policy
- Continued environmental protection and occupational health and safety programs
- Analyses and programs for energy management

SGL Group has invested more than €30 million in the past four years in BAT equipment for environmental protection. Our environmental protection investments focus on regenerative thermal oxidation facilities and methods for treating production emissions. Our goal remains to develop innovative solutions together with the leading companies in the emission and wastewater treatment industry that allow us to integrate environmental protection into our production processes. Through joint ventures (BMW, Lenzing Chemie, Benteler or Abeking & Rasmussen), SGL Group gains partners that have built a strong position in their industries and therefore provide expertise that leads to a continuous improvement in environmental protection and enables a reduction in greenhouse gases.

Carbon for environmental conservation

The unique properties of carbon make it particularly suitable for applications which address the global trends today's society has to face to help protect the environment. We already generate more than half of our revenues with applications that help reduce CO_2 emissions and conserve natural resources.

We plan to continuously increase this proportion of applications for the conservation of the environment and resources in the coming years. At the same time, we are working on steadily reducing our own CO_2 emissions in our production processes. The trend towards electric mobility in the automotive industry and the necessity to reduce carbon emissions are driving lightweight construction and boosting the use of carbon fiber reinforced plastics (CFRP). Offshore wind turbine installations promise a lot of growth in this area.

Successful Implementation of REACH

The first phase of the new EU regulation on chemicals (REACH) requires us to register substances that are produced or imported in quantities that exceed 1,000 tons per year as well as substances with specific risk potential by a specific deadline. We successfully met this requirement by November 30, 2010.

SGL Group worked closely with the Substance Exchange Forums (SIEF) stipulated by lawmakers to fulfill the requirements needed to continue to produce and market these substances in the future.

The comprehensive substance dossier for synthetic and expanded graphite SGL Group submitted to the European Chemicals Agency (ECHA) as part of this process showed that this substance is not hazardous.

We have incorporated the organizational requirements needed to handle future registration phases efficiently (deadlines in 2013 and 2018) into our workflows and IT infrastructure.

In order to ensure delivery reliability for the raw materials we require and to further promote customer loyalty, we are in close contact with our customers and suppliers with respect to REACH. We currently do not foresee any significant changes to our portfolio on account of REACH.

With regard to the UN's Global Harmonized System (GHS) and Classification, Labeling, Packaging (CLP), based closely on REACH, we submitted the currently stipulated notification to ECHA on time.

Process Safety Reduces Risk

SGL Group's risk management, which was established years ago for environmental protection, occupational and process safety, helps to identify and evaluate potential environmental and process risks at an early stage and take appropriate action to minimize them.

Our risk minimization system, which was established together with our insurer FM Global and adapted to SGL Group's requirements, is a substantial component of operational risk management. It provides for centrally organized audits with external specialists. The system yields comprehensive reports and action items that serve to eliminate and minimize risks. It also allows us to carry out facility assessments at regular intervals.

Since 2004, 18 SGL Group sites have achieved the Highly Protected Risk (HPR) level and received the corresponding certificate. The certificate indicates that the site takes proactive measures to control and minimize potential risks, guaranteeing our customers and employees a high degree of process security and, in turn, delivery reliability. It is our ambition to achieve this status at our other sites as well.

Achieving the Highest Possible Degree of Occupational and Health Safety

Improving workplace safety is part of the daily efforts at SGL Group's facilities, supported and monitored by Corporate EHSA.

We set up a Group-wide Incident Management System in order to quickly and efficiently respond to accidents related to process, environmental and occupational safety. We systematically evaluate data on accidents, draw conclusions and then communicate recommendations and preventative measures to the appropriate departments. With the help of a standardized reporting system, the distribution of "safety alerts" and information on preventative measures across all sites, which indicate the latest risks and provide tips for preventing repeat accidents, we will continue to reduce accident frequency and severity.

Our local Environment, Health & Safety (EHS) departments at all SGL Group sites hold regular training and orientation sessions in order to maximize occupational safety and to encourage employees to proactively avoid workplace accidents and maintain plant safety. We integrate all new locations immediately into our health and workplace safety programs to ensure that they are brought up to our high standards quickly and effectively. Specific programs for improving occupational safety are conducted at locations with higher accidents rates. We support these programs and ensure their implementation with regular safety facility inspections, systematic workflow and individual activity risk assessments, as well as routine evaluations of standard operating procedures (SOP). This guarantees that our employees are continuously trained in safety awareness.

As a consequence, the worldwide frequency rate of accident-related work absences has dropped by more than half from 2.38 to 1.05 since 2002 despite the rising number of facilities. Targeted initiatives and information events at the individual facilities have made it possible to quickly and effectively prevent critical developments.

The Share and Investor Relations

The SGL Carbon SE share developed significantly better than the benchmark DAX index during fiscal 2010. However, it could not quite keep up with the outstanding performance of the MDAX. At a closing price of €27.02, market capitalization equaled €1,771.6 million.

Regional Differences in 2010 Stock Market Performance

The small countries of Latin America were the biggest gainers in the global stock markets in 2010 since they benefited substantially from the strong demand for raw material exports from emerging markets. The Asian stock exchanges – with the exception of China and Japan – experienced a successful year, as well. The trend was divided on the European stock exchanges. While Greece, Spain, and Italy suffered double-digit declines due to the debt crisis, the remaining countries in Europe reported healthy growth. The US indices also did well, improving by roughly 20%.

On the whole, the recovery of the stock markets was stronger than anticipated in 2010, both in the emerging markets and the industrialized countries. After significant volatility during the first half of 2010 due to the debt problems within the Euro zone, a strong rally set in during the second half of the year. The main reasons for the rally were positive economic data and corporate results and a favorable assessment of the stock market valuations.

Germany's leading index, the DAX, was able to increase its value by 16% in the course of 2010. At the end of the year the index had risen to 6,914 points, a considerable rise from the previous year's closing index of 5,957 points. The MDAX, which includes the SGL Carbon SE share, increased more than twice as much. It rose 35% above the previous year's close of 7,507 points. On December 31, 2010, it closed at 10,128 points.

SGL Carbon SE Share Boosted by Improved Outlook for Fiscal 2010

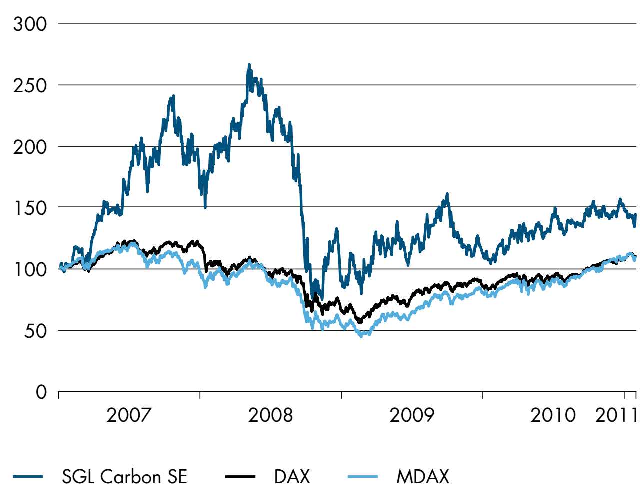
The SGL Carbon SE share was able to participate in the general stock market recovery. The share price stood at €21.41 at the beginning of fiscal 2010 and closed 26% higher at €27.02 at the end of the year.

Our share evidenced stronger development than the DAX throughout the year. A comparison to the MDAX, however, provides a more differentiated picture: In January 2010 our share significantly outperformed the MDAX due to a major new order announced for our subsidiary, HITCO, while in February and until March 18, 2010, it performed in line with the MDAX.

Key figures for the SGL Carbon SE shares

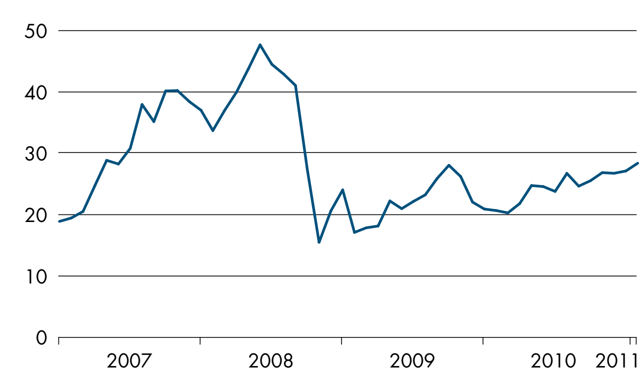
	2010	2009
Number of shares at year-end	65,577,459	65,379,227
High (€)	29.04	30.16
Low (€)	19.48	14.87
Closing price at year-end (€)	27.02	20.75
Market capitalization at year-end (€m)	1,771.6	1,356.6
Average daily turnover in XETRA-trading (number of shares)	425,986	457,029
Free float (%)	72.63	72.63
Earnings per share (€) (basic)	0.80	– 0.93

Relative share price performance

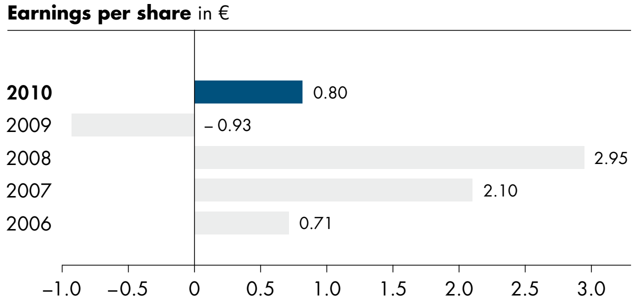


Together with the market as a whole it reached its annual low at €19.47 on February 15, 2010. In the two-week period after the presentation of our annual results on March 18, 2010, our share weakened again relative to the MDAX, due to the still cautious outlook for fiscal 2010. Following the announcement that we are constructing a new ultra-modern carbon fiber plant in Moses Lake, Washington (USA) to supply the Megacity Vehicle planned by BMW, the share price again caught up with the MDAX from the second week in April to the end of April 28, 2010. From that point on, the share started to outperform the MDAX, largely because we were able to upgrade our forecast for 2010 in our report on the first quarter, published on April 28, 2010, as well as in the half year report issued in August 2010. It reached its high for the year on November 9, 2010, at €29.04. The share was unable to sustain this performance in the last weeks of the year since we had to dampen the excessively high earnings expectations of several financial analysts who exceeded our guidance for 2011.

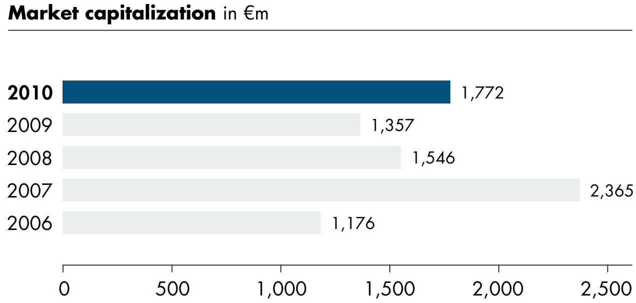
Share price performance in €



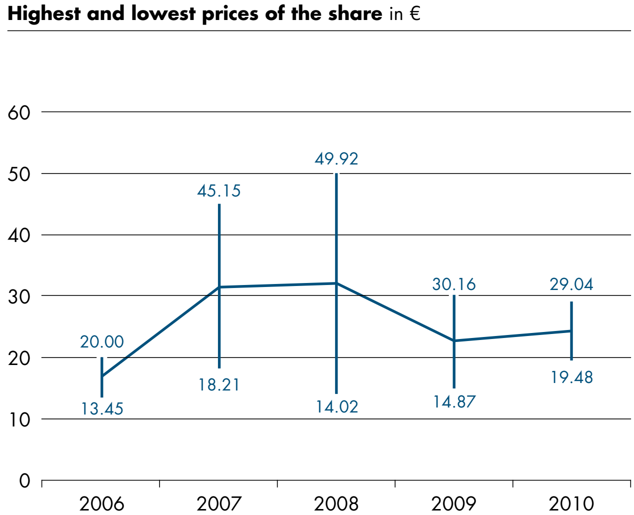
Earnings per share in €



Market capitalization in €m



Highest and lowest prices of the share in €



Market Capitalization and Trading Volume

Due to the higher share price, the Group's market capitalization rose in 2010. After €1,356.6 million in the previous year, it amounted to €1,771.6 million at the end of the year. Nevertheless, SGL Group occupied twenty-fifth place in the MDAX ranking of Deutsche Börse AG, after ranking twenty-first in the previous year, since the market capitalization of some other MDAX companies developed somewhat better than ours. The number of shares outstanding increased to 65,577,459 as of December 31, 2010, up approx. 200,000 shares compared to year-end 2009.

In line with the 15% volume decline in the MDAX in the year under review, the average volume of SGL Carbon SE shares in Xetra trading decreased by approx. 6% from 457,029 shares to 425,986 shares per day.

Shareholder Base Enhanced Further

On February 25, 2011 we received a notification from Volkswagen AG that the company had purchased a total of 8.18% of the shares of SGL Carbon SE. As part of the transaction, Volkswagen AG had acquired the 4.43% share held by Landesbank Baden-Württemberg. Volkswagen's investment supports the long-term objective of SGL Group to establish a small group of anchor investors in order to support our independence.

To our knowledge, the following institutions own shareholdings exceeding the 3% threshold that are subject to disclosure requirements:

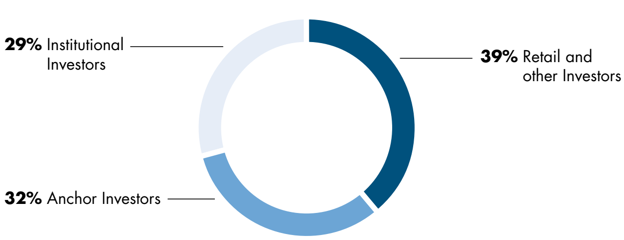
Voith AG	5.12%
Volkswagen AG	8.18%
SKion GmbH	22.25%

According to the shareholder survey conducted in April 2010, 29% of our shares are held by institutional investors, while about 32% are held by anchor investors. Approximately 40% of the shares are held by retail shareholders and other investors. The geographical distribution of institutional investors is as follows: About 32% of the shares are held by German investors, 42% by investors in the rest of Europe, and 13% by investors in the US.

Dividend Development

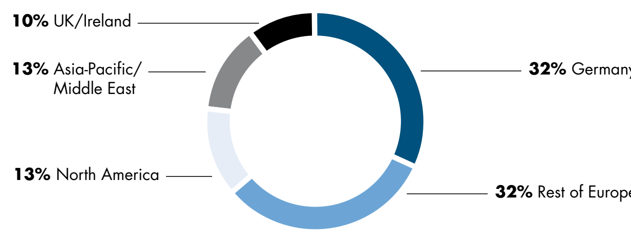
We are principally committed to paying our shareholders sustainable, earnings driven dividends. The Board of Management and the Supervisory Board regularly discuss the appropriate point in time for the reinstation of sustainable dividend payments and a fundamental dividend policy. In addition to the expected achievement of mid-term targets, this would take into account the future gearing development, the return on capital employed and free cash flow.

Shareholder structure*



* Status: April 2010

Geographical distribution of institutional investors*



* Status: April 2010

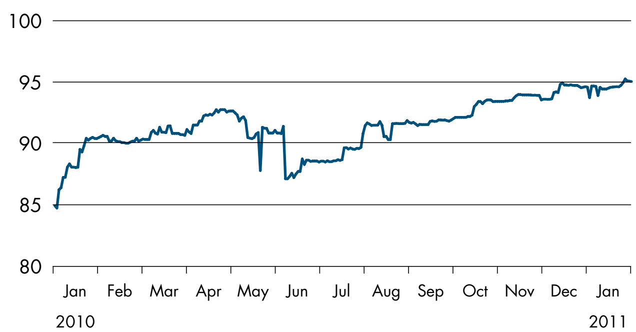
Transparent, Timely and Comprehensive Investor Relations

We provide all participants in the capital markets with transparent, timely and comprehensive information on current corporate developments, our strategy and possible structural changes. Our declared goal is to gain and maintain the confidence of shareholders. With this objective in mind, we continued to vigorously pursue our investor relations activities in 2010. In more than 400 one-on-one meetings with analysts and investors in Germany and abroad, we presented SGL Group and its growth strategy in detail.

We also participated in 16 roadshows and 13 investor conferences in 15 countries.

In line with the principle of fair disclosure, we treat all target groups equally with respect to the information we communicate. In this context, the Internet is an important communication channel. Our website (www.sglgroup.com) provides an overview of current IR activities based on our financial calendar under “Investor Relations”.

Performance of corporate bond in €
(matures May 15, 2015)



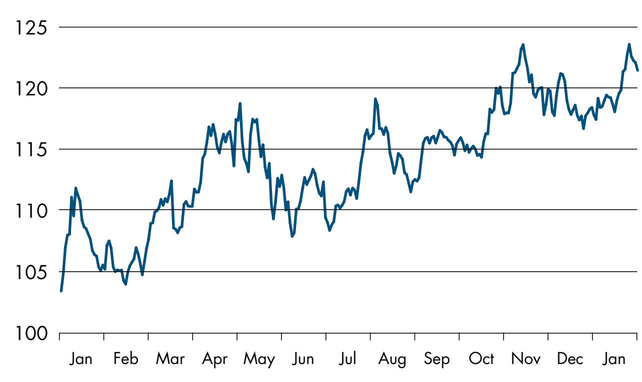
Performance of convertible bond in €
(matures May 16, 2013)

We publish our financial figures very timely and present them to journalists, analysts, and investors on the same day. In addition to annual and quarterly reports, further material such as presentations, press releases, and ad-hoc notifications can be found on our website. Reports on directors' dealings and the latest consensus forecasts of our financial analysts are also available online. Our annual report was downloaded more than 5,500 times from our website last year.

Last year's Annual General Meeting took place on April 30, 2010, at the Wiesbaden Kurhaus. A total of 775 interested shareholders and shareholder representatives demonstrated their appreciation for the SGL Group by participating in the meeting.

We received a platinum award for our 2009 annual report in the "2009 Vision Awards – Annual Report Competition" organized by the LACP (League of American Communication Professionals). Our annual report came in first place in the "Materials" category. More than 4,000 annual reports had been submitted for the competition.

Performance of Convertible bond in €
(matures June 30, 2016)



Each year, the German financial magazine Capital and the Society of Investment Professionals in Germany (DVFA) rate the IR activities of leading German and European companies. In this context, analysts and institutional investors are given an opportunity to rate companies with respect to target group orientation, transparency, track record, and extra financial reporting. SGL Group landed in eleventh place in the MDAX category. In the 2010 German Investor Relations Award presented by Thomson Reuters in cooperation with the German Investor Relations Association (DIRK), we came in twelfth place in the MDAX category. The result is based on a comprehensive study and survey of fund managers and analysts worldwide.

A total of 18 German and international financial analysts now cover SGL Group and our shares on a regular basis (2009: 15 financial analysts). They come to very different conclusions: At the end of January 2010, two analysts rated the share a buy, nine a hold, and six a sell, with target prices ranging between €20 and €32.

Analyst coverage

Bankhaus Lampe
Bankhaus Metzler
Berenberg Bank
Credit Suisse
Cheuvreux
Commerzbank
Deutsche Bank
DZ Bank
Goldman Sachs
HSBC
J.P. Morgan Cazenove
Landesbank Baden-Württemberg
Macquarie Capital
MainFirst
Merrill Lynch
UBS
UniCredit
WestLB

Key data SGL Carbon SE share

Trading locations	Xetra, Frankfurt, Hamburg, Stuttgart, Düsseldorf, Munich, Berlin, Bremen, Hanover
Security Identification Number	723 530
International Securities Identification Number (ISIN)	DE 000 723 5301
Stock index	MDAX
Market segment	Prime Standard
Reuters symbol	
XETRA	SGCG.DE
Frankfurt	SGCG.F
Bloomberg symbol	
XETRA	SGL GY
Deutschland	SGL GR

Further Information on SGL Group and its Shares:

Contact our Investor Relations department:

Phone: +49 611 6029-103
Fax: +49 611 6029-101
Email: Investor-Relations@sglcarbon.de

Visit our website (www.sglgroup.com). You can order or download additional documentation such as annual and quarterly reports from the site.

We look forward to hearing from you.

GROUP MANAGEMENT REPORT

The economic recovery had a positive impact on SGL Group's business operations, especially since the second half of 2010. The following Group management report provides detailed information on business performance and our expectations for the future.

Business and General Conditions

Organizational Structure and Business Activity

LEGAL STRUCTURE OF THE GROUP

SGL Carbon SE (the "Company"), headquartered in Wiesbaden (Germany), is quoted on the Frankfurt stock exchange and is a member of the MDAX index. SGL Group is made up of SGL Carbon SE, the operative holding company, together with its subsidiaries (a detailed overview of shareholdings of SGL Carbon SE can be found in the **Note 36**).

BUSINESS AREAS AND ORGANIZATIONAL STRUCTURE

The business activities of SGL Group focus on the development, production and sale of carbon products. SGL Group – The Carbon Company – operates globally as one of the leading and most innovative companies in the market and is consistently focused on creating added value for its customers. The Group's core expertise, developed over decades, includes a broad understanding of raw materials, application and engineering know-how and a command of high-temperature manufacturing processes. Our portfolio of products and technology comprises four types of carbon materials: coarse grain graphite, fine grain graphite, expanded natural graphite as well as carbon fibers and carbon fiber composites.

As a manufacturer of carbon products, SGL Group supplies a broad range of industries. Carbon is distinguished particularly by excellent electrical and thermal conductivity, resistance to heat and corrosion, its self-lubricating qualities, and its light weight combined with strength. Due to these unique material properties, we sell to a wide spectrum of industries, ranging from the more traditional industrial sectors, such as the steel, aluminum, automotive and chemical industries, to recent growth areas, such as solar, wind energy and the lithium ion battery and LED industry. The Company also supplies manufacturers in the nuclear energy, aerospace and defense sectors.

At the beginning of 2010, we further decentralized our organization, creating smaller and more flexible business units that are able to act closely to the market. These business units bear complete responsibility for their operating results. Accordingly, SGL Group is now divided into two Material Segments: Base Materials (BM) and Advanced Materials (AM). Our control and reporting segments remain the three established Business Areas: **Performance Products** (PP), **Graphite Materials & Systems** (GMS) and **Carbon Fibers & Composites** (CFC). Resource allocation is decided at this level and approved by the Board of Management at their annual objective meetings. Eight globally operating business units within these three business areas now handle day-to-day operations.

The Business Area **Performance Products** (PP) supplies the aluminum and steel industries as well as other metallurgical industries. The product portfolio covers carbon and graphite electrodes, cathodes and furnace linings.

The Business Area **Graphite Materials & Systems** (GMS) is active with its products in a number of industries. Its coarse and fine grain graphite and expanded natural graphite products are used primarily in the chemical, automotive, semiconductor, LED, lithium ion battery and solar power industries. At the beginning of 2010, the Business Unit New Markets was created combining the growth businesses of GMS.

The products of the Business Area **Carbon Fibers & Composites** (CFC) cover the entire value chain from carbon fibers to finished components. CFC's customers include manufacturers from the aerospace, wind energy and automotive industries. We transferred our brake disc business to the joint venture with Brembo, which was established in 2009. As a result, CFC now consists of three business units: Carbon Fibers & Composite Materials (CF/CM), Aerostructures (AS) and Rotor Blades (RB).

Organizational structure

Base Materials	Advanced Materials	
Performance Products (PP)	Graphite Materials & Systems (GMS)	Carbon Fibers & Composites (CFC)
Graphite & Carbon Electrodes (GCE)	Graphite Specialties (GS)	Carbon Fibers & Composite Materials (CF/CM)
Cathodes & Furnace Linings (CFL)	Process Technology (PT)	Aerostructures (AS)
	New Markets (NM)	Rotor Blades (RB)
Technology and Innovation (T&I)		
Six Sigma (SGL Excellence)		

The materials business based on carbon fiber is combined in CF/CM. AS includes our subsidiary HITCO in the US state of California, which manufactures components for the aviation and defense industries. RB includes our joint venture SGL Rotec, which manufactures long rotor blades (> 40 m) for on-shore and off-shore wind parks. Organizationally and operationally, SGL ACF (joint venture with BMW for the production of carbon fibers and fabrics for the automotive industry), Brembo SGL (carbon ceramic brake disc business) and Benteler SGL (development of carbon-fiber based components for the automotive industry) – all equity-accounted companies – also belong to CFC. However, these joint ventures are not reported in CFC's operating income, but reported as income from equity-accounted investments.

OUR SITES

SGL Group operates globally with a workforce of approximately 6,300 employees (as of December 31, 2010). We operate a total of 45 production facilities either directly or in cooperation with our joint venture partners, of which 24 are located in Europe, twelve in North America and nine in Asia.

With a service network in over 100 countries, SGL Group can accommodate the regional and industry-specific requirements of our customers and operate with flexibility. We consistently adapt to increasing globalization by building new facilities, such as our carbon and graphite plant in Malaysia, which is currently under construction.

MANAGEMENT AND CONTROL

SGL Group's organization and management principles are set forth in our Guiding Principles, in which the Board of Management establishes the Group's strategic direction. Fundamental business decisions of major importance are taken at only two management levels: the Board of Management and business unit management. Our eight global business units run the day-to-day operations, each of which obtain the necessary infrastructure and services from respective legal entities and plants. In addition, corporate functions support the Board of Management and perform services for all business areas, business units and legal entities.

SGL Group Worldwide Sites

Beyond the Guiding Principles, we have also defined Common Values to establish our corporate culture and business conduct. These values are reflected in SGL Group's Code of Business Conduct and Ethics. The Code underscores SGL Group's obligation to comply with the law and sets standards for ethical and legal conduct. Every employee is aware of the Code and it can be accessed on the Intranet at any time. Taken together, the Guiding Principles and Common Values shape our management culture, which is based on the principles of leadership and management by objectives. The Board of Management, the business areas and the centralized functions agree on objectives for the Group, business units and individual executives based on a defined set of parameters. Remuneration models and performance-related bonus programs for the Board of Management and all executive levels are derived from this process.

The members of the Board of Management of our Company receive a total remuneration that comprises both fixed and variable components. The fixed component consists of a monthly salary, additional benefits and pension commitments. The Supervisory Board debates and decides on the structure of this remuneration system and also reviews the system at regular intervals. In August 2009, a new law on management board remuneration (VorstAG) was passed in Germany. The variable cash components of the Company's remuneration system were restructured accordingly to meet the new law's requirements relating to the sustainability of the remuneration. The new remuneration system was submitted to the Annual General Meeting for approval on April 30, 2010, and passed with over 97% of the votes in favor. The annual bonus plan was capped in favor of a multi-year component, which rewards target achievement over a three-year period. Objectives for the annual component include profit before tax, free cash flow, strategy and employee development as well as cost savings. The multi-year component is coupled to the average return on capital employed. The share-based remuneration plans are continued (SARs and Matching Share Plans). The remuneration from the SAR Plan depends on relative and absolute share price performance. The Supervisory Board regularly reviews the appropriateness of Board of Management remuneration, which is based on various criteria, including individual member responsibilities, their personal performance and the performance of the Board of Management as a whole. The economic climate, the Group's performance, and SGL Group's future prospects represent additional factors under consideration.

Please refer to **Note 32** in the notes to the consolidated financial statements for further information on the stock option plans and remuneration received by individual members of the Board of Management.

The remuneration of the members of the Supervisory Board, which is determined by the Annual General Meeting, is governed by section 12 of the Articles of Incorporation. Under the provisions of this section all members of the Supervisory Board receive a fixed basic remuneration plus reimbursement of out-of-pocket expenses. Each member of a committee receives additional compensation for attending a committee meeting. Further information on the remuneration received by each member of the Supervisory Board can also be found in **Note 32** of the notes to the consolidated financial statements.

PRODUCTS, SERVICES AND BUSINESS PROCESSES

The core product of the Business Area **Performance Products** (PP) consists of high-quality graphite electrodes utilized in electric arc furnaces that recycle scrap to produce steel. The share of electric arc furnaces in global steel production is currently approximately 30%. Graphite electrodes account for a relatively low proportion of total electric steel manufacturing costs (2 – 3%), but the electrodes' performance has a significant impact on the profitability of steel manufacturing. Based on global electric steel production in 2010, experts are currently anticipating annual growth of close to 5% in the next few years.

High-quality cathodes used in the production of aluminum constitute products that are becoming increasingly important for this business area. Compared with electrodes, cathodes used in aluminum smelters have a much longer life of up to approximately seven years, and are therefore considered capital goods. Experts anticipate that, once the crisis has been overcome, the demand for aluminum will rise by approximately 5% p. a. in the medium term. Based on this forecast, SGL Group expects cathode demand to rise for replacement linings after the transition year of 2010 and the requirement for new aluminum smelters to increase after some time.

The Business Area **Graphite Materials & Systems** (GMS) comprises a broad range of customized graphite-based products. The Business Unit Graphite Specialties produces graphite components according to customer specifications that are manufactured, cleaned, coated and, for instance, refined with special coating. The Business Unit Process Technology offers products and solutions and produces graphite heat exchangers, columns, pumps and systems for the chemical and environmental industries. The new Business Unit New Markets, formed at the beginning of 2010, combines the future growth drivers of GMS in an effort to discover new sales channels and markets and to accelerate market penetration together with prospective partners.

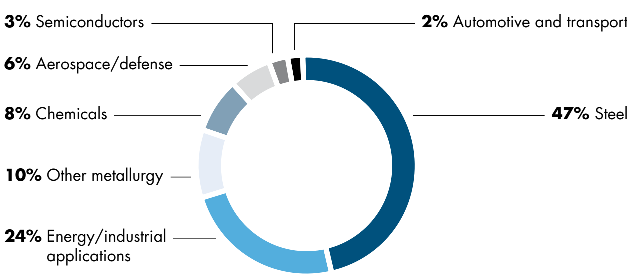
The Business Area **Carbon Fibers & Composites** (CFC) continues to benefit from the substitution trend in basic materials. Carbon fibers and carbon fiber composites have unique properties, such as their light weight and material stiffness, and are increasingly replacing more traditional materials. CFC is benefiting above all from surging demand in the aerospace and the automotive industries as well as in alternative energy industries such as wind energy (for more detailed information on the business areas, refer to "Performance of the Business Areas" on pages 68-73).

The principal raw materials used by PP and GMS are petroleum coke, pitch and anthracite. We purchase these raw materials primarily from suppliers with whom the Company has maintained long-term business relationships based on annual framework agreements. The main raw material used by CFC is the so-called polyacrylonitrile (PAN) precursor. We secured our PAN precursor supply in 2010 by continuing our joint venture with Mitsubishi Rayon (Japan) and our joint venture production with Lenzing AG. The Group uses both international and local energy suppliers to cover its energy requirements (natural gas and electricity) for the manufacturing processes, some of which are very energy intensive.

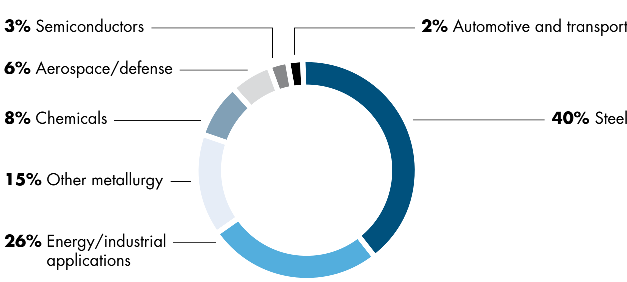
MAJOR SALES MARKETS

SGL Group's major customer industry is the steel industry, accounting for 47% of Group sales in 2010 (2009: 40%) as a result of the significant recovery in electric steel production. The relatively slight decrease in the areas of energy generation and industrial applications can be traced to the somewhat lower project-related sales from SGL Rotec, a manufacturer of rotor blades for the wind energy industry. Lower sales in the aluminum industry was the primary cause of the decline in sales with customers in the category other metallurgy. The share of total annual sales revenues did not change year on year in all other customer industries.

Sales revenue by customer industry in 2010



Sales revenue by customer industry in 2009



SGL Group's global positioning is also reflected in its regional sales distribution. In 2010, we generated 83% of Group sales outside of Germany.

In terms of absolute sales there was a considerable increase in North America in 2010, which partly related to currency translation, since the US dollar appreciated roughly 5% against the euro over the year. Sales in Europe were up approximately 11%, while business in Germany fell short of 2009 levels because of changes in production equipment and project postponements at SGL Rotec. The slight decrease in Asia resulted from the somewhat weaker business trends in the Middle East, while business in the Far East was substantially higher than last year.

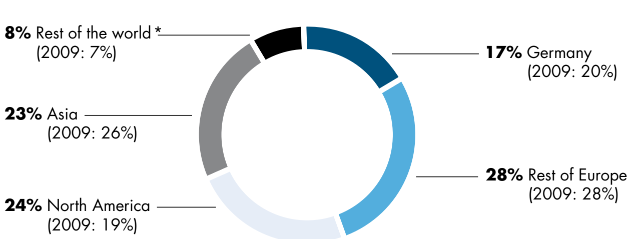
Sales revenue by region

€m	**2010**	2009	Change
Germany	236.8	241.7	–2.0%
Rest of Europe	386.2	348.4	10.8%
North America	333.4	227.6	46.5%
Asia	312.7	313.7	–0.3%
Rest of the world*	112.7	94.4	19.4%
Total	**1,381.8**	**1,225.8**	**12.7%**

* Latin America, Africa, Australia

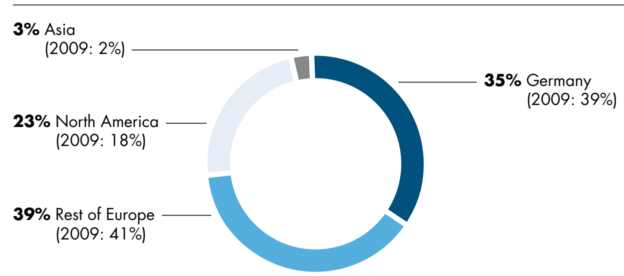
In terms of sales origin, we continue to manufacture mostly in Germany (35%), the rest of Europe (39%) and North America (23%). The share in Asia remains only at 3% since the new production facility in Malaysia is still under construction. The strong sales growth seen in North America resulted primarily from higher sales to the aviation industry and the clear recovery of the steel industry in the US in addition to currency translation.

Sales revenue by destination



* Latin America, Africa, Australia

Sales revenue by geographical origin



Management, Objectives and Strategy

INTERNAL MANAGEMENT SYSTEM

SGL Group's management structures and principles are based on our Guiding Principles, which set the responsibility levels for both strategic and day-to-day operations. Above all, our goal is to sustainably increase SGL Group's corporate value. The Company's internal management system seeks to fulfill this goal. The system comprises regular meetings of appointed committees, a monthly management information system, rolling 12-month planning and reports as well as directly related actual-to-budget comparisons with gap analyses. Furthermore, steering groups are appointed to work with management to direct and monitor special investment projects, potential acquisitions and defined tasks concerning personnel issues, safety and environmental protection.

FINANCIAL TARGETS

Important management indicators in reporting are the following financial key performance indicators:

- Return on sales (ROS), based on EBIT (earnings before interest and taxes)
- Return on capital employed (ROCE), also based on EBIT
- Ratio of net debt to EBITDA (= earnings before interest, taxes, depreciation and amortization)
- Cash generation by business area and unit (= earnings before interest, depreciation and amortization less investments and changes in working capital)
- Free cash flow (= cash inflows/outflows from operating activities and investing activities)
- Gearing (= ratio of net debt to shareholders' equity)

Key leading indicators for the anticipated development of operations in our business areas and business units are the actual or forecast growth in important customer markets and incoming orders and corresponding capacity utilization in the Company. In Business Area **Performance Products** (PP), these indicators normally show a reliable picture of anticipated developments for the current fiscal year due to traditionally longer delivery times. Since the onset of the financial crisis in the second half of 2008, customer order patterns have shown a much more short-term tendency than in previous years. The situation initially began to normalize in the second half of 2010. In both Business Areas **Graphite Materials & Systems** (GMS) and **Carbon Fibers & Composites** (CFC), we can extrapolate medium to long-term market and demand indicators only for a few areas (such as graphite specialties for the semiconductor industry, process technology for the chemical industry and components for the aircraft industry). Other areas are still extremely project-dependent due to the early life cycle stage of the products. Carbon fibers and carbon fiber composite materials are, for instance, replacing traditional materials at an increasing rate, such as in components for the wind, automotive and aviation industries.

CORPORATE STRATEGY

Our strategy is derived from our vision:

We are the leading Carbon Company.

Our vision is founded on our commitment to carbon as a material that comes in many different forms and applications, ranging from natural and synthetic graphite to carbon fibers and composites. As a global company that focuses on carbon-based materials and products, carbon also forms part of our company name:

SGL Group – The Carbon Company

Our strategic goal is sustainable, profitable growth. Our dedication to leadership in everything we do plays a decisive role in the achievement of this goal. We have the largest portfolio of carbon products worldwide and already hold leading global market positions in most of our areas. But leadership means more to us. We aim to attain a leading position in our core businesses by leveraging state-of-the-art technologies, ideas, innovations, products, quality, and delivery service. Our vision is not only a message to our customers, but most of all also a commitment on the part of all employees of SGL Group to deliver top performance that is genuinely rewarded by the market.

The operating link between our strong brand, SGL Group – The Carbon Company, and our vision is our claim:

Broad Base. Best Solutions.

Our Broad Base is our strength and the value added we provide for our customers. It refers to our core competencies (high-temperature technology as well as materials, applications, and engineering know-how), our broad product portfolio, and our global presence with a worldwide sales network and 45 production sites in Europe, North America, and Asia. We are the only European company that covers the entire value chain from carbon fibers to composite components. Our portfolio consists of two materials segments. The first materials segment, Base Materials, is founded on high-volume products for basic industries characterized by moderate volume growth but above-average profitability and high cash flow. The second materials segment, Advanced Materials, includes developments, innovations, and products with high growth potential and prospects for increasing and sustained profitability. However, these products require consistently higher investments and R&D expenses than is the case for Base Materials. This dual structure offers a synergetic platform for sound and profitable growth.

BEST SOLUTIONS FOR OUR CUSTOMERS

We offer Best Solutions to our customers on this basis. This means that we want to contribute our own ideas, concepts, and innovations to develop individual and tailored solutions together with our clients, establishing SGL Group as a benchmark for customer value.

Increasingly, Best Solutions also entail the development of solutions contributing to a continuous and sustainable reduction of greenhouse gases. The unique properties of carbon make it particularly suited for the implementation of global trends such as weight reduction, renewable energies and higher energy efficiency.

We employ our SGL Excellence initiative, first introduced in 2002, as the driving force to operationally achieve Best Solutions. SGL Excellence aims to continuously improve performance by means of proven Six Sigma methods and a tight organizational structure. The experiences gained from SGL Excellence are not only used internally throughout the Group, but are also offered to our key customers to optimize our shared processes. SGL Excellence encompasses all areas of the Company worldwide and is divided into Operational Excellence (costs, processes, production quality), Commercial Excellence (service quality, commercial processes, customer and supplier relations), Innovation Excellence (ideas, projects, innovations), and People Excellence (the right people in the right place at the right time). These are the most important levers for the implementation of Best Solutions.

SWITCHING FROM CRISIS MANAGEMENT TO GROWTH REQUIRES NEW MEDIUM- TO LONG-TERM OBJECTIVES

Fiscal 2009 was defined by the largest global financial and economic crisis in sixty years. Our Company was not immune to this development. In accordance with our 2009 annual report slogan “Acknowledge challenges, act deliberately,” we promptly adjusted our production and staffing levels to the changed demand situation. In addition to sustainable cost reductions from our SGL Excellence initiative, we responded to the crisis with savings through short-time work, personnel reduction and similar measures.

In early 2010 we anticipated that the global economic situation would only gradually improve over the short term. Due to our broad product portfolio with diversified demand cycles, we expected to have to face additional consequences of the crisis in 2010.

But in fact, the global economy recovered significantly faster than initially projected, particularly in many parts of Asia as well as in Germany, and this had a positive effect on several of our business units.

Despite the crisis, we continued our investment policy taking into account our objective of keeping our gearing at approximately 0.5. Related efforts included the expansion of our CFC activities, our plant investments in China and Germany for GMS and the construction of a new graphite electrode and cathode facility in Malaysia. Starting in 2011, these investments will gradually offer additional growth potentials.

Due to the sharp decline in business activity during the crisis, the Business Area **Performance Products** may not be able to return to the pre-crisis level of sales and profit margins for some time. Nonetheless, we anticipate a steady improvement in earnings in this area as well. In contrast, the solar, LED, and lithium ion battery sectors are picking up and there is a rising trend towards materials substitution with carbon fibers in sectors such as the automotive industry. As a consequence, the Business Areas **Graphite Materials & Systems** and **Carbon Fibers & Composites** anticipate organic sales growth in the next few years that could exceed previous targets.

MEDIUM- TO LONG-TERM OBJECTIVES

We are convinced that the fundamental trends for our product and materials portfolio will remain intact over the long term and that the projected growth of the global economy starting in 2011 will have a correspondingly favorable effect. Under these conditions and due to the various measures and initiatives we have undertaken, we are confident that we will be able to achieve the medium- to long-term objectives presented in the following for the 2011 to 2015 planning horizon.

SGL Group	Performance Products (PP)	Graphite Materials & Systems (GMS)	Carbon Fibers & Composites (CFC)
Organic growth in sales averaging more than 10% per year	Structural volume growth of approx. 2-3% p.a. in the short/medium term, in the short term even higher due to recovery from crisis-related declines	Annual sales growth of at least 10%	Annual sales growth of at least 20%
Return to ROS target of at least 12% achievable in the medium term	Return to ROS target of at least 20% achievable in the medium term	ROS of at least 10%	Sustainable positive earnings contributions as of 2011 – ROS target of at least 10% achievable in the medium term
Return to ROCE of at least 17% achievable towards the end of the planning period			

Technology & Innovation

Technology & Innovation (T&I) is SGL Group's research and development center headquartered at our largest site in Meitingen (Germany). The number of employees at T&I grew from 124 at the end of 2009 to 132 in 2010 (127 of whom are in Germany). Research expenses totaled €37.0 million. The share of research costs in consolidated sales was slightly below the 2009 level at 2.7% due to the strong growth in sales.

Research & development costs

€m	R&D costs	in % of sales revenue
2010	37.0	2.7%
2009	35.1	2.9%
2008	36.2	2.2%
2007	30.3	2.2%
2006	25.5	2.1%

T&I meets today's challenges using multi-year development road maps that focus on SGL Group's strategic goals. Diminishing resources and the need to reduce emissions mean that we also have an opportunity to be pioneers, to tap alternative sources of energy and to develop and implement new technologies for energy storage and more efficient utilization.

T&I has been focusing primarily on lightweight construction solutions, alternative energy systems and high-performance ceramics.

LIGHTWEIGHT SOLUTIONS

We create composites that far exceed the strength and rigidity of both steel and aluminum by infiltrating light-weight but high-tensile carbon fibers. This high level of rigidity enables 60-meter-long rotor blades to be used in wind power plants. These composites also reduce the weight of moving parts in mechanical engineering. In the automotive sector, our lightweight composites help to significantly reduce weight, which leads to lower emissions and compensates the heavy battery weight in electric cars.

The carbon fiber composites used in the aerospace industry have the highest requirements of all and as a result this field presents the greatest innovative challenges. We are currently developing a carbon fiber for the European aviation industry as part of the publicly funded project "Air Carbon." This project reached an important milestone when we opened a carbon fiber laboratory facility at the Institute for Textile Chemistry and Chemical Fibers (ITCF) in Denkendorf (Germany). Since November 2009, lab testing and development of modified polymers has been undertaken at the facility to use as the base material for carbon fibers. The next step will take place at our new pilot carbon fiber facility in Meitingen, where we will put into practice what we learned in the lab and fine-tune the process and material. This facility was constructed in 2010 and will start operations in the first quarter of 2011.

A facility concept for the next step in the value chain – prepreg development – was implemented according to plan and a cutting-edge laboratory prepreg facility for thermoset and thermoplastic matrix systems constructed. Our integrated value chain and expertise give us a particular advantage when it comes to the development of materials and processes.

Our networks and industrial associations are another success factor. Carbon Composites e.V., an association that SGL Group helped to found with ten other members in 2007, has developed into an active industrial association numbering over a hundred members in less than three years. The association brings together industrial companies throughout the lightweight construction industry in Southern Germany, provides stimulus to the region and carries weight at state political level.

ALTERNATIVE ENERGY SYSTEMS

T&I's technological and innovative expertise covers nearly the entire range of alternative drives and storage solutions and includes components for redox flow batteries and fuel cells, graphite powder for EDLC and lithium ion batteries. In this field, we have focused particularly on the development of anode materials for lithium ion batteries.

Through many years of partnership with Hitachi, the global market leader in batteries for the consumer market (mobile devices), we already had an in-depth know-how. In 2010, our cooperation was expanded to include the supply of anode materials solutions for lithium ion batteries for the European automotive and industrial sector. We also founded a broad new industrial and scientific network – the German network of excellence for lithium ion batteries (KLiB). Since April 2010, leading German industrial enterprises and research institutes along the entire value chain have been using this platform to bundle their expertise in an effort to speed up the development and market launch of lithium ion batteries for power engines and stationary energy storage solutions and to advance the growth of an integrated cell and battery industry in Germany.

HIGH-PERFORMANCE CERAMICS

Our experts at T&I utilize and build up the technological know-how we have gained in the field of carbon ceramic brake discs in their work on friction systems and new industrial applications. In addition to developing new ceramic clutch systems, we secured two customer projects. By creating new materials classes of these ceramic composites, we are advancing into application areas that require temperatures of up to 1,400°C and extremely high resistance to wear. A potential application for these composites is gas turbines, which can achieve greater efficiency at higher operating temperatures.

SUPPORTING THE BUSINESS UNITS

We continued to run parallel projects to optimize processes as well as find alternatives to and improve materials routing in all business units.

Steel is the most recycled material in the world. The shelf life and electrode consumption per ton of steel play an important role in scrap steel smelting. T&I has developed more robust connecting pins (graphite nipples) and improved oxidation protection solutions for this process that are being tested in field trials. For our key customers in the aluminum industry, we expanded the number of test cells of composite and multilayer cathodes, likewise with the goal of enhancing energy efficiency and shelf life. Furthermore, T&I developed a new graphite foil prototype for the production of industrial gaskets that adhere to the highest safety standards.

Our Intellectual Property (IP) department increased the number of new patent registrations by 35 to 67 in 2010 – a strategic success that safeguards our technologies for the long term.

SCIENCE NETWORKS AND RECRUITING

We continued to increase our workforce in 2010. Eighteen new employees joined the Company. The number of graduate theses and dissertations doubled over the previous year to twelve, and we benefited from the associated interaction with leading universities and research institutes. SGL Group makes use of its SGL Science Database, a web-based database for the identification and utilization of external knowledge, to take advantage of a virtual network of excellence made up of universities and institutes, especially when selecting appropriate project partners for scientific work. T&I employees routinely attend the leading recruitment fairs. SGL Group also awarded science prizes in 2010 to talented up-and-coming young scientists and, as both a sponsor of the Nano School Competition and a member of the Young Researcher Initiative, helped to promote science at German schools.

The professorship of Carbon Composites (LCC) endowed by SGL Group at the Technical University of Munich (TUM) received an exceptional response. The program offered a course on fiber composite technology in the first year, which was supported by visiting professors from the industry. Two experienced T&I employees hold a lecture series that is also contributing to the success of the program.

INFRASTRUCTURE

Despite the difficult overall economic conditions in 2010, SGL Group was not deterred by implementing plans to expand infrastructure for technology development at our research facility in Meitingen. A total of €3.5 million was invested in buildings and €7.3 million in plant facilities in 2010 (2009: €2.5 million in buildings and €3.5 million in plant facilities). Likewise in 2010, the pilot prepreg facility began operations as planned, the pilot carbon fiber facility was installed in the new technical center and the construction of an additional laboratory building, which started earlier in the year, was almost completed.

Business Overview

The global economic recovery had a positive impact on SGL Group's business development, especially in the second half of 2010. In most business areas, we saw a return to significant growth in both incoming orders and sales, leading to a considerable improvement in sales and consolidated earnings over the previous year. After the net loss of €60.7 million in 2009, we achieved a net profit of €52.7 million in 2010.

OVERALL ECONOMIC CONDITIONS

The global Economic Trend

Following the severe global recession in the previous year, the global economy recovered more rapidly in fiscal 2010 than had been anticipated at the beginning of the year. Global gross domestic product, in particular, rose steeply in the first half of 2010. This growth was stimulated by the in some cases extremely expansive monetary and fiscal policies of some countries as well as from the strong surge in world trade, which Germany in particular was able to benefit from. However, the International Monetary Fund (IMF) forecasted a two-speed recovery for the global economy in its January 2011 World Economic Outlook: The industrial countries recorded moderate growth while experiencing high unemployment and recurring crises such as in the euro zone. In emerging markets and developing countries such as China and India, however, the economies are performing so strongly that the IMF fears a risk of overheating and sees the emergence of inflationary pressures.

According to the IMF, the global economy on the whole grew by 5.0% in 2010 when measured in global economic performance (real gross domestic product) however with regionally varied growth rates. This represents a rise of 0.2% over the IMF's previous forecast in October 2010, reflecting the stronger than anticipated growth.

The major growth stimuli for the global economy once again hailed from the more developed countries of Asia, led by China with 10.3% growth and India with 9.7%. While the US economy grew 2.8% in 2010, the euro zone showed growth of only 1.8% with significant gaps between the members of the Monetary Union. At 3.6%, Germany recorded the highest economic growth. Other key member countries, such as France and Italy, achieved growth rates of only 1.6% and 1.0%, respectively. Spain's economy even shrank by 0.2% in 2010.

Additional signs that the global economy is stabilizing were evidenced in world trade. After world trade volumes recovered faster than anticipated in the first two quarters, the World Trade Organization (WTO) raised its forecast for 2010 as early as September 2010 and reconfirmed it in December 2010. The forecast called for a 13.5% rise in world trade volumes in 2010. This is the highest rate of year-on-year growth since records began in 1950. However, the high growth rate must be viewed in the context of the very low trading levels of 2009.

Industry-specific Economic Conditions

The improved overall economic environment had a positive effect in nearly all of our markets. Our Business Area **Performance Products**, which primarily supplies the steel and aluminum industries, was directly impacted by the economic trend. Global demand for steel surged in the improved overall economic environment. In the first half of 2010 especially, worldwide crude steel output far exceeded the low figures of 2009, reaching historical records on a monthly basis. However, monthly growth rates began to decline at midyear. According to data from the World Steel Association, global crude steel production rose 15% to approximately 1.4 billion tons, exceeding the previous record output in 2007. Crude steel production in China rose by 9.3%, while the US recorded a year-on-year spike of 38.5% and Germany of 34.1%.

The aluminum industry benefits in particular from the continued industrialization of Asia and the substitution of traditional materials with aluminum. As a result, primary aluminum production, which showed much more moderate declines than the steel industry in 2009, was able to pick up speed after a weak start in 2010. According to the International Aluminium Institute (IAI), overall global production in 2010 rose by 11.2% over the previous year, driven primarily by China. Excluding China, the increase in aluminum production was 3.9%. The volume of primary aluminum produced in the full year 2010 was approximately 40 million tons (2009: approximately 36 million tons).

Conditions were varied for our Business Areas **Graphite Materials & Systems** and **Carbon Fibers & Composites** in fiscal 2010 due to our many diverse customer segments, although most of our customers' industries benefited from the global recovery.

Cefic, the European Chemical Industry Council, reports that the European chemical industry continued its 2010 growth trend in October 2010, increasing by 5.5% compared with October 2009. From January to October 2010, production rose by 11.3% over the same period in 2009. As expected, the dynamic recovery in the European chemical industry slowed somewhat in the second half of the year. In its Economic Outlook of June 2010, Cefic forecasted overall production growth of 9.5% for 2010.

In 2010, the semiconductor market, too, recovered from its decline in 2009 as a result of a revival in business and consumer expenditures. The World Semiconductor Trade Statistics (WSTS) expects the semiconductor market in 2010 to have grown by 32.7%.

According to the International Air Transport Association (IATA), air travel recovered better than anticipated in 2010, leading the IATA to adjust its profit forecasts for 2010 upwards in December 2010. The IATA now expects a net profit of US$15.1 billion for all airlines worldwide. The September 2010 forecast only predicted a net profit of US$8.9 billion. In 2009 the airlines were still recording losses.

Despite drastic fluctuations in price, demand and public subsidies, the worldwide photovoltaic market grew by 118.7% from 7.2 gigawatt (GW) in 2009 to 14.2 GW in 2010, according to the market research institute iSuppli. This growth was driven above all by extremely strong second-quarter growth in Germany, the largest market in the world for solar energy.

In October 2010, the World Wind Energy Association (WWEA) reported that the global market for wind turbines recorded a slight decline in the first half of 2010 compared with the growth rates of 2009. Nevertheless, 16 GW of new capacity was created around the world in the first half of the year. China is by far the largest market for new capacity. By contrast, the US, which is the world's leading market for installed capacity, saw a significant decline in new capacity. For the year as a whole, WWEA expects that the market for new wind turbines will range between 35 and 40 GW.

SHARE PRICE DEVELOPMENT

We describe the development of our share price as well as key figures and other information concerning our share price in the chapter on SGL Carbon SE Shares on pages 42-47.

Results of Operations, Financial Position and Net Assets

Financial highlights

€m	**2010**	2009	Change
Sales revenue	1,381.8	1,225.8	12.7%
Gross profit	369.6	337.5	9.5%
Earnings before depreciation and amortization (EBITDA) [1]	194.8	171.6	13.5%
Operating profit (EBIT) [1]	128.4	111.0	15.7%
Return on sales (ROS) [2]	9,3%	9.1%	0.2%-pts
Return on capital employed (ROCE) [3]	9,0%	8.2%	0.8%-pts
Impairment losses	0.0	–74.0	–
Operating profit (EBIT)	128.4	37.0	> 100%
Net profit (loss) attributable to equity holders of the parent company	52.2	–60.8	> 100%
Earnings per share, basic (in €)	0.80	–0.93	> 100%

€m	**December 31, 2010**	December 31, 2009	Change
Total assets	2,113.3	1,891.0	11.8%
Equity attributable to shareholders of the parent company	864.4	749.4	15.3%
Net financial debt	410.5	367.9	11.6%
Gearing [4]	0.47	0.49	–
Equity ratio [5]	40.9%	39.6%	1.3%-pts

1) Before impairment losses
2) EBIT to sales revenue
3) EBIT to average capital employed
4) Ratio of net debt to equity attributable to shareholders of the parent company
5) Equity attributable to shareholders of the parent company to total assets

BUSINESS DEVELOPMENT IMPROVES SIGNIFICANTLY

- Sales revenue up 13% (currency adjusted: 10%) from €1,226 million in 2009 to €1,382 million in 2010
- Operating profit (EBIT) before impairment losses rises 16% year on year from €111.0 million to €128.4 million
- Profit before tax of €75.7 million (2009: €–18.1 million)
- Tax expense of €23.0 million results in tax rate of 30.4% in the reporting year
- Equity ratio improves significantly to 40.9% (2009: 39.6%)
- Net debt of €411 million (2009: €368 million) results in improvement in gearing to 0.47 (2009: 0.49)
- Capital expenditure on property, plant and equipment and intangible assets remains at high level at €136.9 million (2009: €153.9 million) – more than twice as high as the depreciation and amortization of €66.4 million in the reporting year

Adjustments to prior-year figures:
Based on the amended provisions of IAS 17, we reported heritable building rights (lease agreements) as a finance lease rather than as an operating lease. Prior-year figures were adjusted accordingly. This led to an increase in total assets of €17.7 million as of December 31, 2009 and €17.4 million as of December 31, 2010. The increase will improve EBIT by around €0.6 million per year, while net financing costs will rise by approximately €1.1 million p.a. due to imputed interest costs.

Results of Operations – Earnings Recovery exceeds Initial Expectations

Operating profit

€m	**2010**	2009	Change
PP	144.1	151.9	–5.1%
GMS	36.9	28.0	31.8%
CFC *	–6.6	–22.9	71.2%
T&I	–12.6	–12.0	–5.0%
Brake discs	0	–8.7	–
Corporate	–33.4	–25.3	–32.0%
SGL Group	**128.4**	**111.0**	**15.7%**

* Before impairment losses of €74.0 million for 2009

Operating Profit (EBIT) improved by 16% on the previous year to €128.4 million. The earnings increase was driven primarily by the Business Areas GMS and CFC. In the Business Area PP, the significant recovery of our business in graphite electrodes for the steel industry was more than offset by the decline in demand for cathodes for the aluminum industry as well as by price reductions and increases in factor cost.

Sales revenues in the Business Areas GMS and CFC rose primarity due to higher volumes and to a lesser extent, due to some price increases. In the Business Area GMS, deliveries and sales revenues followed the positive economic trend, leading to an earnings improvement of nearly 32% to a total of €36.9 million in the reporting year (2009: €28.0 million).

In the Business Area CFC, the loss of €22.9 million incurred in 2009 was reduced to a loss of €6.6 million in the year under review primarily through operational improvements. In addition to rising volumes in carbon fibers, fabrics and components, our business also showed encouraging – and, for the first time, profitable – revenue growth in components for the aviation and defense industries.

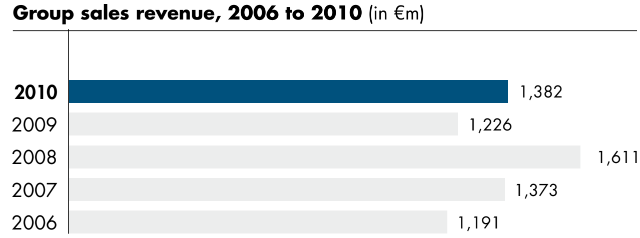
Additional sustainable savings of €23 million resulted from the continuation of our cost reduction program under the Six Sigma-based SGL Excellence initiative in the reporting year.

Central project costs for Technology & Innovation were up slightly to €12.6 million in the year under review (2009: €12.0 million). Central costs of the holding company and the various corporate functions rose to €33.4 million in 2010 compared with €25.3 million in 2009. A portion of this cost increase was attributable to the sponsorships we began providing to colleges and scientific institutions in 2010. In addition, we increased our expenditures for annual bonuses and our share-based employee incentive program once again in the reporting year. External consulting expenses were also higher in the reporting year as were attorneys' fees.

REVENUE DEVELOPMENT – INCREASE OF 13% ON THE PRIOR YEAR

The rapid recovery of the world economy in 2010 was reflected positively in our sales revenue development. We increased Group revenue by 13% (currency-adjusted: 10%) to a total of €1,382 million, with all business areas making a positive contribution.

Group sales revenue, 2006 to 2010 (in €m)



Sales revenue by Business Area

€m	**2010**	2009	Change
PP	762.6	641.6	18.9%
GMS	395.9	364.5	8.6%
CFC	218.5	208.0	5.0%
Other *	4.8	11.7	–59.0%
SGL Group	**1,381.8**	**1,225.8**	**12.7%**

* Including brake disc revenues until May 31, 2009

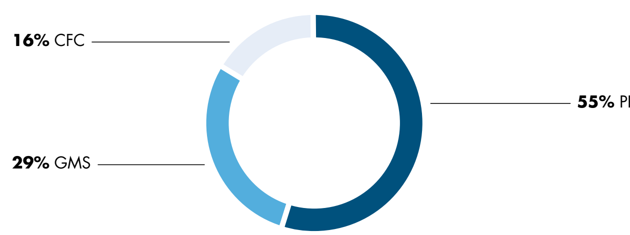
The Business Area **Performance Products** (PP) reported the highest sales increase in 2010 with a year-on-year rise of 19% (currency-adjusted: 15%). This positive trend was primarily attributable to the recovery in the steel industry. By contrast, our business in cathodes for the aluminum industry declined notably compared with the previous year.

In the Business Area **Graphite Materials & Systems** (GMS), sales revenues increased to 9% (currency-adjusted: 6%), mainly on account of positive trends in our customer industries solar, semiconductor, lithium ion battery, and LED.

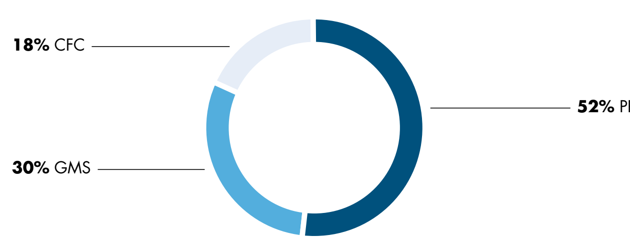
In the Business Area **Carbon Fibers & Composites** (CFC), sales revenues increased by 5% on the prior year (currency-adjusted: 3%), particularly as a result of improved unit sales of carbon fibers, composite materials, and components for the aviation and defense industries. This improvement was partially offset by lower revenue contributions from our rotor blades business at SGL Rotec, where we have been changing production equipment in preparation for executing a major contract starting in 2011.

The share of sales revenue contributed by each business area shifted slightly compared with the prior year due to the sharp revenue recovery at PP.

Share of sales revenue by Business Area 2010



Share of sales revenue by Business Area 2009



ORDER SITUATION

We saw a notable recovery in new orders over the course of 2010, which led to an encouraging order level at the end of the fiscal year. As of year-end 2010, the monetary value of orders on hand increased significantly in all business units by nearly 30% over the 2009 level.

In the Business Area **Performance Products**, the anticipated increases in electric steel production had a positive impact on our level of orders for graphite electrodes. However, customer order patterns are continuing to show a much shorter term tendency than prior to the crisis. Demand for cathodes from the aluminum industry, by contrast, has not yet seen a comprehensive improvement, even though aluminum production already began growing again in 2010. Inventory cycles and postponed projects to construct new aluminum smelters are showing their lagging effect. Therefore, in summary, we do not expect PP to be operating at full capacity in 2011.

The Business Area **Graphite Materials & Systems** has been improving since mid-2010 after reaching its low during the economic slump. New orders were much stronger in the second half of the year, a trend that has continued in the new fiscal year. In some areas, our 2011 production capacities are already nearly fully utilized. The order level at GMS at the close of the fiscal year was well over that of year-end 2009.

The development in the Business Area **Carbon Fibers & Composites** continued to vary depending on the specific business unit. Demand in the Business Unit Aerostructures (components for the civilian and military aviation industries) hardly showed any cyclical decline on account of the long-term nature of these industries. In 2010 we succeeded in acquiring new business in this area. With respect to demand for carbon fibers and composite materials (textiles, prepregs), we already registered significant growth in 2010. In our rotor blade business for the wind energy industry, preparations for production of a major contract have been completed so that we can begin contract deliveries in 2011.

Income statement

€m	**2010**	2009	Change
Sales revenue	1,381.8	1,225.8	12.7%
Gross profit	369.6	337.5	9.5%
Operating profit (EBIT) before impairment losses	128.4	111.0	15.7%
Impairment losses	0.0	–74.0	–
Operating profit (EBIT)	**128.4**	**37.0**	**> 100%**
Result from equity accounted investments	–11.9	–9.9	–20.2%
Net financing costs	–40.8	–45.2	9.7%
Profit before tax	**75.7**	**–18.1**	**> 100%**
Income tax expense	–23.0	–42.6	46.0%
Non-controlling interests	–0.5	–0.1	> 100%
Net profit after non-controlling interests	**52.2**	**–60.8**	**> 100%**
Earnings per share, basic (in €)	0.80	–0.93	> 100%

Operating profit (EBIT) before impairment losses improved by approximately 16% to €128.4 million (2009: €111.0 million). Operating Profit for 2009 amounted to €37.0 million after deducting impairment losses of €74.0 million. Losses from equity-accounted investments were €11.9 million in 2010 (2009: loss of €9.9 million). Net financing costs declined again, decreasing by €4.4 million to €40.8 million (2009: €45.2 million).

As a result, profit before tax increased to €75.7 million in the year under review after a loss of €18.1 million in the previous year. The tax expense of €23.0 million in 2010 (2009: €42.6 million) resulted in a tax rate of 30.4%. The tax expense for 2009 included a write-down on deferred tax assets. Adjusting for these effects, the 2009 tax rate was nearly the same at 32.0%. Net profit after non-controlling interests improved considerably compared with the loss experienced in the prior year. Earnings per share reached €0.80 after €-0.93 in 2009.

Change in key income statement items

€m	**2010**	2009	Change
Sales revenue	1,381.8	1,225.8	12.7%
Cost of sales	–1,012.2	–888.3	13.9%
Gross profit	**369.6**	**337.5**	**9.5%**
Gross margin	26.7%	27.5%	
Selling expenses	–132.8	–115.2	15.3%
Research and development costs	–37.0	–35.1	5.4%
General and administrative expenses	–73.7	–64.2	14.8%
Other operating expenses/income	2.3	–12.0	> 100%
Operating profit (EBIT) *	**128.4**	**111.0**	**15.7%**

* Before impairment losses of €74.0 million for 2009

COST OF SALES

The cost of sales increased by 14%, slightly more than the 13% increase in sales revenue. As in 2009, one of the main reasons for this was the year-on-year increase in raw material and energy prices.

Personnel expenses rose due to the adjustments necessary under collective bargaining agreements. The provision expense recognized for annual bonuses to be paid out in 2011 increased by €8.7 million to €21.1 million (worldwide across all functions) due to the improved earnings situation and higher levels of target achievement in the various business areas. Depreciation on property, plant and equipment increased year on year by €5.8 million to €66.4 million.

Despite the cost increases reported here, we were able to maintain the gross margin at 26.7% in 2010 – nearly the same level as in 2009. This achievement was attributable in particular to the savings we generated under our SGL Excellence initiative, which we continued in 2010. All in all, we achieved savings of more than €23 million in the year under review. The majority of the savings related to cost of sales, though the functional costs described below were also reduced.

SELLING EXPENSES

Selling expenses rose by 15%, or €17.6 million, to €132.8 million in 2010 (2009: €115.2 million). The increase in selling expenses was thus somewhat greater than the rise in sales revenue. The increase in selling expenses was primarily due to higher unit sales in the reporting year.

RESEARCH EXPENSES

Ongoing expansion of activities related to our innovation initiatives for the development of new products, applications, and processes was reflected in the sustained high level of research and development expenses of €37.0 million (2009: €35.1 million).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased by €9.5 million compared with the previous year, from €64.2 million in 2009 to €73.7 million in 2010. The additional expense resulted from higher deferrals for our management incentive programs (including annual bonus), wage and salary adjustments, and higher expenses for external consulting.

OTHER OPERATING INCOME AND EXPENSES

Netting other operating income and expenses resulted in other operating income of €2.3 million in 2010 (2009: other operating expenses of €12.0 million). The net of currency losses and gains resulted in a loss of only €5.7 million in the year under review after a loss of €16.0 million in 2009. In addition, non-recurring income of €4.8 million resulted from the sale of a piece of property in Ascoli (Italy) in 2010.

Share of results of equity accounted investments

€m	**2010**	2009
Share of results of equity accounted investments	–11.9	–9.9

The equity accounted investments are as follows:

	Customer industry	Business Area
Benteler SGL GmbH & Co. KG, Germany	Automotive	CFC
SGL Automotive Carbon Fibers GmbH & Co. KG, Germany	Automotive	CFC
SGL Automotive Carbon Fibers LLC, USA	Automotive	CFC
MRC SGL Precursor Co. Ltd., Japan	Raw materials supply	CFC
Brembo SGL Carbon Ceramic Brakes S.p.A., Italy	Automotive	CFC
PowerBlades GmbH, Germany	Wind power	CFC
European Precursor GmbH (EPG), Germany	Raw materials supply	CFC
SGL TOKAI CARBON Ltd., China	Steel	PP

In 2010, we further expanded our joint activities with Benteler AG aimed at developing and marketing CFC components for the automotive industry. These activities also relate to Benteler SGL Composite Technik GmbH (Austria).

The two SGL Automotive Carbon Fibers companies refer to investments that are managed jointly with BMW for the purpose of providing the BMW Group with carbon fibers and fabrics. Supply of polyacrylonitrile precursor as a raw material is ensured by MRC SGL Precursor Ltd., Japan, a company founded together with Mitsubishi Rayon.

The joint venture formed as of June 1, 2009, with Brembo S.p.A. in Italy serves the joint production and development of carbon ceramic brake discs.

PowerBlades GmbH is a joint venture between SGL Rotec and Repower aimed at manufacturing rotor blades for the offshore wind energy market.

In addition to MRC SGL Precursor Co. Ltd., European Precursor GmbH in Kelheim (Germany) which is operated together with Lenzing AG in Austria, ensures an independent supply of raw materials for our carbon fiber production business.

Our joint venture SGL Tokai Carbon Ltd. in Shanghai, China, involves sales and distribution operations for graphite electrodes in the Chinese market for its two shareholders, SGL Group in Germany and Tokai in Japan.

The increase in 2010 of €2.0 million in the loss from equity-accounted investments to €11.9 million (2009: loss of €9.9 million) was mainly due to start-up costs for joint ventures with the BMW Group in Germany and the US (€–4.6 million). However, the share of the loss attributable to Brembo SGL and SGL Tokai Carbon decreased substantially on the prior year (€2.0 million and €1.5 million, respectively).

Net financing costs

€m	**2010**	2009	Change
Interest income	2.7	1.1	> 100%
Interest expense	–16.1	–15.9	–1.3%
Interest cost component on convertible bond (non-cash)	–13.9	–10.6	–31.1%
Interest cost component on finance leases (non-cash)	–1.1	–1.1	–
Interest expense on pensions	–17.6	–16.5	–6.7%
Interest expense, net	**–46.0**	**–43.0**	**–7.0%**
Amortization of refinancing costs (non-cash)	–2.6	–2.1	–23.8%
Foreign currency valuation of Group loans (non-cash)	–0.4	–2.2	81.8%
Other financial income	8.2	2.1	> 100%
Other financing costs	**5.2**	**–2.2**	**> 100%**
Net financing costs	**–40.8**	**–45.2**	**9.7%**

Net financing costs improved by a total of €4.4 million year on year to €40.8 million (2009: €45.2 million).

Interest income increased by €1.6 million to €2.7 million in the reporting year (2009: €1.1 million) as a result of the increase in average amounts of cash on hand and improved interest rates for call and term deposits. Cash interest expense increased by €0.2 million year on year to €16.1 million. The average cash interest rate was 2.3% p.a. in 2010 (2009: 2.2% p.a.). Non-cash expense from the imputed interest cost on the two convertible bonds rose from €10.6 million in 2009 to €13.9 million in 2010 due to full-year inclusion of the second convertible bond. The total amount of the non-cash imputed interest component is equal to the hidden premium recognized in equity in the accounting treatment of each of the convertible bonds and, over the term to maturity of the bond, increases the interest expense recognized from the cash coupons of 0.75% and 3.50% to a total of 5.8% and 8.4%, respectively. Non-cash interest expenses likewise resulted from the initial recognition of the hereditary building lease agreement. We have reported these expenses separately under net financing costs and adjusted the prior year accordingly. Interest expense on pensions amounted to €17.6 million in the year under review, up slightly on the figure for 2009 of €16.5 million.

The other financing costs of €5.2 million in 2010 (2009: €-2.2 million) primarily includes – in addition to the non-cash expense for amortization of the refinancing costs from 2007 and 2009 – the effects of mark-to-market valuations of interest rate and currency hedges as well as currency translation gains and losses with regard to Group loans. As in the previous year, foreign exchange gains and losses from financing our subsidiaries are presented separately. In 2010, a non-cash expense of €0.4 million arose in this respect versus an expense of €2.2 million in 2009. The other financial income of €8.2 million in 2010 (2009: €2.1 million) primarily consists of currency gains from our bank loans in Malaysia denominated in foreign currency and the results of our non-controlling interest in our subsidiary SGL Rotec GmbH & Co. KG.

GROUP TAX RATE AT 30.4%

The income tax expense of €23.0 million in 2010 (2009: €42.6 million) resulted in a Group tax rate of 30.4%. In 2009, the tax expense included a write-down on deferred tax assets totaling €48.4 million. Adjusting for these effects results in a current tax income of €5.8 million for 2009, which corresponds to an adjusted tax rate of 32.0%.

In 2010, cash tax payments totaled €19.7 million (2009: €32.9 million).

NET PROFIT FOR THE YEAR AT €52.7 MILLION

After a net loss of €60.7 million in 2009, the Group returned to profitability with a net profit of €52.7 million in 2010. After deducting non-controlling interests, the consolidated net profit for the year amounted to €52.2 million (2009: net loss for the year of €60.8 million).

Based on an average number of shares of 65.4 million, basic earnings per share increased to €0.80 (2009: €-0.93). In calculating diluted earnings per share, the shares that may potentially be issued under the 2007 and 2009 convertible bonds as well as under the Stock Option and Stock Appreciation Rights Plan are also taken into account. This increases the average number of shares used for the 2010 calculation to 65.8 million, leading to diluted earnings per share of €0.79. Since a net loss was reported for 2009, there was no dilutive effect in that year.

Result of operations

€m	2010	2009	2008	2007 [2]	2006 [2]
Sales revenue	1,381.8	1,225.8	1,611.5	1,373.0	1,190.8
EBIT [1]	128.4	111.0	306.4	258.4	175.4
in % of sales revenue	9.3%	9.1%	19.0%	18.8%	14.7%
Net profit/loss for the year	52.7	–60.7	190.1	133.5	44.0
in % of sales revenue	3.8%	–5.0%	11.8%	9.7%	3.7%
Earnings per share, basic (in €)	0.80	–0.93	2.95	2.10	0.71

[1] Before impairment loss of € 74.0 million in 2009
[2] Before adjustment of the heritable building rights contract in accordance with IAS 17

ANNUAL RESULT OF SGL CARBON SE

SGL Carbon SE, as the parent company of SGL Group, generated a net profit for the year of €15.20 million in 2010 based on calculation pursuant to the German Commercial Code (HGB) versus a net loss of €85.65 million in 2009.

After transferring €7.60 million from net profit for the reporting year to retained earnings, the remaining net profit for 2010 amounted to €7.60 million. The Board of Management and the Supervisory Board propose to the Annual General Meeting to transfer the total net profit of €7.60 million to distributable profit carried forward.

PERFORMANCE OF THE BUSINESS AREAS

Performance Products (PP)

The core product of the Business Area Performance Products (PP) is the graphite electrodes used in electric arc furnaces in which scrap is recycled to produce steel. A product that is becoming increasingly important for PP is high-quality cathodes used in the production of aluminum. In contrast to electrodes, which are consumed in a matter of hours, cathodes are capital goods that are used in aluminum electrolysis over several years. The Business Area PP also manufactures carbon electrodes for use in other metallurgical smelting applications (e.g. silicon, phosphorus). Furnace linings for blast furnace steel production complete the PP portfolio. This business area has a global production network at its disposal with seven production sites in Europe, three in North America, and two in Asia. With a state-of-the-art carbon and graphite plant currently under construction in Malaysia, the business area will benefit in the high-growth Asian markets from a fully integrated graphite electrode plant starting at the end of 2011 and a fully integrated cathode plant starting at the end of 2012. The first production module of the multistage graphite electrode facility went into operation at the beginning of 2009. Additional production modules were completed and commissioned during the course of fiscal 2010.

Performance Products (PP)

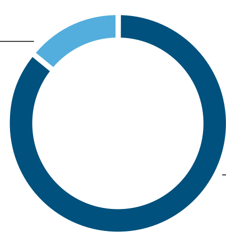
€m	2010	2009	Change
Sales revenue	762.6	641.6	18.9%
EBITDA	177.5	180.5	–1.7%
Operating profit (EBIT)	144.1	151.9	–5.1%
Return on sales	18.9%	23.7%	–
Capital expenditure on intangible assets, property, plant and equipment	66.3	80.2	–17.3%
Depreciation and amortization	33.4	28.6	16.8%
Cash generation *	95.9	105.5	–9.1%
Number of employees (at year-end)	2,100	2,069	1.5%

* EBITDA less capital expenditure and change in working capital

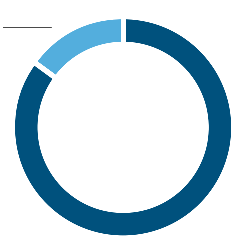
In 2009, particularly in the first half of the year, earnings in the Business Area PP reflected the double-digit decline in demand for our graphite electrodes as a result of extensive production cutbacks and inventory reductions in the steel industry. In the past fiscal year, demand for graphite electrodes increased significantly as inventory reductions ceased and capacity utilization increased in the steel industry, though it remained below pre-crisis levels. The positive trend in graphite electrode sales was partially offset by the anticipated sharp decrease in the cathode business, which suffered from the investment pause and cathode inventory reductions in the aluminum industry in 2010. Sales revenue in the Business Area PP rose by 19% to €762.6 million (2009: €641.6 million). The currency-adjusted increase in sales revenue amounted to 15%.

Despite higher unit sales of graphite electrodes and cost savings of approximately €8 million, EBIT declined by 5.1% to €144.1 million compared with €151.9 million in 2009. The decrease was due to higher raw materials costs – particularly for needle coke – that could not be offset by price increases, the weaker cathode business, and ongoing start-up costs for commissioning the new production plant in Malaysia. The return on sales for full-year 2010 therefore amounted to 19% (2009: 24%).

Sales revenue by business unit, 2010 (PP)



Sales revenue by customer industry, 2010 (PP)



Graphite Materials & Systems (GMS)

The Business Area Graphite Materials & Systems (GMS) comprises a broad range of customized products based on coarse and fine grain graphite and expanded natural graphite. GMS is made up of the Business Units Graphite Specialties, Process Technology, and New Markets, which was newly established in 2010.

Sales revenue in the Business Unit Graphite Specialties is generated first and foremost from customers in the solar, LED, lithium ion battery, and semiconductor industries, the chemicals and automotive industries, and in the areas of metallurgy and high-temperature applications. The emphasis is on finished products with a high value-added content. Graphite components are manufactured, purified, and in some cases finished by adding a special coating – all according to customer requirements. These components are used, for example, in heating elements for monocrystal production in the semiconductor and solar industries. The business unit is also increasingly developing products to support efficient power generation and energy storage. In addition, solutions are being offered for the automotive and other manufacturing industries in the form of bearing and pump components, as well as graphite-based seals. So-called "Expanded graphites" based on natural graphite are utilized in a large number of industries such as heating and air-conditioning equipment, chemicals and automotive.

Graphite Materials & Systems (GMS)

€m	**2010**	2009	change
Sales revenue	395.9	364.5	8.6%
EBITDA	54.9	45.2	21.5%
Operating profit (EBIT)	36.9	28.0	31.8%
Return on sales	9.3%	7.7%	–
Capital expenditure on intangible assets, property, plant and equipment	21.1	23.3	–9.4%
Depreciation and amortization	18.0	17.2	4.7%
Cash generation *	18.7	36.3	–48.5%
Number of employees (at year-end)	2,647	2,619	1.1%

* EBITDA less capital expenditure and change in working capital

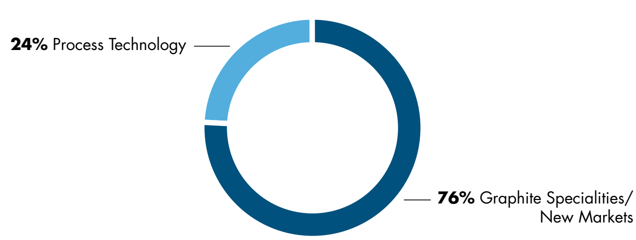
Whereas the Business Unit Process Technology primarily concentrates on the manufacture of products and development of solutions such as graphite heat exchangers, columns, pumps, and systems for the chemical and environmental industries, the newly formed Business Unit New Markets focuses on new and particularly quickly growing sectors of the Business Area GMS, such as anode materials for the rapidly expanding lithium ion battery market and trend setting solutions for heat distribution and storage, for example those used for high-performance cooling ceilings.

As a late cyclical business, the Business Area GMS still had a strong first half of 2009, given that it was able to benefit from a high order backlog from 2008 and non-recurring income from a large project invoiced in the second quarter of 2009. As a result of the decline in new orders that set in at the beginning of 2009, sales revenues weakened perceptibly in the second half of 2009. However, new orders began a strong recovery at the start of 2010, which led to a notable increase in sales revenues as early as the second quarter of 2010. The upward trend continued throughout 2010 and was reflected in year-on-year growth of 9% in sales revenue to €395.9 million after €364.5 million in 2009. The currency-adjusted increase in sales revenue was 6%.

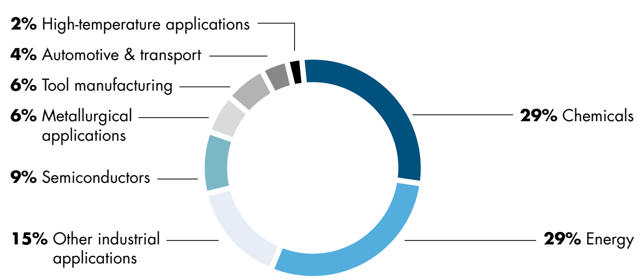
In our Business Unit Process Technology, lower maintenance and replacement investments, especially in the chemicals industry, led to a slight decline in sales revenue after two record years in a row. However, demand improved markedly in other sectors, particularly the semiconductor, LED, and solar industries. Despite the lower fix cost absorption as a result of lower sales revenues at the start of the year and the non-recurring income from a major project in the second quarter of 2009, EBIT for the Business Area GMS reached €36.9 million in 2010, an increase of 32% over the €28.0 million generated in 2009. Cost savings amounted to approximately €8.5 million. Return on sales for full-year 2010 rose to 9.3% due to the sharp increase in capacity utilization, up from 7.7% in the prior year. We therefore just barely missed our medium-term target of a return on sales of at least 10%.

In August 2010, we announced that we would be investing some €75 million in expanding production capacities for isostatic graphite over the next three years in response to the global growth of our customers in the solar, LED, and semiconductor industries. An important part of this investment is the construction of a new, highly automated production center for isostatic graphite at our site in Bonn (Germany). We expect the first production units to go into operation as early as 2012. This will increase our global capacity for producing isostatic graphite from 5,000 to 15,000 tons p.a. over the next few years. Moreover, our new ultramodern press will enable us to meet growing customer demand for large molded parts made of isostatic graphite. We are also continuing to invest in reinforcing our presence in the Asian growth market by further expanding our Chinese locations in Yangquan, Shanxi (production of isostatic graphite) and Shanghai (processing, purification, and coating).

Sales revenue by business unit, 2010 (GMS)



Sales revenue by customer industry, 2010 (GMS)



Carbon Fibers & Composites (CFC)
The Business Area Carbon Fibers & Composites (CFC) covers the entire value chain from carbon fibers and composite materials to finished components. The carbon fibers and carbon fiber composites produced by CFC are increasingly in demand as substitution for traditional materials because of their unique properties, such as the combination of light weight and high stiffness.

The development and expansion of our growing CFC business continues to require a great amount of investment, resulting in significant start-up costs and losses as well as a sustained high level of research and development expenses, all of which have a negative impact on the profitability of this business area.

Following the recent recovery in demand, the carbon fiber market continues to experience temporary overcapacities due to multiple postponements of new aircraft projects, delays in new wind energy investments and declining demand in the sports and consumer area. This has resulted in increased competition, which is having a temporary negative impact on prices and volumes. Although prices stabilized in the second half of 2010 as a result of the revival in demand, they are still at an unsatisfactory level. So far in 2011 we have been able to implement initial price increases.

Carbon Fibers & Composites (CFC)

€m	**2010**	2009	Change
Sales revenue	218.5	208.0	5.0%
EBITDA	4.8	–12.0	–
Operating profit (EBIT) [1]	–6.6	–22.9	71.2%
Return on sales	–3.0%	–11.0%	–
Capital expenditure on intangible assets, property, plant and equipment	29.6	38.3	–22.7%
Depreciation and amortization	11.4	10.9	4.6%
Cash generation [2]	–55.8	–54.5	–2.4%
Number of employees (at year-end)	1,476	1,225	20.5%

[1] Before impairment losses of € 74.0 million in 2009
[2] EBITDA less capital expenditure and changes in working capital

Despite the persistently difficult market environment – particularly with respect to carbon fiber prices – sales revenue in the Business Area Carbon Fibers & Composites increased by 5% (currency-adjusted: 3%) to €218.5 million (2009: €208.0 million) due in particular to improved unit sales of carbon fibers, composite materials, and structural components for the aviation and defense industries (HITCO). This improvement was partially offset by lower revenue contributions from our rotor blade business at SGL Rotec, due primarily to the production conversions and project postponements.

Although price levels remained weak in the carbon fiber market, we succeeded in considerably reducing the loss of €22.9 million in 2009 in the Business Area Carbon Fibers & Composites by more than 70% to a loss of €6.6 million for full-year 2010, mainly due to better capacity utilization at Carbon Fibers, Composite Materials, and HITCO, operational improvements in all business units, and cost savings of approximately €6 million.

On April 30, 2010 (contract closing), we announced the formation of a joint venture with Mitsubishi Rayon for the production of polyacrylonitrile-based precursors. These types of precursors serve as the basis for the production of carbon fibers. Together with our joint venture with Lenzing AG in Kelheim (European Precursor GmbH), we now have two independent production sites for precursors, thus fundamentally improving our supply base. We regard this as a key strategic advantage.

Non-consolidated activities in the Business Area Carbon Fibers & Composites

€m	**2010**	2009	Change
Revenue *	137.0	77.3	77.2%

* 100% values for companies

Our equity-accounted investments mainly relate to Brembo SGL (Italy), Benteler SGL (Germany), SGL Automotive Carbon Fibers (Germany and USA), and Powerblades (joint venture between Repower and SGL Rotec, Germany). Sales revenue for all equity-accounted investments in the Business Area Carbon Fibers & Composites amounted to €137.0 million in 2010 (2009: €77.3 million). These figures are based on 100% ownership of the companies and are not included in the total sales revenue of SGL Group.

Brembo SGL

The joint venture formed with Brembo S.p.A. in mid-May 2009 for the production and development of carbon ceramic brake discs suffered greatly in 2009 from the economic climate in the automotive industry, particularly in the market for luxury class vehicles. Order levels improved markedly over the course of 2010, leading to a strong recovery in unit sales for full-year 2010. As a result, production in Meitingen is currently running at nearly full capacity.

Benteler SGL

In our joint venture with Benteler, we have made continued progress in the use of carbon fiber reinforced plastic (CFRP) components for the automotive industry. Benteler SGL is involved in numerous automotive projects that show great promise and are expected to reach commercialization within the next two to three years.

SGL Automotive Carbon Fibers (joint venture with BMW)

This joint venture with the BMW Group, which took up operations at the end of 2009, was formed for the purpose of producing carbon fibers for use in automotive manufacturing. The first few years of the joint venture will be affected by building up the business and the associated start-up costs.

On April 6, 2010, SGL Group and the BMW Group announced that SGL Automotive Carbon Fibers LLC, their joint venture in Moses Lake, Washington (USA) will be constructing a new, ultramodern carbon fiber plant. The first stage will involve an investment of US$100 million and the creation of 80 new jobs at the site. The new plant will be an important part of the companies' joint strategy of automating the production of ultralight CFRP for use in future vehicle concepts. The carbon fibers manufactured in Moses Lake will be utilized for the BMW Group's new Megacity vehicle (MCV).

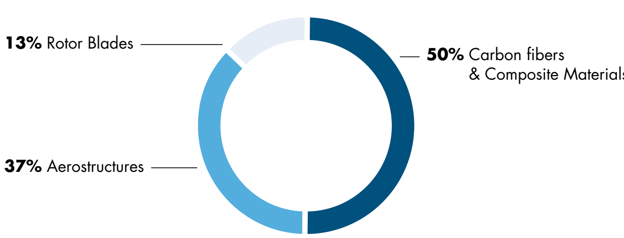
The BMW Group and SGL Group both view themselves as committed to sustainability, which is why the availability of renewable hydropower and the very competitive energy costs in Washington State were critical factors in deciding to build the carbon fiber plant in Moses Lake. Other factors affecting the decision were the good infrastructure, favorable tax conditions, the availability of qualified workers, and the very efficient cooperation with the local authorities.

On July 19, 2010, SGL Automotive Carbon Fibers GmbH & Co. KG, the second joint venture between the BMW Group and the SGL Group for the manufacture of composite materials, launched operations at its new production facility in Wackersdorf. In the future, composite materials will be manufactured at this site on the basis of carbon fibers to be produced at the plant still under construction in Moses Lake, Washington. The composite materials will then be sold to the BMW Group, who will use them to manufacture automobile parts for assembly in the MCV in Landshut and Leipzig.

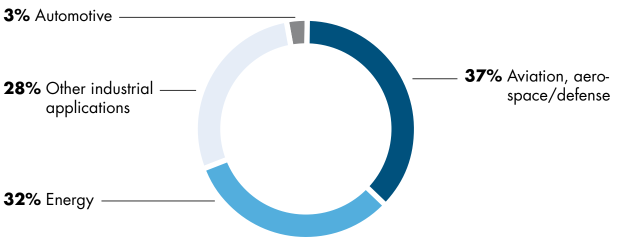
Powerblades

This joint venture between SGL Rotec and Repower felt the impact of the generally difficult situation in the wind energy market in 2010.

Sales revenue by business unit, 2010 (CFC)



Sales revenue by customer industry, 2010 (CFC)



Central T&I costs, brake discs and corporate costs

€m	**2010**	2009	Change
Sales revenue/other revenue	4.8	11.7	–59.0%
Operating profit (EBIT)			
Central T&I costs	–12.6	–12.0	5.0%
Brake discs	–	–8.7	–
Corporate costs	–33.4	–25.3	32.0%
Number of employees (at year-end)	62	63	–1.6%

Central T&I costs decreased to €12.6 million in the year under review, down from €12.0 million in the previous year. These costs relate to those research and development initiatives that we do not allocate to the business areas and business units due to their long-term, fundamental nature.

On June 1, 2009, SGL Group transferred its carbon ceramic brake disc operations to a 50-50 joint venture with Brembo S.p.A. in Italy, one of the world's leading manufacturers of braking systems. SGL Group has accounted for the joint venture under the equity method since its date of inception. Until such time, these activities were included in the consolidated financial statements of SGL Group and reported separately alongside corporate costs. In 2009, this resulted in a loss of €8.7 million.

Corporate costs rose to €33.4 million in the reporting year (2009: €25.3 million) in spite of the non-recurring income of €4.8 million from the sale of a piece of property in Italy. In 2010, the year-on-year increase of €8.1 million included expenses for an endowment to the Technical University of Munich and funding for the European Business School totaling approximately €2.5 million. Most of the remainder of the increase is attributable to higher expenses for our management incentive system as a result of the Company's improved earnings situation, general salary adjustments, provisions for expected attorneys' fees, and higher consulting fees.

The number of employees in the management holding company and the allocated central service areas decreased to 62 as of the end of the reporting year (2009: 63).

Financial Position – Growth Projects in 2010 largely financed from own Cash Flow

PRINCIPLES AND AIMS OF FINANCIAL MANAGEMENT

The most important objective of financial management at SGL Group is to maintain the Group's financial strength and to ensure solvency at all times. As in past years, we accord great significance to our internal financing, which has contributed significantly to the financing of our business growth.

In order to safeguard financial stability and minimize risk, we strive for a balanced financing structure that encompasses a number of elements. In choosing financing instruments, we primarily take into account market capacities, diversification of the sources of funding, the existing maturity profile, lending restrictions and flexibility, and the flexibility of the instruments. In addition, we make every effort to optimize the cost of financing.

SGL Group's financial management is conducted centrally in order to hedge interest rate and currency risks to the extent possible, ensure compliance with lending provisions, minimize financing costs, and utilize economies of scale. The Group's financial management activities primarily extend to cash and liquidity management, group financing using bank and capital market products, intragroup financing activities, customer credit management, and the management of interest rate and currency risks.

Group Treasury, a centralized function at SGL Carbon SE, the Group holding company, governs worldwide financial management activities and is supported in its activities by regional financial centers in Charlotte, North Carolina (USA), and Shanghai (China) and by local financial staff in the subsidiaries.

LIQUIDITY MANAGEMENT

Major sources of additional liquidity during the year under review were medium-term bank liabilities raised for our investment in Malaysia. The cash inflows from the issue of a convertible bond in 2009 remained a significant component of our cash position as of the reporting date.

Operational liquidity management is centrally coordinated and undertaken in cooperation with our subsidiaries on a global basis. The major portion of cash in readily convertible currencies is consolidated at SGL Carbon SE, the Group holding company, by means of centrally established cash pooling structures and is used to balance internal liquidity needs. As part of a multi-year initiative to standardize treasury processes, we instituted a central in-house cash center in 2008 through which internal trading and clearing transactions can be automated and settled without the need for external bank accounts. SGL Carbon SE acts as a clearing center for the Group companies participating in this process. Since 2009, the weekly settlement of supplier invoices has been handled through the clearing center, thus allowing central management of a large portion of our Group's global cash outflows.

In addition to finance planning, which generally covers a period of five years, liquidity planning is undertaken for short intervals of one day to one year. By combining finance and liquidity planning, and by using available liquidity and lines of credit, SGL Group ensures that it has adequate liquidity reserves at all times. These reserves allow SGL Group to respond flexibly to cash flow fluctuations during the year and to meet all payment obligations on time at all times.

GROUP FINANCING

Group financing is geared to the strategic business plans of the operating business units as well as central Group planning. Financing opportunities on equity and debt markets as well as the banking market are taken advantage of by SGL Group depending on availability and under consideration of the Group's financing objectives.

Our committed credit lines and existing liquidity reserve are sufficient to meet our anticipated financing requirements for fiscal 2011 many times over. In past years, selected properties, IT equipment, and vehicles have been financed in part via operating leases. Further details can be found in **Note 27** of the notes to the consolidated financial statements.

MARKET PRICE RISK

In order to limit finance-related market price risk, particularly currency and interest rate risk, SGL Group utilizes both primary and derivative financial instruments. Derivative financial instruments are used exclusively to mitigate and manage financial risk. In the context of foreign currency management, SGL Group concentrates on hedging transaction risks from future expected cash flows with regard to the following major risk positions:

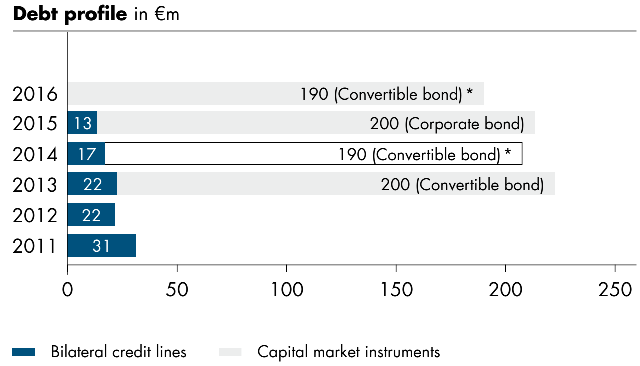
- US dollar – euro
- Japanese yen – euro
- Euro – Polish zloty
- Pound sterling – US dollar
- US dollar – Canadian dollar

Currency forwards are the primary instruments used by the Group to hedge currency risk. To manage interest rates, SGL Group uses interest-rate options as hedging instruments. In the year under review, the Group took advantage of low interest rate levels to conclude additional interest-rate caps. These transactions (totaling €150 million) hedge the risk of a rise in interest rates at a rate of 3% until 2015. The conditions, responsibilities, and controls required for the use of derivatives are set out in internal guidelines. Further details on hedging instruments and the effects of hedging can be found in **Note 29** of the notes to the consolidated financial statements.

FINANCING ANALYSIS

Group's financing includes a corporate bond in the amount of €200 million (coupon = 3-month EURIBOR + 1.25%, maturing in 2015), a convertible bond in the amount of €200 million (coupon of 0.75%, maturing in 2013), a convertible bond in the amount of €190 million (coupon of 3.5%, maturing in 2016, bondholder put option in 2014), and a syndicated credit line in the amount of €200 million (payable in 2012) that was not drawn during the reporting year. On February 23, 2011, the Company signed an amendment and restatement agreement to prematurely extend the syndicated credit line existing as of the reporting date in the amount of €200 million under the same conditions until the end of April 2015. In addition, local credit lines have been set up in US dollars and Malaysian ringitts to finance our investment in Malaysia. All in all, undrawn credit facilities amounting to €227.4 million were available to SGL Group to cover working capital and investments as of December 31, 2010 (2009: €217.5 million).

Debt profile in €m



* Maturing in 2016, bondholder put option in 2014

FREE CASH FLOW REMAINS NEGATIVE DUE TO GROWTH PROJECTS

SGL Group continued to pursue its growth strategy in 2010. Capital expenditure for construction of our new graphite electrode and cathode plant in Banting, Malaysia, and targeted maintenance and expansion investments were again well in excess of the depreciation/amortization charge in 2010. We financed the majority of this capital expenditure with net cash provided by operating activities. Free cash flow amounted to €-38.3 million, similar to the previous year's level (2009: €-34.0 million). This allowed us to limit the increase in net financial debt and achieve a gearing ratio of 0.47 for 2010, thus keeping it below our target level of 0.5.

Liquidity and capital resources

€m	2010	2009	Change
Net cash provided by operating activities	115.5	128.0	–12.5
Net cash used in investing activities	–153.8	–162.0	8.2
Free cash flow*	**–38.3**	**–34.0**	**–4.3**
Cash used in time deposits	–200.0	0.0	–200.0
Cash provided by financing activities	18.0	213.3	–195.3
Effect of foreign exchange rate changes	2.7	–0.1	2.8
Cash and cash equivalents at beginning of year	302.3	123.1	179.2
Cash and cash equivalents at end of year	**84.7**	**302.3**	**–217.6**
Time deposits at end of year	200.0	0.0	200.0
Total liquidity	**284.7**	**302.3**	**–17.6**
Net change in total liquidity	**–17.6**	**179.2**	**–196.8**

* Defined as net cash provided by operating activities less net cash used in investing activities before time deposits

The cash flow statement shows the change in cash and cash equivalents of SGL Group in the reporting period. It reports cash flows broken down into net cash provided by operating activities, net cash provided by investing activities, and net cash provided by/used in financing activities. The cash and cash equivalents shown on the cash flow statement correspond to "cash and cash equivalents" as reported on the balance sheet. Total liquidity further includes short-term time deposits with a remaining term of up to six months (€200.0 million).

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled €115.5 million in 2010 (2009: €128.0 million). The decline on the prior year relates primarily to the currency-adjusted increase in net current assets of €38.8 million (2009: reduction of €10.4 million) plus higher interest payments of €15.9 million (2009: €13.3 million). These increases were mitigated by lower tax payments of €19.7 million (2009: €32.9 million).

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased by €8.2 million year on year to €153.8 million. We limited payments for capital expenditure on intangible assets and property, plant and equipment to a net amount of €129.5 million after cost contributions of € 7.4 million received for services rendered by SGL in the reporting year (2009: €153.9 million). Investments again focused primarily on continuing construction of the plant in Malaysia, expansion at HITCO, our US subsidiary, for the purpose of supplying the aviation and defense industry, and initial payments related to expanding our capacities for isostatic graphite at the Bonn site.

Investments in our equity-accounted investments increased to €18.0 million (2009: €10.7 million) due to higher cash payments/capital contributions, some of which were made to our two new joint ventures with BMW. In 2010, net cash used in investing activities already contained advance payments of €12.4 million for the acquisition of ASL Aircraft Services GmbH at the location of our rotor blade manufacturer, SGL Rotec, Lemwerder (Germany), which owns the land and buildings at the Lemwerder site through a subsidiary.

Cash receipts from the disposal of intangible assets and property, plant and equipment increased to €6.1 million in the year under review (2009: €3.2 million), particularly from the sale of the property in Italy.

NET CASH PROVIDED BY FINANCING ACTIVITIES

In the year under review, net cash provided by financing activities totaled €18.0 million (2009: €213.3 million) and related primarily to the continued use of local credit lines for the purpose of constructing our new production facility in Malaysia. In the previous year, the cash inflows resulted mainly from the convertible bond issued in 2009.

TOTAL LIQUIDITY AT €285 MILLION

Available liquidity decreased slightly to €284.7 million in 2010 (2009: €302.2 million). This figure includes short-term time deposits in the amount of €200.0 million as of the end of the fiscal year.

CONTRACTUAL PAYMENT OBLIGATIONS

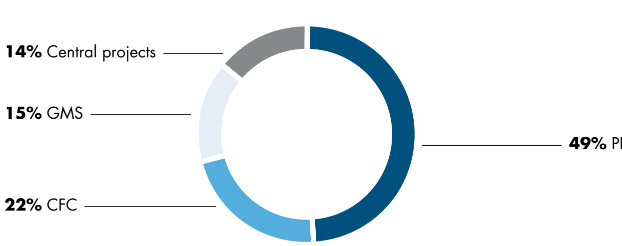
The most significant contractual payment obligations comprise the repayment of debt, purchasing obligations, and obligations under operating leases. The total nominal amount of debt repayment obligations is €695.2 million (2009: €670.2 million). The credit lines drawn upon locally in Malaysia are to be repaid in installments. The convertible bond issued in 2007, which has a total principal amount of €200 million, is due for repayment in 2013 in cash unless holders exercise the conversion rights before maturity, in which case up to 5.5 million new bearer shares will be created. The convertible bond issued in 2009, which has a total principal amount of €190 million, is due for repayment in 2016 in cash unless holders exercise the conversion rights before maturity, in which case up to 6.5 million new bearer shares will be created. The bondholders may, however, return them prior to maturity in 2014. The corporate bond of €200 million is due in 2015.

As of December 31, 2010, trade payables, derivative financial instruments, and other financial liabilities totaled €200.5 million (December 31, 2009: €187.6 million). Of this total, liabilities of €45.2 million were due after one year (December 31. 2009: €60.4 million). Income tax liabilities and other liabilities amounted to an additional €47.0 million at the end of 2010 (2009: €42.3 million), the vast majority of which were current. Further details can be found in **Note 25** of the notes to the consolidated financial statements.

Capital expenditure, depreciation and amortization in intangible assets and property, plant & equipment

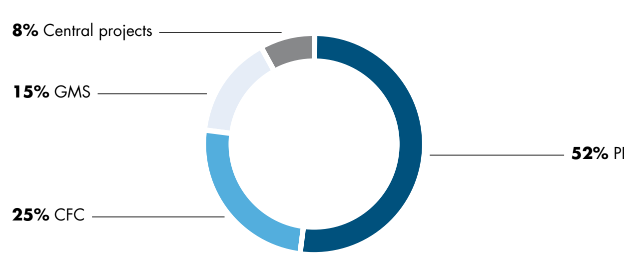
€m	**2010**	2009	2008	2007	2006
Capital expenditure	137	154	239	130	65
Depreciation and amortization	66	61	54	49	53

Capital expenditure in 2010



Total capital expenditure: € 137 million

Capital expenditure in 2009



Total capital expenditure: € 154 million

The breakdown of capital expenditure on intangible assets and property, plant and equipment was as follows: 49% in PP, 15% in GMS, 22% in CFC, and 14% on central projects (2009: 52% in PP, 15% in GMS, 25% in CFC, and 8% on central projects).

Capital expenditure in the Business Area PP continued to focus on construction of the plant in Banting, Malaysia. Necessary replacement and environmental protection investments were also made, particularly at our locations in La Coruna (Spain) and Ratibor (Poland).

In the Business Area GMS, capital expenditure in the reporting year related to the initial meaningful payments for expanding our isostatic graphite capacities at our site in Bonn (Germany), investments in expanding capacities in St. Marys, Pennsylvania (USA) as well as a number of replacement and environmental protection investments in Chedde (France), Morganton, North Carolina (USA) and Bonn (Germany).

In the Business Area CFC, investment activities in 2010 focused on further expansion of automation technologies at HITCO in Gardena, California (USA). In Lemwerder (Germany), a number of investments were made to prepare production facilities for a major order to be delivered starting in 2011.

The centrally managed investments focused on the construction of a pilot plant for the production of aeronautic carbon fibers in the reporting year. Our central T&I unit is responsible for this plant, which was constructed at the Meitingen site and for which we received funding from the State of Bavaria.

Intangible assets and property, plant and equipment increased to a total of €910.8 million as of December 31, 2010 (2009: €793.2 million). The rise was primarily a result of the investments mentioned as well as foreign currency effects.

Net Assets – Equity strengthened further

Change in net assets

€m	**Dec. 31, 2010**	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007 [5]	Dec. 31, 2006 [5]
Total assets	2,113.3	1,891.0	1,791.1	1,473.6	1,229.8
Equity attributable to shareholders of the parent company	864.4	749.4	762.7	603.9	398.2
Equity ratio	40.9%	39.6%	42.6%	41.0%	32.4%
Net current assets [1]	605.6	545.3	578.0	485.1	427.4
Capital employed [2]	1,516.4	1,338.5	1,356.2	1,053.9	860.1
Return on capital employed [3]	9.0%	8.2%	25.4%	27.0%	20.9%
Net debt	410.5	367.9	332.6	285.2	229.1
Gearing (ratio of net debt to equity) [4]	0.47	0.49	0.44	0.47	0.58

[1] Defined as the sum of inventories, receivables from long-term construction contracts and trade receivables less trade payables
[2] Defined as the sum of goodwill, other intangible assets, property, plant and equipment and working capital
[3] Ratio of income from operating activities (EBIT) before impairment loss to average capital employed
[4] Net debt to equity attributable to shareholders of the parent company
[5] Before adjustment of the heritable building rights contract in accordance with IAS 17

Balance sheet structure

€m	Dec. 31, 2010	Dec. 31, 2009	Change
ASSETS			
Non-current assets	1,097.0	931.0	17.5%
Current assets	1,010.3	959.0	5.3%
Assets held for sale	6.0	1.0	> 100%
Total assets	**2,113.3**	**1,891.0**	**11.8%**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	864.4	749.4	15.3%
Non-controlling interests	13.5	4.7	187.2%
Total equity	877.9	754.1	16.4%
Non-current liabilities	928.7	901.4	3.0%
Current liabilities	306.7	235.5	30.2%
Total equity and liabilities	**2,113.3**	**1,891.0**	**11.8%**

As of December 31, 2010, total assets had increased by €222.3 million to €2,113.3 million (2009: €1,891.0 million). This figure was impacted by currency effects totaling €81.2 million due to the softening of the euro against nearly all other currencies. The balance sheet ratios changed only minimally from the previous year. As a capital-intensive manufacturing company, SGL Group has a high proportion of non-current assets, more than 80% of which are financed by equity. The return on capital employed (ROCE) – the ratio of operating profit to average capital employed – rose to 9.0% in the year under review. ROCE in 2009 amounted 8.2% before impairment losses. The equity ratio improved significantly in the reporting year, rising to 40.9% (December 31, 2009: 39.6%). The Group reduced gearing – the ratio of net debt to shareholders' equity – to 0.47 in 2010 (2009: 0.49) despite a continued high level of investment spending.

Accounting and valuation principles were applied consistently with the previous year. The hereditary building lease agreement at our Griesheim (Germany) site was recognized as a financial lease in accordance with the amended provisions in IAS 17. The prior-year values have been adjusted accordingly. These transactions resulted in an increase in total assets of €17.4 million as of December 31, 2010 (2009: €17.7 million). Furthermore, we classified assets from direct insurance agreements and from insolvency insurance for partial retirement benefit obligations as plan assets. This resulted in a €5.0 million drop in pension provisions and a €2.6 million reduction in other provisions as of December 31, 2009 (see also **Note 3** in the notes to the consolidated financial statements). Other than this, the application of new standards had no material effect on presentation of the financial position and cash flows of the Group.

During the period under review, we again netted deferred tax assets and liabilities at the single entity company level. Further details can be found in **Note 21** of the notes to the consolidated financial statements.

Assets

Non-current assets rose by €166.0 million in 2010 to €1,097.0 million (2009: €931.0 million). The increase was primarily the result of investments, which exceeded depreciation by €70.5 million, as well as currency effects of €53.6 million. In addition, receivables from long-term construction contracts increased from €28.1 million as of December 31, 2009, to €51.0 million as of December 31, 2010.

Current assets rose by €51.3 million to €1,010.3 million (December 31, 2009: € 959.0 million), mainly due to increased levels of inventories and receivables related to reviving the business. Currency effects also impacted this figure in the amount of €22.0 million compared with the prior year. Total liquidity decreased from €302.3 million as of December 31, 2009 to €284.7 million as of December 31, 2010.

The **assets held for sale** in the amount of €6.0 million at year end (2009: €1.0 million) primarily related to two furnaces that were constructed for testing purposes at our plant in Evanston, Wyoming (USA) and sold to our joint venture with BMW in 2011.

Equity and liabilities

Equity increased by €123.8 million to €877.9 million (2009: €754.1 million). The equity ratio (excluding non-controlling interests) increased from 39.6% at the end of 2009 to 40.9% at the end of 2010.

Non-current liabilities rose by €27.3 million to € 928.7 million (2009: € 901.4 million), mainly due to additional interest-bearing loans taken out to finance construction of the new plant in Malaysia and increased provisions for pension obligations.

Current liabilities increased by €71.2 million to €306.7 million as of year-end 2010 (December 31, 2009: €235.5 million), mainly due to higher trade payables, which rose by €34.3 million year on year as a result of increasing transactions. In addition, the current portion of interest-bearing loans increased by €21.8 million to €28.3 million as of December 31, 2010 as a result of the maturity structure.

Net debt

€m	Dec. 31, 2010	Dec. 31, 2009	Change
Current and non-current financial liabilities	642.4	601.7	6.8%
Remaining interest cost component for the convertible bonds and other debt	44.9	58.2	–22.9%
Refinancing costs included	7.9	10.3	–23.3%
Total debt	**695.2**	**670.2**	**3.7%**
Time deposits	200.0	0.0	100.0%
Cash and cash equivalents	84.7	302.3	–72.0%
Total liquidity	**284.7**	**302.3**	**–5.9%**
Net debt	**410.5**	**367.9**	**11.6%**

Net debt at SGL Group amounted to €410.5 million at year-end (2009: €367.9 million). This figure includes cash and time deposits (€284.7 million), current and non-current financial debt (€642.4 million), the remaining interest components of the two convertible bonds (€44.9 million), and the remaining refinancing costs (€7.9 million).

Consolidated statement of changes in equity

€m	Equity *	Minority Interest	Total equity
Balance as of Dec. 31, 2009	749.4	4.7	754.1
Net profit	52.2	0.5	52.7
Other comprehensive income	42.4	0.9	43.3
Total comprehensive income	**94.6**	**1.4**	**96.0**
Capital increases from share-based payment programs	20.4	0.0	20.4
Other changes in equity	0.0	7.4	7.4
Balance as of Dec. 31, 2010	**864.4**	**13.5**	**877.9**

* Attributable to shareholders of the parent company

Total equity attributable to the shareholders of the parent company rose by €115.0 million in 2010 to €864.4 million as of December 31, 2010 (2009: €749.4 million). The increase resulted from the net profit of €52.2 million, currency translation gains of €41.1 million, and capital increases and additions to capital reserves from share-based payment programs of €20.4 million. Gains and losses recorded directly in equity from cash flow hedges amounted to €9.4 million (2009: €18.1 million). The changes in pension obligations recognized directly in equity reduced equity by a total of €8.1 million in the reporting year (2009: €13.5 million) due to a further decline in the applicable interest rate. Equity attributable to the shareholders of the parent company as of December 31, 2010 corresponds to an equity ratio of 40.9% in comparison to 39.6% as of December 31, 2009.

Bondholders may exercise their conversion rights from the convertible bond issued in 2007, which would result in the issue of up to 5.5 million new shares in SGL Carbon SE. Up to 6.5 million new shares in SGL Carbon SE may be issued from the convertible bond issued in 2009.

As of December 31, 2010, issued capital increased to €167.9 million (2009: €167.4 million), divided into 65,577,459 bearer shares with no par value (common shares) with a proportional share in the issued capital of €2.56 per share. In 2010, 198,232 new shares were created. Of these, 17,006 shares with an allocation price of €22.00 per share were used for the bonus plan for employees in Germany and 49,637 shares with an allocation price of €18.97 per share were used for the Matching Share Plan. A total of 98,595 shares were created by exercising options under the existing Stock Option Plan and Stock Appreciation Rights (SARs) Plans. The number of treasury shares at SGL Carbon SE decreased to 30,904 as of December 31, 2010.

ASSETS NOT RECOGNIZED AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Various SGL Group assets are not included in the balance sheet. These off-balance sheet financial assets primarily concern leased and rented goods (operating leases for land, buildings, computer equipment, vehicles, and other property, plant and equipment).

The total value of these off-balance sheet items/financing instruments has had no major effect on the presentation of the financial performance, financial position and cash flows of the Group. Further details can be found in **Note 27** of the notes to the consolidated financial statements.

The SGL Group brand is among the intangible assets not recognized in the balance sheet. Our long-term relationships with suppliers and customers also have considerable value. For one thing, these relationships stabilize the course of our business and shield us from short-term market fluctuations. This trusting cooperation with our partners, often spanning many years, provides us with a tangible competitive advantage. In addition, this intense cooperation also facilitates joint research and development projects in which the expertise and development capacities of the companies involved can be consolidated.

Details on Company Acquisitions and Disposals

No company acquisitions or disposals took place in fiscal 2010.

Employees

In the wake of the economic recovery in 2010, SGL Group began to recruit again. As of December 31, 2010, we employed a total of 6,285 individuals, 309 more than at the end of the previous year. Another 640 employees work at our equity-accounted investments (2009: 630).

By business area, the number of employees increased at PP by 31, GMS by 28 and CFC by 251. The expansion at CFC was primarily a result of recruitment at Hitco in the US and SGL Rotec in Germany.

Employees by Business Area

	Dec. 31, 2010	Dec. 31, 2009	Change
PP	2,100	2,069	1.5 %
GMS	2,647	2,619	1.1 %
CFC	1,476	1,225	20.5 %
Corporate	62	63	–1.6 %
Total	**6,285**	**5,976**	**5.2 %**

Employee figures grew similarly when measured by region. Whereas on balance we employed more people in North America, Germany and Asia, staffing levels were down slightly in the rest of Europe.

Employees by region

	Dec. 31, 2010	Dec. 31, 2009	Change
Germany	2,480	2,404	3.2 %
Rest of Europe	1,793	1,802	–0.5 %
North America	1,409	1,200	17.4 %
Asia	603	570	5.8 %
Total	**6,285**	**5,976**	**5.2 %**

The most significant portion of our personnel is in Europe (including Germany): 68%. More than half of our employees in Europe work in Germany. The share of Group employees working in North America rose to 22%. Employees in Asia accounted for just under 10% of total staff.

The share of women in our workforce has risen in recent years. It is currently 13% and in line with the industry average. The share of women in management slightly exceeds the company share at 14%.

Despite the economic crisis, SGL Group continued to place great importance in training young people. The Group had a total of 162 trainees in 2010 at seven sites in Germany. The majority were at our Meitingen (89) and Bonn (42) sites.

Environmental Protection and Occupational and Process Safety

At SGL Group, environmental protection, employee safety and product and process safety is an important part of our corporate strategy. Our primary objective is to continuously and sustainably improve environmental protection, workplace safety, and the safety of our products and processes. As a global company, we have continued to develop our international EHSA (Environment, Health & Safety, Audit Systems) organization, which is designed to ensure, based on uniform reporting, that company objectives are in line with local goals and that their implementation is coordinated with on-site plant and business management.

THE BEST POSSIBLE TECHNOLOGIES FOR ENVIRONMENTAL PROTECTION

We take a clear, uniform approach to environmental protection: employing the best possible technology. This enables all business units, subsidiaries and facilities to work together to achieve and maintain our Group objectives.

We structure our operations to meet legal requirements and to have minimal impact on the environment. It goes without saying that the health and safety of our employees take priority over any financial advantages.

CARBON FOR ENVIRONMENTAL CONSERVATION

The unique properties of carbon make it particularly suited for applications which address the global trends that today's society has to face and which foster environmental conservation. We already generate more than half our revenues with applications that help reduce CO_2 emissions and conserve natural resources.

We plan to continuously increase our share of environmentally friendly and resource-saving applications in the coming years. At the same time, we are working on steadily reducing the CO_2 emissions generated by our own production processes. The trend toward electric vehicles in the automotive industry and the need to reduce CO_2 emissions is spurring demand for lightweight construction and boosting the use of carbon fiber reinforced plastics (CFRP). Offshore wind turbine installations present huge growth potential.

SUCCESSFUL IMPLEMENTATION OF REACH

The first phase of the new European chemicals law (REACH) requires us to register substances that are produced or imported in quantities that exceed 1,000 tons per year as well as substances with a specific risk potential by a specific deadline. We met this requirement by November 30, 2010.

We have incorporated the organizational requirements needed to handle future registration phases efficiently (deadlines in 2013 and 2018) into our workflows and IT structures.

PROCESS SAFETY REDUCES RISK

Risk management within SGL Group, which we established years ago as part of our environmental protection and occupational and process safety, helps identify and assess potential environmental and process risks at an early stage and take appropriate action to minimize them.

Our risk minimization system, which was established together with our insurer FM Global and adapted to SGL Group's requirements, is a substantial component of operational risk management; it provides for centrally organized audits with external specialists. The system yields comprehensive reports and action lists that serve to eliminate and minimize risks. The system also allows us to undertake facility assessments at regular intervals.

OCCUPATIONAL SAFETY AND HEALTH PROTECTION HAVE THE HIGHEST PRIORITY

The health and safety of our workers is our highest priority. We take a proactive approach to prevent accidents by adhering to our high health and plant safety standards and by continuously making our workplace safety precautions better.

Our local Environment, Health & Safety, Audit System (EHSA) departments at all SGL Group locations hold regular training and orientation sessions in order to maximize occupational safety and to encourage employees to proactively avoid workplace accidents and maintain plant safety. We integrate all new facilities immediately into our health and workplace safety programs to ensure that they are brought up to our high standards quickly and effectively. Specific programs for improving occupational safety are conducted at locations with higher accident rates. We support these programs and ensure their implementation with regular plant safety visits, systematic work flow and individual activity risk assessments, and routine process checks. This guarantees that our employees are continuously trained in safety awareness.

The frequency rate of accident-related work absences has dropped worldwide by more than half from 2.38 to 1.06 since 2002. Targeted initiatives and information campaigns at our facilities have made it possible to quickly and effectively prevent critical developments.

General Statement on the Current Financial Situation

ASSESSMENT OF THE FINANCIAL SITUATION BY COMPANY MANAGEMENT

SGL Group met and in some cases exceeded the objectives we had set for 2010. Key earnings indicators rose at a rate well above sales growth. Important targets were reached, such as maintaining our gearing at +/- 0.5, despite continued high levels of capital expenditure. All business areas contributed to these achievements. The increase in net debt was limited in 2010 in spite of these high capital expenditures.

SGL Group has started the new fiscal year on solid ground. Sales revenue indicates a positive progress. Our business areas show a further recovery, to the extent not yet taken place in 2010. In the first half of 2011, graphite electrode delivery levels will exceed the first half of last year. Our cathodes, an investment goods business, are initially stabilizing at the low level of 2010, but are expected to recover through the course of 2011. The various businesses at GMS continue to show a solid level of incoming orders. At CFC, our aviation industry components business has gotten off to a good start in the new year. Volumes of carbon fiber and composite materials recovered, so that the market was able to absorb initial price increases.

ACCOUNTING PRINCIPLES USED ON THE BASIS OF ESTIMATES

SGL Group prepares its consolidated financial statements in accordance with IFRS as detailed in the notes to the consolidated financial statements. The principles described in the notes to the consolidated financial statements are integral to an understanding of SGL Group's financial performance, financial position and cash flows. Under IFRS, it is necessary to make estimates in certain cases. These estimates involve subjective assessments and expectations that are based on uncertainty and are subject to change. As a result, estimates may change over time and have an impact on the presentation of SGL Group's financial position, financial performance and cash flows. Therefore, the Board of Management wishes to point out that unforeseeable events may change expectations, and that estimates are routinely adjusted.

Additional information on accounting principles involving estimates and assumptions can be found in **Note 4** of the notes to the consolidated financial statements.

Events after the Balance Sheet Date

SYNDICATED LOAN EXTENSION AGREED

The Company signed an amendment and restatement agreement ahead of schedule on February 23, 2011, to extend its €200 million syndicated credit line to the end of April 2015 under the same conditions.

ASL ACQUISITION

Effective January 1, 2011, SGL Group acquired ASL Aircraft Services GmbH (ASL) via a 51% shareholding in SGL/A&R Immobiliengesellschaft Lemwerder mbH. ASL assets consist primarily of an investment in a real estate company, which leases several of its buildings in Lemwerder (Germany) to the Group company, SGL Rotec. As part of the planned expansion of business activities at the Lemwerder site, SGL Rotec will now be in a position to utilize additional halls and buildings on company grounds. ASL is consolidated in SGL Group effective January 1, 2011.

Risk Report

The Board of Management is responsible for establishing and maintaining an appropriate and suitable risk management and internal control system. In addition, the Board of Management of SGL Carbon SE has the overall responsibility for the scope and the design of the systems that have been implemented. From today's perspective, all risks are limited and manageable; there is no risk to the Company's ability to continue as a going concern.

RISK POLICY

Our risk policy is geared toward protecting as well as systematically and continuously increasing shareholder value, and toward achieving financial targets. The principles of this policy are set out in standard SGL Group guidelines for risk management and represent an integral part of our corporate strategy. All significant corporate decisions are taken only after a detailed risk analysis and assessment. As a matter of principle, we do not take on unmanageable or inappropriately high risks.

RISK MANAGEMENT SYSTEM (RMS)

Our risk management system (RMS) is a global management instrument that ensures the implementation of the SGL Group's risk policy. This is achieved through the early identification, analysis and assessment of risks and the immediate introduction and tracking of corrective action. The RMS comprises a number of networked functions and control mechanisms. These include the recording, monitoring and control of internal company processes and business risks as well as a standard group-wide planning process. The RMS covers all areas of the Company and is continually modified in line with changing circumstances.

In the last years, the RMS in place within the SGL Group has been continuously enhanced in accordance with international standards. Apart from a revision of the Group-wide risk management guidelines, we have produced a manual for all organizational units, which includes a description and definition of the principles, concepts, reporting channels and responsibilities in the RMS. Specific individual risks in operational units and corporate functions are recorded and monitored on an ongoing basis. Any core risks and their financial impact are reviewed quarterly on the basis of the probability of occurrence, and suitable countermeasures are defined. Results are summarized by the Group's Controlling department and are regularly presented to the entire Board of Management. In this way, any risks, in particular any that may jeopardize the Company's existence as a going concern, can be identified at an early stage and countermeasures initiated. Furthermore, any potential new risks or the occurance of existing risks are reported immediately to the Board of Management, regardless of the normal reporting intervals.

The Supervisory Board is informed regularly as part of a consolidated risk report. A corresponding risk report is prepared regularly for the ongoing year, separately for the first subsequent year, and collectively for the planning horizon of five years.

INTERNAL CONTROL SYSTEM (ICS)

We define an internal control system (ICS) as the policies, procedures and measures that have been implemented by management with the aim of ensuring the effectiveness and profitability of operations (which also comprises the protection of assets, including the prevention and detection of damages to assets), the proper application of accounting standards and the reliability of both internal and external accounting, as well as compliance with the legal regulations that are applicable to the Company. The ICS is based on a uniform, structured documentation of the risks and controls for existing process structures. More than 400 business processes worldwide are covered by almost 1,300 controls. A large number of these controls are performed automatically or with IT support. In addition to the process-related controls that are documented for all material subsidiaries of SGL Group, process-independent controls and measures at management level form the infrastructure and prerequisite for a functional ICS. The management controls are assessed annually by conducting structured, written surveys of the management of all material as well as of selected smaller companies, of our business areas and units and of the managers of our corporate functions. All ICS documents are stored in an intranet-based database, for which access authorizations (reading and writing permissions) have been established. The materiality of subsidiaries is reviewed annually on the basis of quantitative factors (the company's contribution to the net sales, total assets or net income of SGL Group) as well as qualitative risk indicators. Our ICS is geared toward the internationally applicable standards.

Our Corporate ICS department implements, maintains and enhances the ICS on behalf of the Board of Management. Local and regional ICS officers (e.g. in North America and China) support the process and control owners at the companies and serve as local contact persons for all ICS-related issues. The process owners ensure that the documentation of the processes and controls is accurate and up to date, while the control owners perform the controls, ensure controls are documented and update the control documentation. Our centralized IT department serves as the point of contact for all IT-related issues and designs the IT controls.

On behalf of the Board of Management, Internal Audit regularly reviews the functionality of the risk management system as part of its activities, and initiates appropriate measures when necessary. The Internal Audit Manual constitutes the basis for the reviews. The Board of Management decides what is to be reviewed and, if necessary, adapts the content of the review to reflect any changes in business conditions throughout the year. The effectiveness of the ICS at process level is reviewed by Internal Audit once annually on a random sample basis. As part of its regular Audit Committee Meetings, the Supervisory Board is informed about the risk situation as well as about any major shortcomings of SGL Group's ICS.

No matter how thoroughly we have developed the RMS and ICS, limitations still exist. Consequently, we can neither guarantee with absolute certainty that targets will be reached, nor that false information will be prevented or uncovered. In particular, personal accounting judgments, erroneous controls or other circumstances can limit the effectiveness and reliability of the RMS and ICS we have in place, meaning that the groupwide application of the implemented systems may also only provide reasonable assurance with regard to the correct, complete and timely recognition of circumstances in group accounting.

SIGNIFICANT CHARACTERISTICS OF THE RMS AND ICS WITH REGARD TO THE GROUP ACCOUNTING PROCESS

With regard to accounting processes, the RMS is intended to identify and evaluate risks that might have an influence on the preparation of financial statements in accordance with applicable accounting standards and regulations. Recognized risks are evaluated with regard to their influence on the consolidated financial statements, and if necessary, also by consulting external specialists. The ICS is intended to support the accounting process – by way of implementing the system's controls – to ensure that, in spite of potential risks, the consolidated financial statements are prepared in accordance with applicable standards and regulations. Various process-integrated and process-independent control measures contribute to achieving this objective. Both the RMS and ICS encompass all material subsidiaries and all processes that are relevant to the preparation of the consolidated financial statements.

The responsibilities and functions within the accounting process (e.g. local accounting, controlling, treasury and group accounting) are established and clearly separated. Together with an ongoing principle of dual control, this contributes to the early detection of errors and the prevention of potential misconduct.

The SGL accounting manual regulates the consistent accounting and valuation principles for the domestic and foreign subsidiaries that are consolidated in the group financial statements in compliance with accounting regulations according to the International Financial Reporting Standards (IFRSs). Changes of accounting regulations are regularly incorporated in the manual and communicated to all employees involved in the accounting process. Group accounting employees offer special training in corresponding workshops for more complex circumstances. In order to reduce the risk of misstatements in the accounting of more complex, challenging accounting problems, we consult external service providers such as actuaries to prepare expert opinions concerning pensions.

The ICS is geared toward ensuring that business transactions are recorded in a complete and timely manner in accordance with legal requirements.

An SAP-based consolidation software is used for the preparation of the consolidated financial statements. Technical responsibility for the software falls under the centralized group accounting function. Binding requirements in terms of content and scheduling minimize the scope of decentralized units when recording, measuring and presenting assets and liabilities. For the consolidated financial statements, data recorded is at company level, uploaded into the group-wide consolidation software, and validated automatically. A group-wide, uniform chart of accounts has been predefined for recording of business transactions.

Identified risks and their corresponding countermeasures are kept up to date as part of the quarterly reporting distributed to the Board of Management. The effectiveness of internal controls with regard to accounting is assessed once annually by Internal Audit. Furthermore, the Supervisory Board plays an integral part in the control system through its Audit Committee, which primarily monitors the accounting process, the effectiveness of the internal controlling system, the risk management system, and the internal auditing system as well as the audit of the financial statements.

RISK TRANSFER VIA INSURANCE PROTECTION

SGL Group has global insurance policies to cover its major business risks, which has been developed together with the Company's insurers. Under these policies, the risk after predefined deductibles is transferred to the relevant insurance carrier. We address the risk of defaulting insurers by routinely distributing our risk to several insurance carriers. Furthermore, we generally only choose insurers who carry at least a Standard & Poor's rating of A-. Our external insurance broker is responsible for continuously monitoring and reporting on the possibility of falling below this rating, as set forth in the mandate agreement concluded with him. To protect our employees and the environment, as well as our buildings, plants and machinery, we continuously make improvements to our preventative measures and routinely train the employees responsible for carrying out these measures. Coordinated visits to our facilities around the world ensure that the identified preventative and security measures designed to reduce risk are implemented. SGL Group allocates appropriate capital expenditures for minimizing risk to all facilities.

RISK AREAS

Risk factors that impact our group activities are reflected in the following risk areas. The order in which the risks appear represents how we currently estimate the relative risk potential for SGL Group. Other risks of which we are currently unaware or which we currently consider immaterial could also have an adverse effect on our business activities.

MARKET AND BUSINESS ENVIRONMENT RISKS

As a global company, international economic developments have a significant influence on potential risks and opportunities for SGL Group. Intensive observation of the market and economy allows us to take necessary countermeasures in the short term, and minimizes variables that could potentially influence our Company. When necessary – as was put into practice in light of the financial and economic crisis in 2008 and 2009 – we react in a timely manner by making appropriate production adjustments. This also comprises all possible measures concerning employee management (including introducing short-time working hours, severance packages, etc.).

Sales risks are partly offset by the wide diversification of our product range, our global presence, and the numerous customer industries we supply. A number of customer industries saw a considerable demand recovery in 2010 and increased their production output accordingly. Nevertheless, we are exposed to sustained price pressure in some businesses. Drops in demand or sluggish growth could have a negative impact on our business.

Our business areas are often subject to intense competition. We are seeing consolidation in some of the industries in which we do business, which could change our relative market position.

In Northern Africa and the Middle East we see uncertainties in the political framework conditions that could significantly impact our business with those countries and cause negative financial consequences.

Our Business Area Performance Products is dependent on the steel industry, in particular electric arc furnace steel production, as well as on the aluminum industry. Although the demand for graphite electrodes for electric arc furnance steel production increased noticeably in 2010, we still registered a decrease in sales in our cathode business with the aluminum industry. In the medium term, both the World Steel Association and the aluminum industry expect a return to sustained positive growth. In the Business Areas Graphite Materials & Systems and Carbon Fibers & Composites, the outlook is similar for many of our customers in the LED, solar, semiconductor and chemical industries. Likewise, the automotive industry saw a return to solidly increasing sales figures in 2010. The global demand for carbon fiber also picked up in 2010. However, the recently installed global production facilities will not be fully utilized in 2011, and possibly not even in 2012. We currently depend on a small number of customers for our rotor blade sales to the wind industry. The loss of a customer would have a considerable impact on our business as well as the recoverability of these assets.

The general interest rate trend has an effect on the calculation of the internal weighted cost of capital. Any interest rate increase could lead to an increased impairment risk of individual assets.

We address market risks by expanding our technological expertise and by continually developing new and innovative solutions to today's problems – both in relation to our product portfolio as well as our manufacturing processes – in order to stand out among our main competitors. Our primary focus is on client-specific requirements, which we optimize even further through joint projects with our customers. Our own cost position is analyzed on an ongoing basis; lasting savings are regularly identified and implemented by our Six Sigma supported, worldwide SGL Excellence initiative, strengthening our international competitive position.

We employ structured procurement concepts as well as medium-term and long-term framework agreements to balance out volatility in energy markets and unforeseen price increases in our principal raw materials. If the market experiences significant excess demand, the result may be considerable, unanticipated price increases and supply bottlenecks. Delivery delays and bottlenecks could have a negative impact on our businesses.

To offset this risk, we have been able to develop appropriate strategic concepts with our main suppliers based on business relationships built up over many years. Price fluctuations in the raw materials energy resources used by our main suppliers could also impact our earnings if we are not able to compensate for these price increases by applying corresponding increases to our selling prices.

RISKS FROM MERGERS, ACQUISITIONS AND CAPITAL INVESTMENT

All merger, acquisition and capital investment decisions entail extensive risks caused by the large amount of funds required and the long-term capital employment. SGL Group therefore makes great efforts to minimize the risk in the preparation, implementation and the follow-up of these decisions. This is carried out by means of comprehensive due diligence tasks and efficient project management and control. Nevertheless, it is not possible to guarantee that each acquired business will be integrated promptly and successfully, and that such businesses will enjoy growth in the future.

In addition, acquisitions may lead to a significant increase in goodwill and other non-current assets. Corrective write-downs on these assets as a result of unforeseen business developments may also have a negative impact on our profits.

TECHNOLOGY RISKS

To be competitive we reinforce the innovative strength of all our global business units, research and development activities across the Group, which are consolidated at our Technology & Innovation Center (T&I). This research organization brings together the comprehensive range of knowledge from the various research departments and makes it available to all units. T&I serves to accelerate work on development projects and increases the success rate. We forecast that the implementation of technologically important platform projects will further strengthen our corporate portfolio, enabling us to offset the risks arising from technological change.

The development and utilization of new technologies is an integral part of our growth strategy. We take a number of approaches to minimize the accompanying technological risks including rigorous project evaluation and prioritization. Decisions on the continuation of individual projects are linked to predefined milestones. We adjust for and limit possible risk situations by regularly reviewing our project portfolio on the basis of technological and commercial criteria. Not achieving this goal could have a negative impact on our net assets, financial position and results of operations.

LEGAL AND TAX RISKS

We recognize provisions for legal disputes if it is probable that an obligation exists and it is possible to make a reasonable estimate of the amount of the obligation. However, the recognized provisions may turn out to be insufficient to cover the expenses resulting from the litigation, leading to a considerable negative impact on net assets, financial position and results of operations of the Company.

Our Compliance Management System reduces the risk of legal violations on all levels – in particular with regard to anti-trust and corruption-related violations. Our 2005 Code of Business Conduct and Ethics was revised and a new Gifts and Business Hospitality Guideline as well as a Whistleblower Guideline were passed by the Board of Management in the year under review. These new guidelines are being rolled out in 2011 on a global scale and will be supported by adequate training initiatives. Adherence to the new guidelines will further mitigate risk for the Company.

Changes in tax or legal provisions in individual countries in which we operate may lead to a higher tax expense and higher tax payments and may have an impact on our deferred tax assets and liabilities.

CURRENCY RISKS

Our key financial indicators are influenced by exchange rate fluctuations arising from our global business activities. By optimizing operating cash inflows and outflows in a particular foreign currency, we reduce our transaction-related currency risk. To cover any other currency risk above this level, we enter into currency hedges using derivative financial instruments. For 2011 the major transaction-related net currency exposures have been hedged. Translation risks are not hedged.

REGULATORY RISKS

As a result of the new EU legislation on chemicals (REACH), the statutory regulations for dealing with chemical substances have changed. Registration, assessment and licensing of the substances or products involved to some extent require extensive investigations. To date, the registrations required by law have been implemented on time and any associated expenses were included in the respective business transactions. Continued developments in legislation as well as the impacts of cost-intensive testing and registration procedures at European production facilities (both at our own facilities and those of our clients), compared with the facilities of competitors not manufacturing in the EU, cannot currently be quantified.

As a result of close contact with authorities and industry associations, our Corporate EHSA (Environment, Health & Safety, Audit Systems) function receives a constant flow of information on the latest developments and provisions under the REACH regulation. Furthermore, we have a REACH team in place to monitor whether the legal stipulations are being strictly adhered to and the registration of substances completed on a timely basis. This way we ensure that we can respond promptly to changes, while minimizing risk.

Stricter liability or environmental protection legislation could increase our costs. A rise in social security contributions and other statutory ancillary payroll benefits would also lead to cost increases.

FINANCIAL RISKS

Due to new financing arrangements concluded in 2007 and the additional convertible bond issued in 2009, there is a significantly lower overall financial risk for SGL Group than in previous years. We are under an obligation to comply with certain covenants with respect to our lenders and bondholders. Should we fail to comply with these covenants, the loans may have to be renegotiated. Financial risks are monitored and controlled centrally. We ensure that any peaks in cash requirements are covered at all times by maintaining a strict liquidity policy with rolling liquidity and financial planning based on current estimates of operating profit and cash flow in the business units. The Group's financing requirements are covered by existing credit facilities under the corporate bond, convertible bonds and credit lines with banks. Global economic developments in our customer industries also routinely influence the creditworthiness of our customers. This situation bears default risks that we are dealing with by means of effective receivables management. This entails a regular review of the credit standing and payment patterns of our customers and the establishment of credit limits according to credit management guidelines applied throughout the Group. Bank guarantees and credit insurance also limit any possible bad debt risks. Other financial risks arise from changes in interest rates and exchange rates; we hedge these risks by means of derivative financial instruments. The primary principle in all activities in connection with these derivatives is the minimization of risk. In addition to separating the trading and control functions, we also carry out regular risk assessments in this area.

HUMAN RESOURCES RISKS

Our employees and management constitute a key pillar in SGL Group's success. The competition for highly qualified executives, scientists and engineers is very intense, especially during an economic recovery. In order to achieve our strategic goals, we have to hire and retain highly qualified employees. Not achieving this goal would have a considerably negative impact on our business.

OBLIGATIONS FOR PENSIONS AND HEALTH BENEFITS

Changes to the present value of the defined benefit obligations in our payment-oriented and defined contribution pension plans as well as the decline in plan assets in our pension obligations in our North American companies affect the funded status of our pension plans. A deviation in the actual developments in the actuarial pension obligations from the parameters used in some or all of the calculations could have a negative impact.

IT RISKS

To ensure that all business processes are handled securely, the information technology used by the Group is checked and modified on an ongoing basis. SGL Group has an integrated and standard group-wide IT infrastructure. Global security systems, mirror databases, virus protection and encryption systems, together with comprehensive access authorization structures – all based on current technological standards – protect us against the loss or manipulation of data. As part of our IT control systems, established control processes are updated on a regular basis in order to effectively prevent unauthorized access to systems and data.

OVERALL RISK ASSESSMENT FOR SGL GROUP

An overall assessment of the above risks primarily reveals market risks in connection with price and volume trends for both sales and procurement. In extreme cases, these risks could also adversely affect the impairment of net assets and may require related write-downs. In contrast, internal production processes are much less subject to risk. Presently, we see no substantial financial risks that impact on SGL Group. On the basis of information currently available, there are in our opinion no material individual risks – either presently or in the foreseeable future – that could jeopardize the business as a going concern. Even if the individual risks are viewed on an aggregated basis, they do not threaten SGL Group's going concern.

Additional Disclosures pursuant to Section 315 of the HGB

- As of December 31, 2010, the issued capital of the Company was €167,878,295.04 divided into 65,577,459 no-par-value bearer shares, each with an imputed share of the issued capital of €2.56 (see **Note 22** in the notes to the consolidated financial statements).

- The Board of Management of SGL Carbon SE is not aware of any restrictions on voting rights or the transfer of shares.

- The Company was informed by SKion GmbH of their holdings of direct or indirect shares in capital exceeding ten percent of voting rights in April 2009. 22.25% of SGL Carbon SE shares are owned by SKion GmbH.

- The Company has not issued any shares with special rights conferring control authority over the Company.

- There are no provisions for employees to exercise control over voting rights.

- The Articles of Association do not include any rules governing the appointment or dismissal of members of the Board of Management. In accordance with legal provisions, such decisions are taken by the Supervisory Board.

- Changes to the Articles of Association are decided by approval of a resolution at the Annual General Meeting. Under section 17 (3) of the Articles of Association, such decisions require a simple majority of the issued capital represented at the vote on the resolution, providing the decision does not concern a change in the purpose of the Company.

- Subject to the consent of the Supervisory Board, the Board of Management is authorized to issue new shares from authorized or conditional capital (see section 3 (6) to section 3 (11) of the Articles of Incorporation).

- Subject to the consent of the Supervisory Board, the Board of Management is also authorized in the period up to April 29, 2015, to buy back the Company's own shares pursuant to section 71 no. 8 of the German Stock Corporation Act (AktG) (see **Note 22** in the notes to the consolidated financial statements).

- In the event of a change of control the Company may be under an obligation to repay amounts loaned to the Company by lenders or bondholders under major financing agreements (syndicated loan, corporate bond).

- The Company has entered into compensation agreements with the members of the Board of Management and senior managers that will be triggered in the event of a change of control (see **Note 33** in the notes to the consolidated financial statements).

DECLARATION PURSUANT TO SECTION 289 a OF THE GERMAN COMMERCIAL CODE (HGB)

A Corporate Governance declaration pursuant to section 289 a of the HGB was published on our website at www.sglgroup.com.

Outlook

BUSINESS POLICY

Fiscal 2010 was characterized for the most part by an unexpectedly rapid recovery in the global economy, which has resulted in a significantly better demand situation in most of our customer markets. Most economists are assuming continued economic growth in 2011, although still fraught with uncertainty. Furthermore, we are convinced that the fundamental trends for our materials and applications will continue. One of the current global trends is an accelerated substitution process, which sees traditional raw materials and energy sources increasingly being replaced by alternative materials. We can benefit from this trend by leveraging our new technologies, for instance in the Business Area Carbon Fibers & Composites. Mega trends, such as environmental protection and mobility, create new areas of application for our products. Carbon, as the "steel of the future," will in future generate high demand for SGL Group.

For these reasons we aim to consistently implement our growth strategy based on our claim "Broad Base. Best Solutions" (for more information please refer to our chapter on strategy).

CUSTOMER MARKETS

Our customer markets in Asia and Eastern Europe will continue to grow dynamically in 2011 and over the medium term. We intend to participate in this growth with our products and the significant local presence we have built up, particularly in Asia.

The strong need for basic materials in the emerging markets of Asia has not abated; demand for new materials and renewable energies is rising at an increasing rate in the industrialized nations of the Western world. These factors will further drive up demand for our products.

On this basis, SGL Group will carry on expanding its technical expertise in applications and processes by consistently developing new and innovative materials and products. Our SGL Excellence initiative, which has been a success for years, will help us to achieve these objectives.

DEVELOPMENT OF NEW TECHNOLOGIES

Due to the dynamism of the growth fields in the Materials Segment Advanced Materials, research and development expenditures will remain high in fiscal 2011 and in subsequent years, and may even rise. During the year under review, we intensified SGL Group's global research and development activities at our new Technology & Innovation (T&I) Center in Meitingen. In 2010, we considerably expanded the laboratory and pilot production infrastructure around the T&I Center in order to strengthen our capabilities to implement new ideas and concepts. Our scientific staff will continue to grow in this area in the medium term.

ENVIRONMENTAL PROTECTION

Expenses for planned environmental measures in 2011 – 2013 will remain at prior years levels. These measures will meet existing legal provisions and requirements, to the extent known at this point.

FUTURE PRODUCTS

As one of the leading global manufacturers of carbon products, it is important that SGL Group continuously develops new products and solutions. This will allow us to continue to grow profitably and create added value for our customers. Our T&I organisation will continue to innovate modern, high-performance materials for future applications. This includes both enhancing existing products and technologies and developing completely new solutions for new application areas. Our development efforts will remain focused on innovative materials and solutions for more efficient energy utilization and high-performance fibers and composites. We will also concentrate on the development of environmentally friendly applications that conserve resources . These applications currently account for more than 60% share of Group sales and we expect this to grow in the coming years.

ECONOMIC OUTLOOK

According to expert opinion, the global economy will continue to recover in fiscal 2011, although the pace of recovery will vary from one region to another. In the industrialized countries, growth is likely to be subdued. In many emerging markets, we continue to see robust economic performance, emerging inflationary pressures and some early indications of overheating, driven to some extent by strong capital inflows.

In its January 2011 World Economic Outlook, the IMF predicts that the global economy will register strong growth of 4.4% in 2011, revising their October 2010 forecast upwards by a quarter of a percentage point. The reason for this increase was the stronger than anticipated economic performance in the second half of 2010 as well as the launch of new stimulus programs in the US, which are expected to strengthen growth in the current year. The IMF predicts 3.0% growth in the US, roughly 2.2% in Germany and 1.5% in the euro zone in the current fiscal year. The greatest contribution will come from China, which will likely grow by 9.6%. India is also expected to see dynamic growth of 8.4%. In its November 2010 Economic Outlook, the OECD paints a somewhat less rosy picture: It predicts a 2.3% growth rate for all OECD countries in 2011. OECD forecasts are more optimistic for 2012. The global economy is expected to grow by 2.8% overall, driven especially by a strong upsurge in the emerging markets and moderate growth rates in the industrialized countries.

INDUSTRY TREND

After global steel consumption at plus 13,1% rose more significantly than anticipated in 2010, the World Steel Association forecasts a further increase of 5,3% in 2011. In China, the growth rate in steel consumption is expected to weaken to 3.5% due to the soft domestic real estate market and the expiration of the stimulus packages. By contrast, demand for steel from the remaining parts of the world, especially India, North and South America, and the EU, will grow more strongly. Nevertheless, steel demand in the industrialized countries will continue to remain below pre-crisis levels.

The aluminum industry has essentially recovered and experts anticipate that demand will continue to exceed GDP growth. The consulting firm Harbor, for instance, expects production growth to reach 11% in the current year following 10% growth in 2010. The construction of several new aluminum smelters already started in 2010. We expect a number of capital expenditure programs for new aluminum smelters, which were suspended during the crisis, to resume in the next few years on account of rising demand.

Cefic – the European Chemical Industry Council – predicts moderate 2.5% growth for 2011 after the upswing of 10.0% in 2010. Nevertheless, the production levels forecast for the end of 2011 by the European chemicals industry still fall far short of the peak figures in the record year 2007.

According to information from the market research company Gartner, the global semiconductor market is poised for continued, albeit lower, growth in 2011. Global semiconductor sales are expected to rise by 4.6% in 2011 after a surge of 31.5% this past year, which was the strongest year to date in semiconductor history at approximately US$300 billion. The international photovoltaic market research company Solarbuzz anticipates a 25% increase in world-wide photovoltaic sales in 2011 after deliveries in 2010 more than doubled over the previous year. The solar industry also had a record year in 2010. An additional 13.7% growth is predicted for 2011 by the consulting firm Mercom Capital Group. According to information from Bloomberg New Energy Finance, an increase in on-shore and off-shore wind installations is expected in 2011 after a lull in growth in the past year. Demand for light emitting diodes (LEDs) and lithium ion batteries, too, is likely to continue to rise in 2011.

After the recovery in air traffic of 11.6% in the past year, growth should be slightly more moderate in 2011 at 5.3%, according to IATA. Reasons for this include the sharp drop in air traffic in the 2009 crisis year, savings measures on the part of some European member states, and the introduction of new and/or higher air traffic taxes, the latter of which will adversely affect growth, especially in Europe. Air traffic capacity should be up approximately 6% in 2011, in line with the previous year.

Assuming that stable economic development continues, these industry trends should continue into 2012.

SALES AND EARNINGS GROWTH

Performance Products

Due to the continued rise in production output in the steel industry, an increase in sales volumes can be anticipated in 2011 for graphite electrodes. However, we do not expect to reach our pre-crisis sales levels due to overall developments in the customer segment of steel producers with electric arc furnaces that is relevant for our business. Moreover, we expect additional pressures from raw materials and other factor costs in 2011, which we will only be able to pass on partially in our prices. Since the order patterns for steel producers do not as yet cover one year, our ability to predict the second half of 2011 is limited. As we are not anticipating any significant restocking or destocking activities, we expect our capacity utilization to be in line with that of electric steel production.

The past fiscal year was characterized by lower capital expenditure in the aluminum industry as well as the continued cathode destocking. We expect the demand for cathodes to go up again after 2011. Higher maintenance and new investment outlays for additional aluminum capacity are already noticeable. The increase in demand will allow us to utilize more cathode capacities in subsequent years. We will not yet be able to pass on rising factor costs in 2011.

Consequently, we anticipate a continued climb in sales for the Business Area Performance Products in fiscal 2011 compared with 2010. At this point, however, it is not possible to assess whether expected factor cost increases can be passed on to our customers and/or compensated by efficiency improvements and cost savings. As a result of the increasing recovery in demand for our customers' products in the steel and aluminum markets driven by a stronger economy, we have a more positive view of the further trend in 2012.

Graphite Materials & Systems

Incoming orders and sales in the Business Area Graphite Materials & Systems recovered far earlier than expected in 2010. This development is a result of the expanding recovery of the overall economy and, in particular, to structural growth in our newer businesses, such as for the solar and LED industry and the market for lithium ion batteries. This trend is unbroken in the first weeks of the current year. We expect overall sales in 2011 to be on par with the record year 2008. The return on sales (based on EBIT) will again reach our medium-term target of at least 10%. If the current economic trend continues, we anticipate growth in sales and earnings to continue through 2012.

Carbon Fibers & Composites

In our Business Area Carbon Fibers & Composites , we reduced 2010 losses by more than half. This was thanks to efficiency improvements in all business units, the rising demand for carbon fibers and composite materials, and significantly better capacity utilization at HITCO, which manufactures components for the aviation and defense industries. This development is likely to continue in 2011. Furthermore, we expect better sales prices especially in carbon fibers and composite materials. By contrast, we feel the wind market in 2011 will remain affected by delayed consequences from the financial crisis, so that we cannot rule out further project postponements on the part of our customers. Nevertheless, we are confident that we can achieve double-digit sales growth at CFC in 2011 and a positive contribution to earnings. Given the ongoing increase in materials substitution in our target markets – automotive, industrial and aviation/defense – this development is likely to continue in 2012 as well.

Expected Financial Position and Planned Capital Expenditures

The strategic business plans of the operational business units determine the Group's financing requirements, which are reviewed annually based on new plans. Our financing requirements for fiscal 2011 and 2012 are covered by existing liquidity reserves. Based on our solid long-term financing structure, we will not need to refinance existing capital market instruments in 2011 and 2012. We have created an additional degree of freedom by extending our syndicated credit lines of €200 million in February 2011 until 2015.

In the event that the economic recovery is delayed during the remainder of the year, we are able to postpone our investment projects. Our goal is to maintain our gearing at approx. 0.5. Due to the high number of long-term expansion projects already begun in all business areas, investments in 2011 and 2012 will continue at the high level of up to €150 million. We anticipate a reduction in investment starting in 2013.

Liquidity Development

A sound balance sheet structure, the available financing framework and operating cash flows guarantee that anticipated liquidity requirements are covered for 2011 and 2012; this also includes the financing of our planned growth strategy.

Dividends

As a matter of principle, we are committed to paying our shareholders sustainable earnings based dividends. The Board of Management and Supervisory Board discuss on a regular basis, when the right point in time is reached to reinstate a sustainable dividend policy. Besides expected midterm target attainments, also future development of gearing, return on capital employed and free cash flow need to be considered.

Opportunity Management

SGL Group has an opportunity management system that has incorporated all areas of the Company. This system allows us to identify opportunities that help us to conduct our business successfully over the long term. Beyond this, our managers at all levels are motivated to identify and exploit potential opportunities, which are linked to their variable salary components.

An example of our efficient opportunity management, and in this case innovation management, was the consolidation of our global research and development expertise at our new T&I Center in Meitingen. By expanding our technical expertise in applications, processes and the development of new materials and products, we are responding to the increasing requirements of our customers.

We also continuously monitor global mega trends in order to identify opportunities for our Company. Overall, SGL Group is reaping the benefits of two fundamental trends. First, industrialization in the emerging markets in Asia and Eastern Europe is a strong driver of global growth. Second, the global acceleration of substitution and innovation processes – such as in the area of alternative energies, environmentally friendly materials and technologies – represents a major challenge for the whole world. We are in an excellent position thanks to our products and solutions both for basic materials such as steel and aluminum as well as for new environmentally friendly technologies.

OPPORTUNITIES IN THE BUSINESS AREAS

Performance Products

Demand for graphite electrodes is driven by the uninterrupted high demand for steel products, especially in the BRIC countries (Brazil, Russia, India and China), and the trend toward electric arc furnace technology in steel production. Our plant in Malaysia, which is currently under construction, will set new standards in cost and quality. We are convinced that this will help us further strengthen our leading position in graphite electrodes. The demand for cathodes will be high as a result of the return to dynamic growth anticipated after the crisis. Furthermore, the modernization of existing aluminum capacity will be associated with a shift in demand to higher-quality graphitized cathodes, which will benefit our business.

Graphite Materials & Systems

The Business Area Graphite Materials & Systems is well-positioned in the area of low CO_2 power generation and more efficient energy utilization. We intend to fully participate in these market's latest developments. We will exploit our opportunities as materials specialists in the global market in this business. SGL Group already has a broad portfolio of high-quality products and solutions for the solar and nuclear industry as well as the battery and LED industries. In order to take part in the anticipated growth in particular in the growth markets of solar energy, semiconductors and LEDs, we decided in mid-2010 to triple our capacity for isostatic graphite gradually over the next few years. We expect to start operations at this new production center as early as 2012. Furthermore, we have phase-change materials at our disposal that are based on expanded graphite and offer approaches to optimizing air-conditioning technology. At the beginning of 2010, we created the Business Unit New Markets, which focuses on the accelerated development and marketing of new graphite-based products and applications.

Carbon Fibers & Composites

There is a high degree of dynamic growth in the Business Area Carbon Fibers & Composites. Also in this Business Area SGL Group has a range of products addressing energy generation technology. Our carbon fiber products, for instance, reinforce large blades on wind turbines. The trend toward large on-shore and off-shore wind farms, in particular, offers significant opportunities. We also see major growth potential in the automotive industry as a result of greater use of carbon fibers and composites. We have positioned ourselves well in this area through our joint ventures with the BMW Group and Benteler-SGL. Opportunities for our US subsidiary HITCO exist especially given the large increase of carbon fiber composites used in the aviation industry.

Likelihood of Target Achievement

Global economic developments continue to harbor uncertainties. It is these developments, however, that will determine the extent to which SGL Group will achieve its targets. From today's point of view, the extremely volatile financial and currency markets could have either positive or negative effects on SGL Group, depending on exchange rate fluctuations. Higher raw material and energy costs may accelerate the process of substituting traditional materials with graphite and carbon fiber products. Our Company could also see additional sales and earnings potential from further energy saving measures stipulated by law as well as the continued promotion of alternative energies.

General Statement on Anticipated Developments

Based on the developments in our individual business areas described above, we anticipate an increase in sales in excess of 10% in 2011 and to reach an EBIT between €150 and €165 million. The continued need for high capital expenditures will be covered to a large extent with operating cash flows, so that we can maintain our goal of keeping our gearing at approx. 0.5. Despite improved earnings once again in 2011, the year will remain a transition year in which we may move closer to our medium-term Group return on sales goal of minimum 12% (based on EBIT), but will not completely attain it.

The longer-term economic recovery forecast and the mega trends that remain intact, especially the substitution of materials and the increased use of our products in energy technology, are likely to allow for additional sales and earnings improvements in 2012, at which time we intend to once again reach our Group return on sales target of at least 12%. In 2011 and 2012, capital expenditure will remain at up to €150 million per year and therefore well exceed depreciation and amortization. However, we remain committed to maintaining our gearing at approx. 0.5. Investments will be funded primarily from operating cash flow. Once the investment phase has been completed, we expect to reach positive free cash flows starting 2013.

Wiesbaden, February 28, 2011

SGL Carbon SE
The Board of Management

Important note:
Our annual report contains forward-looking statements based on the information currently available to us and on our current projections and assumptions. By nature, forward-looking statements are associated with known and unknown risks and uncertainties, as a consequence of which actual developments and results can deviate significantly from the assessment published in our annual report. Forward-looking statements are not to be understood as guarantees. Rather, future developments and results depend on a number of factors; they entail various risks and unanticipated circumstances and are based on assumptions which may prove to be inaccurate. These risks and uncertainties include, for example, unforeseeable changes in political, economic, legal, and business conditions, particularly relating to our main customer industries, such as electric steel production, to the competitive environment, to interest rate and exchange rate fluctuations, to technological developments, and to other risks and unanticipated circumstances. Other risks that in our opinion may arise include price developments, unexpected developments associated with acquisitions and subsidiaries, and unforeseen risks associated with ongoing cost savings programs. SGL Group assumes no responsibily in this regard and does not intend to adjust or otherwise update these forward-looking statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement
for the period January 1 to December 31

€m	Notes	2010	2009
Sales revenue	6, 15, 30	**1,381.8**	**1,225.8**
Cost of sales	6	–1,012.2	–888.3
Gross profit		**369.6**	**337.5**
Selling expenses	6	–132.8	–115.2
Research and development costs	6	– 37.0	–35.1
General and administrative expenses	6	–73.7	–64.2
Other operating income	7	34.4	25.6
Other operating expenses	7	–32.1	–37.6
Impairment losses	7	0.0	–74.0
Operating profit		**128.4**	**37.0**
Results from equity accounted investments	8	–11.9	–9.9
Interest income	9	2.7	1.1
Interest expense	9	–48.7	–44.1
Other financing costs	9	5.2	–2.2
Profit/loss before tax		**75.7**	**–18.1**
Income tax expense	10	–23.0	–42.6
Net profit/loss for the year		**52.7**	**–60.7**
Attributable to:			
Non-controlling interests		0.5	0.1
Consolidated net profit/loss (attributable to shareholders of the parent company)		**52.2**	**–60.8**
Earnings per share (€)			
– Basic earnings per share (EPS)	11	0.80	–0.93
– Diluted earnings per share (EPS)	11	0.79	–0.93

Consolidated Statement of Comprehensive Income

for the period January 1 to December 31

€m	Notes	**2010**	2009
Net profit /loss for the year		**52.7**	**–60.7**
Cash flow hedges [1]		9.4	18.1
Currency translation		42.0	3.1
Actuarial losses on defined benefit plans and similar obligations [2]	23	–8.1	–13.5
Other comprehensive income		**43.3**	**7.7**
Total comprehensive income		**96.0**	**–53.0**
of which attributable to shareholders of the parent company		*94.6*	*–52.9*
of which attributable to non-controlling interests		*1.4*	*–0.1*

[1] Includes tax effects of €–1.8 million (2009: €–4.3 million)
[2] Includes tax effects of €3.1 million (2009: €6.5 million)

Consolidated Balance Sheet

ASSETS €m	Notes	**Dec. 31, 2010**	Dec. 31, 2009	Jan. 1, 2009
Non-current assets				
Goodwill	12	116.5	112.1	92.8
Other intangible assets	12	33.3	28.6	34.7
Property, plant and equipment	13	761.0	652.5	650.7
Equity accounted investments	14	59.8	49.8	19.3
Receivables from long-term construction contracts	15	51.0	28.1	20.8
Other non-current assets	16	17.1	4.3	4.2
Deferred tax assets	21	58.3	55.6	72.3
		1,097.0	**931.0**	**894.8**
Current assets				
Inventories	17	442.8	398.2	439.6
Trade receivables	18	245.9	218.8	282.9
Income tax assets		5.7	8.0	8.1
Other receivables and other assets	19	31.2	31.7	42.6
Liquidity	20	284.7	302.3	123.1
Time deposits		*200.0*	*0.0*	*0.0*
Cash and cash equivalents		*84.7*	*302.3*	*123.1*
		1,010.3	**959.0**	**896.3**
Assets held for sale	19	**6.0**	**1.0**	**0.0**
Total assets		**2,113.3**	**1,891.0**	**1,791.1**

EQUITY AND LIABILITIES €m	Notes	**Dec. 31, 2010**	Dec. 31, 2009	Jan. 1, 2009
Equity				
Issued capital	22	167.9	167.4	165.6
Capital reserves	22	517.1	497.2	459.4
Retained earnings		179.4	84.8	137.7
Equity attributable to the shareholders of the parent company		**864.4**	**749.4**	**762.7**
Non-controlling interests		13.5	4.7	4.5
Total equity		**877.9**	**754.1**	**767.2**
Non-current liabilities				
Provisions for pensions and similar employee benefits	23	247.7	230.2	218.6
Other provisions	24	11.4	11.1	11.3
Interest-bearing loans	25	614.1	595.2	403.5
Other liabilities	25	47.8	61.1	58.2
Deferred tax liabilities	21	7.7	3.8	2.9
		928.7	**901.4**	**694.5**
Current liabilities				
Other provisions	24	78.7	68.9	77.7
Current portion of interest-bearing loans	25	28.3	6.5	5.4
Trade payables	25	134.1	99.8	165.3
Income tax payables	25	2.0	2.4	8.0
Other liabilities	25	63.6	57.9	73.0
		306.7	**235.5**	**329.4**
Total equity and liabilities		**2,113.3**	**1,891.0**	**1,791.1**

Consolidated Cash Flow Statement
for the period January 1 to December 31

€m	Notes	2010	2009
Cash flow from operating activities			
Profit/loss before tax		75.7	–18.1
Adjustments to reconcile profit/loss to net cash provided by operating activities:			
Interest expense (net)		46.0	41.9
Gain/loss on sale of property, plant and equipment		–4.9	1.0
Depreciation/amortization expense	12, 13	66.4	60.6
Impairment losses	7	0	74.0
Amortization of refinancing costs	9	2.6	2.1
Interest received	9	2.3	1.0
Interest paid		–15.9	–13.3
Income taxes paid		–19.7	–32.9
Changes in provisions, net	10	4.5	5.2
Changes in working capital			
Inventories		–28.7	23.5
Trade receivables		–41.8	51.7
Trade payables		31.7	–64.8
Other operating assets/liabilities		–2.7	–3.9
Net cash provided by operating activities		**115.5**	**128.0**

€m	Notes	**2010**	2009
Cash flow from investing activities			
Payments to purchase intangible assets and property, plant and equipment	12, 13	–129.5	–153.9
Proceeds from sale of intangible assets and property, plant and equipment		6.1	3.2
Advance payment made for the planned acquisition of shares/2009: Payments from disposal of a consolidated entity		–12.4	–0.6
Payments for capital increases concerning equity accounted investments and for other financial assets		–18.0	–10.7
Net cash used in investing activities		**–153.8**	**–162.0**
Payments for investments in time deposits		–200.0	0.0
Net cash used in investing activities and cash management activities		**–353.8**	**–162.0**
Cash flow from financing activities			
Proceeds from issuance of financial liabilities		10.2	216.2
Repayment of financial liabilities		–0.1	0.0
Payments in connection with refinancing		0.0	–3.3
Proceeds from capital increase		0.7	0.6
Other financing activities		7.2	–0.2
Net cash provided by financing activities		**18.0**	**213.3**
Effect of foreign exchange rate changes		2.7	–0.1
Net change in cash and cash equivalents		**–217.6**	**179.2**
Cash and cash equivalents at beginning of year		302.3	123.1
Cash and cash equivalents at end of year		**84.7**	**302.3**
Time deposits		200.0	0.0
Total liquidity	20	**284.7**	**302.3**

Consolidated Statement of Changes in Equity
as of December 31

	Equity attributable to	
€m	Issued capital	Capital reserves
Balance as of December 31, 2008	165.6	459.4
Adjustment due to new accounting policies		
Adjusted balance as of December 31, 2008	**165.6**	**459.4**
Net loss for the year		
Other comprehensive income		
Total comprehensive income		
Equity component of the convertible bond*		30.2
Capital increase from share-based payment plans	1.8	7.6
Appropriation of net profit 2008		
Other changes in equity		
Adjusted balance as of December 31, 2009	**167.4**	**497.2**
Balance as of December 31, 2009	167.4	497.2
Adjustment due to new accounting policies		
Adjusted balance as of December 31, 2009	**167.4**	**497.2**
Net profit for the year		
Other comprehensive income		
Total comprehensive income		
Capital increase from share-based payment plans	0.5	19.9
Appropriation of net profit 2009		
Other changes in equity		
Balance as of December 31, 2010	**167.9**	**517.1**

* After deduction of transaction costs of €0.5 million

the shareholders of the parent company							
Retained earnings							
		Accumulated other comprehensive income					
Accumulated profit/loss	Consolidated net profit/loss	Currency translation	Cash flow hedges (net)	Total retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	**Total equity**
32.4	189.7	−56.8	−26.9	138.4	763.4	4.5	767.9
−0.4	−0.3			−0.7	−0.7		−0.7
32.0	**189.4**	**−56.8**	**−26.9**	**137.7**	**762.7**	**4.5**	**767.2**
	−60.8			−60.8	−60.8	0.1	−60.7
−13.5		3.3	18.1	7.9	7.9	−0.2	7.7
−13.5	**−60.8**	**3.3**	**18.1**	**−52.9**	**−52.9**	**−0.1**	**−53.0**
					30.2		30.2
					9.4		9.4
189.4	−189.4						
						0.3	0.3
207.9	**−60.8**	**−53.5**	**−8.8**	**84.8**	**749.4**	**4.7**	**754.1**
208.6	−60.4	−53.5	−8.8	85.9	750.5	4.7	755.2
−0.7	−0.4			−1.1	−1.1		−1.1
207.9	**−60.8**	**−53.5**	**−8.8**	**84.8**	**749.4**	**4.7**	**754.1**
	52.2			52.2	52.2	0.5	52.7
−8.1		41.1	9.4	42.4	42.4	0.9	43.3
−8.1	**52.2**	**41.1**	**9.4**	**94.6**	**94.6**	**1.4**	**96.0**
					20.4		20.4
−60.8	60.8						
						7.4	7.4
139.0	**52.2**	**−12.4**	**0.6**	**179.4**	**864.4**	**13.5**	**877.9**

Notes
General Disclosures

1. BASIS

Description of Business Activities

SGL Carbon SE (SGL Carbon), with registered offices at Rheingaustrasse 182, Wiesbaden (Germany), together with its subsidiaries (SGL Group), is a global manufacturer of carbon and graphite products. See **Note 30** and the group management report for further information on the business activities of the Group.

Basis of Presentation

These consolidated financial statements of SGL Carbon SE and its subsidiaries (hereinafter referred to as SGL Group, SGL, the Group or the Company) for the year ended December 31, 2010, have, pursuant to section 315a of the German Commercial Code (HGB), been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable on the balance sheet date, and in accordance with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All the standards published by the International Accounting Standards Board (IASB) in force on the date on which these consolidated financial statements were prepared and applied by SGL Carbon SE in these consolidated financial statements have been adopted by the European Commission for application in the EU.

The consolidated financial statements of SGL Carbon SE therefore also comply with the IFRS provisions published by the IASB. The term IFRS is thus used in the text below to cover all such provisions. The consolidated financial statements are presented in millions of euros (€ million), rounded to the nearest €0.1 million unless otherwise indicated.

The Board of Management prepared the consolidated financial statements on February 28, 2011, and submitted them to the Supervisory Board for approval. It is planned that the consolidated financial statements and the group management report for the fiscal year 2010 will be approved and released for publication at the meeting of the Supervisory Board on March 16, 2011.

Effects of New Accounting Standards

Pursuant to the Improvements to IFRSs required to be applied from January 1, 2010, adjustments had to be made based on the amendments to IAS 17 “Leases.” Due to the removal of the special provisions for classifying land as a leased asset in IAS 17, a heritable building right previously recognized as an operating lease had to be reported as a finance lease. Since the new accounting principle had to be applied retrospectively, a third comparative period had to be presented in accordance with IAS 1 “Presentation of Financial Statements.” As a result of this reclassification, property, plant and equipment increased by €18.0 million compared to the consolidated financial statements for fiscal 2008, rising from €632.7 million to €650.7 million as of January 1, 2009, while deferred tax assets grew by €0.3 million, equity declined by €0.7 million, and liabilities from finance leases increased by €19.0 million. The changes to IAS 17 were applied in fiscal year 2009, property, plant and equipment increased by €17.7 million compared to the consolidated financial statements for fiscal 2009, from €634.8 million to €652.5 million as of January 1, 2010, while deferred tax assets grew by €0.4 million, equity declined by €1.1 million, and liabilities from finance leases increased by €19.2 million. In the income statement for fiscal 2009, the profit from operations (EBIT) increased by €0.6 million, interest expenses grew by €1.1 million, and tax expenses declined by €0.1 million. The prior-year figures were adjusted accordingly in all disclosures that include the items mentioned here.

IAS 27 "CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS"

The amendments to IAS 27 specify the presentation requirements in the event of a change in the amount of an investment as well as when a parent company ceases to control a subsidiary. Now, any remaining interests must be measured at fair value as of the date of a change of control. The first-time adoption of IAS 27 will have corresponding effects on accounting for future changes in investments.

IFRS 3 "BUSINESS COMBINATIONS"

The amended IFRS 3 introduces an option with respect to the accounting for goodwill of non-controlling interests. Goodwill of non-controlling interests may either be measured on a market-oriented basis at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the net identifiable assets. New rules were also introduced for business combinations achieved in stages as well as for the recognition of the fair value of contingent consideration. In the future, any adjustments made to contingent purchase price components carried as a liability as of the date of acquisition must be recognized in profit or loss. In addition, acquisition-related costs are no longer part of the cost, but must be recognized in profit or loss. The first-time adoption of IFRS 3 will have corresponding effects on accounting for future business combinations.

Effects of Financial Reporting Standards required to be applied in the future

The following financial reporting standards issued by the IASB are not required to be applied at the moment, nor has SGL Group opted for voluntary early application:

The aim of IFRS 9 "Financial Instruments" is to fully replace the existing IAS 39 "Financial Instruments: Recognition and Measurement." This will be implemented in three stages. The first stage, effective November 2009, refers to classification and measurement of financial assets. Accordingly, financial assets must be sub-divided into two categories and accounted for based on the rules applicable to the relevant category. These categories are: financial assets measured at amortized cost and financial assets measured at fair value. Equity instruments must be accounted for at their fair value. IFRS 9 must be applied for fiscal years beginning on or after January 1, 2013. The European Financial Advisory Group has postponed the endorsement of IFRS 9 within the EU in order to have more time to evaluate the IASB project to improve accounting for financial instruments. IFRS 9 is not expected to have a significant impact on the consolidated financial statements of SGL Group.

The IASB has issued a number of other pronouncements. These additional pronouncements will have no significant influence on the presentation of the consolidated financial statements of SGL Group.

2. CONSOLIDATION METHODS

The consolidated financial statements are prepared for a twelve-month period ending December 31 and include the single-entity financial statements of SGL Carbon SE and its subsidiaries, which are fully consolidated from the date of acquisition, i. e. from the date on which SGL Group acquires control. Consolidation ends as soon as the parent effectively loses control. As of December 31, 2010, the scope of consolidation included 15 German (2009: 16) and 42 (2009: 44) foreign subsidiaries in addition to SGL Carbon SE. Eight (2009: 7) jointly controlled companies and one associate (2009: 0) were accounted for using the equity method. The subsidiaries included in the consolidated financial statements are listed in **Note 36**.

The financial statements of the entities included in the consolidated financial statements were prepared in accordance with uniform accounting policies.

In accordance with IAS 27, SGL consolidates its subsidiaries by offsetting the carrying amount of its investment in each subsidiary against the portion of equity it holds in the subsidiary concerned. The equity of the acquired subsidiary is determined as of the date of acquisition, taking into account the fair value of the assets, liabilities, contingent liabilities, deferred taxes and any goodwill on this date. Initial consolidation includes recognizing any intangible assets that had not previously been reported in the single-entity financial statements of the acquired company at their fair value.

Intangible assets identified in a business combination such as brand, technology, customer relationships, and existing orders are only recognized separately if the requirements of IAS 38 for the capitalization of intangible assets are met.

Intercompany receivables and payables, intercompany gains and losses, and intercompany sales revenue, expenses, and other income are all eliminated as part of the consolidation process. In accordance with IAS 12, deferred taxes are recognized in respect of timing differences arising from consolidation.

Joint ventures and companies where the SGL Group has a significant influence on business and financial decisions – mainly by way of direct or indirect voting rights of 20% to 50% (associates) – are accounted for using the equity method.

Any change in ownership interests that does not result in a change of control is accounted for as an equity transaction with owners, with the impact of the transaction between the owners of the parent and the non-controlling interest being recognized directly in equity in accordance with IAS 27 (2008).

3. ACCOUNTING POLICIES

Foreign Currency Translation

All receivables and payables denominated in foreign currency in the single-entity financial statements of Group companies are translated at the middle rates as of the balance sheet date, regardless of whether or not they are hedged. The exchange differences arising from the translation of items denominated in foreign currency are reported in the income statement under other operating expense and/or other operating income.

Single-entity financial statements denominated in foreign currencies for companies included in the scope of consolidation are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method.

From a financial, commercial, and organizational perspective, all subsidiaries operate their respective businesses independently, and the functional currency is therefore identical to their respective local currency. As a consequence, balance sheet items are translated at the closing rate and income statement items at average rates for the year.

Currency translation differences are reported as a separate item of equity. Translation differences on non-current intercompany receivables are treated as net investments in foreign operations and recognized directly in equity. If a foreign operation is sold, the cumulative amount recognized in equity for this operation is expensed in the income statement. No single-entity financial statements from companies in hyperinflationary economies are included in the consolidated financial statements.

Changes in currency exchange rates material to the consolidated financial statements are as follows:

Currencies	**ISO code**	**Middle rate at balance sheet date**		**Annual average rates**	
1 € =		**Dec. 31, 2010**	Dec. 31, 2009	**2010**	2009
US dollar	USD	1.3362	1.4406	1.3257	1.3948
Pound sterling	GBP	0.8608	0.8881	0.8578	0.8909
Canadian dollar	CAD	1.3322	1.5128	1.3651	1.5850
Polish zloty	PLN	3.9603	4.1082	3.9939	4.3313
Chinese yuan	CNY	8.8220	9.8350	8.9712	9.5277
Malaysian ringgit	MYR	4.0950	4.9326	4.2668	4.9079
Japanese yen	JPY	108.6500	133.1600	116.2400	130.3400

Financial Instruments

A financial instrument is any contract that results in a financial asset at one entity and a financial liability or equity instrument at another entity.

Financial assets in SGL Group comprise, for the most part, cash funds, trade receivables, and derivative instruments with a positive fair value. The financial liabilities of the Company primarily consist of the corporate bond, convertible bonds, liabilities to banks, trade payables, and derivative financial instruments with a negative fair value.

Within SGL Group, financial instruments are allocated to the following categories:

- Financial assets available for sale
- Financial assets held for trading
- Loans and receivables
- Financial liabilities measured at amortized cost
- Financial liabilities held for trading

SGL Group does not make use of the category of *held-to-maturity investments*, nor has SGL Group elected to make use of the option to designate financial assets and liabilities as at fair value through profit and loss upon initial recognition.

There were no reclassifications between these categories.

Financial instruments are recognized as soon as SGL Group enters into a contract for the financial instrument. Financial instruments are initially recognized at fair value. Directly attributable transaction costs relating to the purchase or issuance of a financial instrument, except for financial instruments held for trading, are taken into account upon first-time recognition when establishing the carrying amount of the asset.

The subsequent measurement of financial assets and liabilities depends on the category of the instrument concerned. Please refer to the following sections related to the relevant categories and **Note 29** for further information.

Financial assets are derecognized when the contractual rights to cash flows from the financial asset in question expire or have been extinguished. Financial liabilities are derecognized when the liability has been repaid, i.e. when all financial obligations specified in the agreement have been settled, canceled definitively, or have expired. The difference between the carrying amount of the liability settled and the consideration paid is recognized in profit or loss. A purchase or sale of financial assets at market conditions is recognized as of the settlement date.

Derivative Financial Instruments

In accordance with IAS 39, all derivative financial instruments are recognized in the balance sheet at their market value at the date on which the relevant transaction is entered into. The Company determines upon inception of a derivative whether it will be used as a cash flow hedge. Cash flow hedges are used to hedge against fluctuations in future cash flows resulting from highly probable forecast transactions. Individual derivatives do not fulfill the hedge accounting criteria stipulated by IAS 39 although, in substance, they represent a hedge.

Changes in the fair value of derivatives are recognized as follows:

1. **Cash flow hedges**: The effective portion of the changes in the fair value of derivatives used as cash flow hedges is recognized directly in accumulated other comprehensive income. Amounts recognized in this item are transferred to the income statement when the hedged item affects the income statement. The ineffective portion of fair value changes must be recognized in income.

2. **Hedges of a net investment in a foreign operation**: In case of a hedge of a net investment in a foreign operation, the effective portion of the gains or losses from the changes in value of the hedging instrument is recognized directly in equity. The ineffective portion is recognized in the income statement. If the investment is disposed of, the measurement gains or losses of the hedging instrument recognized in equity are transferred to the income statement.

3. **Stand-alone derivatives (no hedging relationship)**: Changes in the fair value of derivatives that do not meet the hedge accounting criteria are recognized in the income statement in accordance with the procedure used for financial instruments of the held-for-trading category and, therefore, must be accounted for at fair value through profit or loss.

The settlement date is used as the date for first-time recognition if trade date and settlement date are not the same. See **Note 29** for further information on financial instruments.

Income and Expenses

Income for the financial year is recognized when realized; expenses as incurred. Sales revenue is recognized upon transfer of risk, following delivery of a product or rendering of services, net of any cash or volume discounts and rebates. Long-term construction contracts are accounted for using the percentage-of-completion (PoC) method; accordingly, revenues from construction contracts are recognized in accordance with the percentage of completion. The percentage of completion is determined on the basis of the ratio of costs incurred to estimated total costs (cost-to-cost method). If the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent to which contract costs have been incurred (zero-profit method). Insofar as the accumulated capitalized contract revenues exceed the down payments per contract order, the contracts are reported as trade receivables or as a separate item under non-current assets, where contract revenues will remain non-current due to the maturity of the agreement. If there is a negative balance after deduction of the advance payments, a trade payable is recognized. Any expected loss of a contract is recognized in full amount immediately.

SGL Group grants its customers cash discounts for early payment of outstanding amounts. SGL Group also grants customers volume discounts based on quantities purchased over a specific period. These volume discounts are recognized as a reduction of sales revenue. Operating expenses are recognized when a product is delivered, a service is used, or the expense is incurred. Interest income is allocated to the periods in which it is earned, interest expense to the periods in which it is incurred. The interest portion for long-term construction contracts is reported as sales revenue. Dividends are generally recognized at the time of distribution.

Advertising and sales promotion expenses as well as other customer-related expenses are recognized as incurred. Provisions for estimated product warranty obligations are recognized upon sale of the product concerned.

Goodwill

Goodwill resulting from business combinations is defined by IFRS 3 as the excess of the cost of the business combination over the acquirer's share in the pro rata fair value of the acquired identifiable assets, liabilities, and contingent liabilities. Goodwill is measured at cost upon first-time recognition and not amortized. However, IAS 36 specifies that following initial recognition, goodwill must be tested for impairment annually, as well as whenever there are any indications of impairment. The impairment test involves allocating the goodwill acquired as of the acquisition date to the group of cash generating units, which represents the lowest level within the organization at which goodwill is monitored for the purposes of internal management and control. For SGL Group, these are the Performance Products (PP), Graphite Materials & Systems (GMS), and Carbon Fibers & Composites (CFC) business areas. The amount of the impairment, if any, is defined as the difference between the carrying amount and the recoverable amount of the group of cash-generating units to which the goodwill has been allocated. At SGL Group, impairment tests are performed in accordance with the procedure described in the section entitled "Impairment of assets and impairment test."

Other Intangible Assets

On initial recognition, intangible assets acquired for a consideration are measured at cost. If a substantial period of time (generally more than six months) is necessary for acquisition or production in order to bring the asset to its intended working condition, directly attributable borrowing costs incurred until such working condition is achieved are capitalized as part of the cost of the asset.

Intangible assets with a finite useful life are generally amortized on a straight-line basis over their useful life. Impairment losses are recognized in accordance with the impairment test provisions included in IAS 36. The amortization period for intangible assets with a finite useful life is up to ten years. Customer relationships are amortized over their expected useful life of 20 years. The expected useful life of a customer relationship acquired for a consideration is measured in accordance with the term limit of the respective agreement or the observable customer behavior. The amortization expense on intangible assets is reported under various items in the income statement depending on the function of the expense. SGL Group does not amortize intangible assets with an indefinite useful life, but tests for impairment at least once a year.

Internally-generated intangible assets are only capitalized if the Company can demonstrate the technical feasibility of completing the intangible asset and its intention to complete the asset and use or sell it is proven. The Company must also be able to demonstrate the future economic benefits to be generated by the intangible asset, the availability of adequate resources to complete development, and its ability to measure reliably the expenditure attributable to the intangible asset during its development. Research costs cannot be recognized as intangible assets and are therefore expensed as incurred. Non-repayable government grants are recognized immediately in the income statement under other operating income.

Property, Plant and Equipment

Property, plant and equipment used in the business for more than one year is measured at cost less straight-line depreciation and any impairment losses. The cost of internally developed assets includes a proportion of material and production overheads in addition to direct costs. If a substantial period of time (generally more than six months) is required for the acquisition or production of an asset in order to bring the asset to its intended working condition, directly attributable borrowing costs incurred until such working condition is achieved are capitalized as part of the cost of the asset. Repair and maintenance costs that do not extend useful life are expensed directly as incurred. The costs of any improvements that prolong the useful life or increase the opportunities for future utilization of an asset are generally capitalized. If items of depreciable property, plant and equipment comprise significant identifiable components, each with a different useful life, these components are treated as separate assets and depreciated over their respective useful lives. If an asset is sold or scrapped, the asset is derecognized from property, plant and equipment and any resulting gain or loss is recognized in the income statement. Carrying amounts, useful lives and depreciation methods are reviewed each fiscal year and adjusted where required. Investment grants for the purchase or construction of items of property, plant and equipment result in a decrease of the recognized cost of the respective assets. Other grants or subsidies received are recognized over the contractual life or the foreseeable useful life of the asset.

As in prior years, the following useful lives are used throughout the Group as the basis for calculating depreciation on property, plant and equipment:

Property, plant and equipment – useful lives	
Buildings	10 to 41 years
Plant and machinery	4 to 25 years
Other equipment	3 to 15 years
Office furniture and equipment	3 to 15 years

Leases

Leases are classified either as finance leases or as operating leases. Leases in which substantially all the risks and rewards associated with the use of the leased asset for a consideration are transferred to SGL Group as the lessee are classified as finance leases. In such cases, SGL Group recognizes the leased asset on its balance sheet at the lower of fair value and the present value of the minimum lease payments and then depreciates the asset over the shorter of the asset's estimated useful life or the lease term (if there is no reasonable certainty that SGL will obtain ownership by the end of the lease term). At the same time, SGL recognizes a corresponding liability, which is measured at amortized cost using the effective interest method. In the case of leases in which SGL Group is the lessee and the lessor retains the risks and rewards in respect of the leased asset (operating leases), SGL Group does not recognize the asset on its balance sheet, but allocates the lease payments as an expense on a straight-line basis over the lease term. Moreover, SGL Group assesses whether, based on their economic substance, certain contractual agreements constitute or contain a lease, even though these might not be classified as lease agreements as such. Wherever SGL Group identified contracts containing a lease agreement, these are disclosed as either a finance lease or an operating lease in accordance with the accounting regulations relating to leases. Please refer to **Note 1** for more information on the retrospective adjustment of a heritable building right as a finance lease.

Impairment of Assets and Impairment Test

SGL Group assesses at each balance sheet date whether there are indications that its intangible assets and its property, plant and equipment are impaired. If such an indication is identified, the recoverable amount is estimated in order to quantify the amount of the impairment loss. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs. Pursuant to the definition of a cash-generating unit, the individual business units (BUs) of the business areas (BAs) are generally considered cash-generating units at SGL Group. SGL Group has divided its three business areas into a total of seven business units. The recoverable amount is the higher of fair value less costs to sell (net selling price) and value in use, with the net selling price being determined first. If this amount is higher than the carrying amount, the value in use will not be calculated. SGL Group determines these amounts using measurement methods based on discounted cash flows. The discounted cash flows are themselves based on five-year plans for the individual business areas or units that have been prepared using a bottom-up approach and that have been analyzed and approved by the Board of Management of SGL Group.

These plans are based on internal expectations and assumptions that have been checked against external data and adjusted where necessary. For each year and each business area or unit, the plan includes budgeted unit sales, sales revenue and cost planning together with the associated projected operating profit and cash flows. In the first step, sales revenue and profit trends are budgeted at product or product group level, based on expected market, economic, and competitive trends for the subsequent five years. In the second step, these budgets are then aggregated for each business area. After the fifth year of the plan, cash flows are extrapolated using individual growth rates. The estimated future cash flows are discounted to their present value using a discount rate reflecting current market expectations for interest rates and the specific risks related to the asset or the cash-generating unit. The most significant assumptions on which the determination of the recoverable amount is based include estimated growth rates and weighted average cost of capital. These assumptions and the underlying methodology may have a significant impact on each amount and, ultimately, on the amount of any impairment loss applied to the asset. As soon as there is any evidence that the reasons for impairment have ceased to exist, SGL Group determines whether a full or partial reversal of an impairment loss is required.

Joint Ventures and Associates

Interests in joint ventures and associates, i.e. investments in companies over which SGL Group has significant influence with respect to business and financial decisions (usually by way of direct or indirect voting rights of 20% to 50%), are accounted for using the equity method and initially recognized at cost. Companies in which SGL Group holds the majority of the voting rights, but where the minority shareholders have significant participation rights enabling them to block significant business or financial decisions of the majority shareholders in the ordinary course of the operating business, are classified as jointly controlled entities (joint ventures). The difference between the cost of the acquisition and the share of SGL Group in the net assets of these companies is initially allocated to acquirer's share in the acquired identifiable assets and liabilities. Any excess is considered goodwill. Any goodwill resulting from the acquisition of the associate or the joint venture is included in the carrying amount of the investment and is not amortized. After the purchase date, the carrying amounts of the investment in the associate or joint venture are increased or decreased based on the attributable results, dividends paid and other changes in equity. The share of SGL Group in the profit or loss of the associate or joint venture is recognized in the income statement. Any changes reported directly in equity is immediately recognized in consolidated shareholders' equity.

Inventories

Inventories include spare parts, raw materials, supplies, work in progress, and finished goods as well as merchandise purchased for resale and advance payments made to suppliers. Inventories are carried at acquisition or conversion cost using the weighted average cost method. Where required, the lower net realizable value is recognized. The net realizable value is determined using the estimated selling prices less costs to complete and costs to sell as well as other factors relevant for sales. In addition to directly attributable costs, the cost of conversion also includes an appropriate portion of material and production overheads. Directly attributable costs primarily comprise labor costs (including pensions), write-downs, and directly attributable cost of materials. Borrowing costs are not capitalized. Impairment losses are recognized as cost of sales.

Loans and Receivables

Financial assets that are classified as loans and receivables are recognized by SGL Group at amortized cost, net of any impairment losses. Impairments of trade receivables are recognized in allowance accounts; in the case of other assets, the actual carrying amount is reduced. Receivables are derecognized if they are uncollectible. Notes receivable and interest-free or low-interest-bearing receivables due after more than one year are discounted.

Liquidity

Liquidity comprise of cash on hand, checks, and bank balances as well as fund shares that may be sold on a short-term basis. Bank balances with an original maturity of more than three months are reported as time deposits. Cash funds with an original maturity of less than three months are considered cash and cash equivalents.

Deferred Tax Assets and Deferred Tax Liabilities

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the carrying amount in the IFRS consolidated balance sheet and the tax base as well as for tax loss carryforwards. Deferred tax assets are taken into account only in the amount in which they will be probably utilized. Calculation is based on those tax rates applicable as of the balance sheet date and expected to be applicable as of the date on which the temporary differences are reversed or the loss carryforwards are utilized. In the event items resulting in a change in deferred taxes are recognized directly in equity, the change in deferred taxes is also recorded directly in equity.

Accumulated other Comprehensive Income and Accumulated Profit/Loss (Consolidated Statement of Changes in Equity)

Accumulated other comprehensive income includes currency translation differences as well as unrealized gains or losses from the mark-to-market valuation of available-for-sale securities (classified as financial assets available for sale) and of financial derivatives used as cash flow hedges or as a hedge of a net investment in a foreign operation, with the gains or losses being recognized outside profit or loss as a component of other comprehensive income in accordance with IAS 39. In addition, actuarial gains and losses from defined benefit plans are recognized directly in equity as accumulated profit/loss as incurred in the year and in the full amount in accordance with IAS 19.93A. Accordingly, deferred taxes recognized in connection with the above-mentioned items are also recorded directly in equity.

Pensions and similar Employee Benefits

SGL Group's pension obligations include both defined benefit and defined contribution pension plans. Provisions for pensions and other post-employment benefits in connection with defined benefit plans are determined using the projected unit credit method. This method takes into account known annuities and vested pension rights as of the balance sheet date as well as future expected salary and pension increases.

The present value of the defined benefit obligation including future salary increases is measured at the balance sheet date at the respective interest rate for first-grade corporate bonds of a similar term.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are recognized in other comprehensive income (accumulated profit/loss) in the period in which they occur, together with related deferred taxes. The interest portion of the addition to pension provisions is shown separately under net financing costs. Payments made under defined contribution plans are expensed as incurred. In the year under review, assets from direct insurance agreements were classified retrospectively as plan assets. The recognized amount of pension provisions thus declined by €4.7 million as of January 1, 2009 and by €5.0 million as of December 31, 2009. Other non-current assets decreased accordingly. The prior-year figures were adjusted accordingly in all Notes disclosures containing these items.

Other Provisions

Under IAS 37, other provisions should be recognized if an entity has a present obligation to third parties as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Non-current provisions are discounted. The accounting treatment and recognition of provisions for obligations in connection with incentive plans for management and employees is described in **Note 31**.

SGL Group recognizes provisions for environmental protection obligations as soon as such an obligation is deemed to be probable and the amount of the obligation can be reasonably estimated. Potential insurance recovery payments are not deducted from these estimated liabilities, but are reported as a separate asset up to the amount of the recognized provision, providing reimbursement is virtually certain. Product warranty provisions are expensed at the time of recognition as costs of sale. The amount of the provision is established on a case-by-case basis. In the context of the measurement of provisions, SGL Group takes into account experience related to the actual warranty expense incurred in the past as well as technical information concerning product deficiencies discovered in the design and test phases.

In the year under review, assets from insolvency insurance agreements for provisions for partial retirement were classified retrospectively as plan assets. Therefore, the recognized amount of other provisions declined by €1.8 million and €2.6 million as of January 1, 2009 and December 31, 2009, respectively. There was a corresponding decrease relating to other receivables and other assets. The prior-year figures were adjusted accordingly in all Notes disclosures containing these items.

Share-based Payments

SGL Group operates a number of equity-settled share-based payment models (Matching Share Plan, Stock Option Plan, Stock Appreciation Rights Plan, and Bonus Program for Employees). SGL Group generally does not maintain any cash-settled share-based payment plans.

The obligation arising from equity-settled share-based payment transactions is measured at fair value on the grant date and the fair value of the obligation is recognized as a personnel expense over the vesting period.

In the case of the Bonus Share Plan, the fair value of the services received is equivalent to the bonus claim of the plan participants measured in cash plus a 20% share premium. Payments under the Stock Option Plan and the Stock Appreciation Rights (SAR) Plan are measured indirectly, taking into account the fair value of the equity instruments granted. The fair value is determined using internationally recognized valuation methods (e. g. Monte Carlo model). Further information on the individual share-based payment plans can be found in **Note 31**.

Financial Liabilities

SGL Group initially recognizes financial liabilities at their fair value including transaction costs. In subsequent periods, financial liabilities (with the exception of derivative financial instruments) are measured at amortized cost using the effective interest method. For further information on the presentation of the convertible bond, please refer to **Note 25**.

Trade payables and other current financial liabilities are recognized at amortized cost. This amount is normally equivalent to the principal amount of the liability.

Shares in subsidiaries held by non-Group shareholders that may be returned to the Company in return for payment of the market value (minority interests in partnerships) represent puttable instruments in accordance with IAS 32 and are therefore classified by the Group as debt and are also reported as financial liabilities. In the context of accounting for non-controlling interests, SGL Group assumes that as a result of specific arrangements, the repayment of the financial instrument cannot be influenced by the Group, for which reason the financial instrument must be classified as a financial liability (IAS 32). As of the date of acquisition, the fair value of the non-controlling interest is derived from the cost of the majority interest. This corresponds to the value at which a non-controlling shareholder may redeem its shareholding in return for cash in the amount of its relevant share in equity. In subsequent periods, the proportion of net profit legally attributable to the non-controlling shareholder is reported under net financing cost in the consolidated financial statements. The changes in the value of the financial liability remeasured at fair value are recognized by analogy with the provisions related to the subsequent measurement of contingent purchase price payments for acquisitions in accordance with IFRS 3 (2004), i. e. an adjustment will be made to goodwill resulting from this acquisition. The fair value is normally determined by SGL Group using the discounted cash flow method, which is based on the future cash flow projections prepared within the framework of corporate planning.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements under IFRS requires estimates and assumptions that may affect the reported amounts of assets and liabilities as well as of income and expenses. Actual amounts may differ from these estimates. Assumptions and estimates made within SGL Group refer to the measurement of pension obligations and pension plan assets, the measurement of provisions, impairment losses for intangible assets and property, plant and equipment, the establishing of uniform useful economic lives throughout the Group as well as the assessment with respect to the realizability of future tax credits. Estimates with regard to the percentage of completion are required for companies that have entered into long-term construction contracts with customers where revenue recognition is based on the percentage-of-completion method.

In addition, assumptions and estimates refer to share-based payments, the determination of fair values for financial derivatives not traded on the stock exchange, the evaluation of companies using cash flow forecasts, and the classification of leases. Furthermore, estimates are made for allowances for doubtful trade receivables and other receivables. For further information on assumptions used in accounting for pensions, please refer to **Note 23**. Provisions are based on management judgment with regard to amount and probability of future utilization. Please refer to **Note 24** "Other provisions" for further clarification. Assumptions used as the basis for testing the impairment of intangible assets (including goodwill) and property, plant and equipment are described in detail in the section entitled "Accounting policies" and in **Note 12** "Intangible assets." Assessments related to the realizability of future tax credits are explained in **Note 21** "Deferred taxes." Please refer to the section entitled "Property, plant and equipment" included in **Note 3** for explanations related to the useful life of property, plant and equipment. The assumptions for the classification of finance leases and operating leases are set out in "Accounting Policies" as well as in **Note 27** "Contingent liabilities and other financial obligations." **Note 31** "Management and employee Stock Option Plans" includes a detailed description of the terms and conditions of share-based payments. The assumptions relating to financial derivatives not traded on a stock exchange and mark-to-market valuation can be found in the section entitled "Derivative financial instruments" in **Note 29** "Additional disclosures on financial instruments." Estimates and underlying assumptions are continuously reviewed. Adjustments to estimates are generally taken into account in the period in which they are changed and in subsequent periods.

5. CHANGES IN THE SCOPE OF CONSOLIDATION

There were no material changes to the scope of consolidation as of December 31, 2010, compared to December 31, 2009. For further disclosures, please refer to **Note 2** above.

CHANGES IN THE SCOPE OF CONSOLIDATION IN 2009:

In the first half of 2009, SGL Group completed the merger of its activities in the area of carbon-ceramic brakes discs for the automotive industry and transferred the assets and liabilities of SGL Brakes GmbH to a 50-50 joint venture with Brembo S.p.A.

As a result of these actions, SGL Brakes GmbH was deconsolidated at the end of May 2009. SGL Group reported the loss from the deconsolidation in the amount of €0.2 million in other operating expenses. Since then, the joint venture – Brembo SGL Carbon Ceramic Brakes S.p.A., Milan – is accounted for in the consolidated financial statements under the equity method.

Consolidated Income Statement Disclosures

6. SALES REVENUE, FUNCTIONAL COSTS

Sales revenue of SGL Group amounted to €1,381.8 million in 2010 (2009: €1,225.8 million). In the year under review, the cost of sales as a percentage of sales revenue increased slightly from 72.4% to 73.2%, mainly due to higher raw materials and energy prices. Gross profit amounted to 26.7% and was thus virtually unchanged from the prior-year level (27.5%). The breakdown of sales revenue by business areas and intersegment revenue as well as the regional distribution of sales revenue is presented in **Note 30** of the segment report.

The interest portion of long-term construction contracts was €0.8 million (2009: €0.6 million).

The rise in selling expenses of 15.3% was mainly due to increased unit sales volumes. Our distribution structures are based largely on close cooperation with our customers. By contrast, marketing expenses related to the launch of new products play a less important role.

The future competitiveness of SGL Group is safeguarded through sustained development of new products, applications, and processes. This is also reflected in the Group's research and development costs, which remained high at €37.0 million (2009: €35.1 million). Broken down by business segment, research and development costs were as follows: €8.2 million (2009: €8.0 million) in the Business Area PP, €7.9 million (2009: €7.6 million) in the Business Area GMS, and €6.2 million (2009: €4.8 million) in the Business Area CFC. In addition, research and development costs on a corporate level amounted to €14.7 million (2009: €14.7 million).

General and administrative expenses grew by 14.8% compared to the prior year. The increase resulted primarily from higher bonus expenses, wage and salary adjustments, and increased costs for external consultancy services.

Additional disclosures based on the nature-of-expense method are provided below:

Cost of materials

€m	2010	2009
Cost of raw materials, supplies and purchased goods	375.2	330.4
Cost of purchased services	82.2	55.5
	457.4	**385.9**

In the function-of-expense method, the cost of materials is included in the cost of sales.

Personnel expenses

€m	2010	2009
Wages and salaries (including bonus)	303.6	274.6
Social security contributions, post-employment and other employee benefit costs (thereof for pensions: 2010: €24.3 million 2009: €17.7 million)	68.7	59.2
	372.3	**333.8**

Depreciation and Amortization

At €66.4 million, amortization and depreciation on intangible assets and property, plant and equipment were above the prior-year level of €60.6 million following the increase in investing activities. Amortization of intangible assets amounted to €4.9 million (2009: €5.8 million) and related primarily to capitalized development costs in the amount of €2.0 million for specifically customized SAP software to SGL Group requirements (2009: €2.4 million). Depreciation of property, plant and equipment totaled €61.5 million in 2010 (2009: €54.8 million).

Personnel expenses, depreciation, and amortization expense are included in all functional costs such as the cost of sales, selling expenses, research and development costs, and general and administrative expenses.

Human Resources

The economic recovery also affected the number of employees. As of the end of the fiscal year, the Group employed 6,285 people, representing an increase of 309 employees, or 5%, compared to the end of 2009. Employees were reallocated to the business areas at the start of 2011 within the framework of the further decentralization of our organization and the related adjustments made to our business units.

In the Performance Products and Graphite Materials & Systems business areas, the number of employees increased slightly during the year under review. The number of employees in the Business Area Performance Products grew by 31 to 2,100 and by 28 to 2,647 in the Business Area Graphite Materials & Systems. As of December 31, 2010, the Business Area Carbon Fibers & Composites employed a total of 1,476 people, 251 more than at year-end 2009.

The table below provides an overview of the number of employees by region at year-end:

Number	**2010**	2009
Germany	2,480	2,404
Europe excluding Germany	1,793	1,802
North America	1,409	1,200
Asia	603	570
	6,285	**5,976**

The average number of employees in the individual functional areas in 2010 is as follows:

Number	**2010**	2009
Production and auxiliary plants	4,473	4,404
Sales and marketing	421	500
Research	262	279
Administration, other functions	961	958
	6,117	**6,141**

7. OTHER OPERATING INCOME AND EXPENSES, IMPAIRMENT LOSSES

Other Operating Income

€m	2010	2009
Currency hedges, exchange-rate gains	10.4	11.9
Special income from the reversal of other provisions	2.6	2.4
Gains on the sale of property, plant and equipment	5.4	0.4
Insurance recovery income	0.2	0.4
Income from written-down receivables	0.0	0.1
Miscellaneous other operating income	15.8	10.4
Total	**34.4**	**25.6**

Other Operating Expenses

€m	2010	2009
Currency hedges, exchange-rate losses	16.1	27.9
Restructuring costs	3.8	2.0
Losses on sale of property, plant and equipment	0.5	1.5
Additions to other provisions	0.7	1.4
Miscellaneous other operating expenses	11.0	4.8
Total	**32.1**	**37.6**

Currency translation gains and losses arising from the measurement of receivables and liabilities denominated in a currency other than the functional currency of the reporting entity at the closing rate are presented in their gross amounts under other income or other expense, as are allocated gains and losses from derivative currency hedges. Compared to 2009, currency gains fell slightly by €1.5 million to €10.4 million, and currency losses declined by €11.8 million to €16.1 million. Income from exchange rate differences comprise realized gains from currency hedges in the amount of €3.2 million (2009: €2.0 million). Gains on the sale of intangible assets and property, plant and equipment include one-off gains amounting to €4.8 million in connection with the sale of a property in Ascoli (Italy). Expenses for exchange rate differences mainly comprise realized losses from currency hedges in the amount of €14.6 million (2009: €18.9 million).

Miscellaneous other operating expenses include subsidies granted to TUM Universitätsstiftung, Munich (Germany), and to the Foundation for the support of European Business School, Oestrich-Winkel (Germany), in a total amount of €2.5 million and a settlement payment to finish a legal dispute as well as additional provisions for risks arising from legal disputes.

In addition, miscellaneous other operating income and other miscellaneous operating expenses include a number of insignificant individual transactions of the 58 (2009: 61) consolidated companies.

Impairment Losses in 2009

Due to the impact of the global financial and economic crisis, SGL Group carried out an impairment test of intangible assets and property, plant and equipment as of September 30, 2009. The impairment test was conducted as described in the section entitled "Impairment of assets and impairment test" under Note 3 and in the following.

The impairment test led to the recognition of an impairment loss totaling €74.0 million in 2009 for the Carbon Fibers/Composite Materials Business Unit ("CF/CM") of the CFC Business Area. The Business Unit CF/CM comprises products made of carbon fibers and composite materials. The amount written down was allocated as follows: €4.9 million to intangible assets, €6.7 million to buildings, €60.8 million to plant and machinery, including assets under construction, and €1.6 million to office furniture and equipment. The reasons for the impairment loss mainly related to the then existing overcapacities in the carbon fiber market and the resulting delay in market growth, which led to an underutilization of production capacities as well as to price reductions in the market due to competition. In 2009, the recoverable amount for the CF/CM Business Unit was calculated on the basis of value in use, using a terminal value growth rate of 2.0% and a discount rate of 11.0% before taxes.

In response to the economic recovery and changes in interest rates, SGL Group verified as of September 30, 2010 whether the causes for impairment losses recognized in 2009 in the Business Unit CF/CM of intangible assets (excluding goodwill) and property, plant and equipment no longer exist and a partial or full reversal of these impairment losses is necessary. The impairment test performed for this reason showed no material excess of the recoverable amount over the carrying amount of the assets of this business unit and thus neither a further impairment nor the need for a reversal of the impairment loss recognized. The impairment was calculated in accordance with the method detailed in Note 3 "Impairment of Assets and Impairment Test."

In addition to the Business Unit CF/CM, the Business Unit Rotor Blades ("RB") also has a similarly small surplus in the recoverable amount over the carrying amount of the net assets attributable to the Business Unit. Therefore, the carrying amounts of these two business units in the Business Area CFC in the amount of €77.8 million and €47.7 million, respectively, are subject to estimation uncertainty and the risk that an adjustment will become necessary within the next fiscal year.

In the Business Unit CF/CM, the delays in growth described above are the reasons for the persisting impairment. The corresponding planning assumptions made and any potential change to these assumptions may require an adjustment of the carrying amounts of the assets reported.

In the Business Unit RB, we currently depend on a small number of customers as regards the sales of rotor blades to the wind energy industry. The default of individual customers currently taken into account in the planning assumptions would have a significant influence on our business and the recoverability of our reported assets.

8. RESULT FROM EQUITY ACCOUNTED INVESTMENTS

€m	2010	2009
Result from equity accounted investments	–11.9	–9.9

The loss from equity accounted investments amounted to €11.9 million in fiscal 2010, compared to a loss of €9.9 million a year earlier. This development is attributable primarily to the expected start-up losses with respect to the two joint ventures with BMW Group. Please refer to **Note 14** for detailed information on the investments accounted for using the equity method.

9. NET FINANCING COST

€m	2010	2009
Interest on other securities, other interest and similar income	**2.7**	**1.1**
Interest on borrowings and other interest expense *	–16.1	–15.9
Interest component of additions to provisions for pensions and other employee benefits	–17.6	–16.5
Interest cost component on convertible bond *	–13.9	–10.6
Interest cost component on finance lease	–1.1	–1.1
Interest expense	**–48.7**	**–44.1**
Interest expense, net	**–46.0**	**–43.0**
Amortization of refinancing costs *	–2.6	–2.1
Foreign currency valuation of group loans	–0.4	–2.2
Other financial income	8.2	2.1
Other financing costs	**5.2**	**–2.2**
Net financing cost	**–40.8**	**–45.2**

* Total interest expense from financial instruments was €33.7 million (2009: €29.7 million).

Net interest expense further increased to €46.0 million, compared to €43.0 million in the prior year. This is mainly the result of interest actually paid and non-cash interest on the convertible bonds issued in June 2009, which were included for the first-time for the full year.

In addition to the cash coupon of 0.75% and 3.5% p. a., IFRS requires the recognition of non-cash imputed interest cost component on the 2007 and 2009 convertible bonds, respectively. The calculation performed in May 2007 and June 2009 assumed a comparable market interest rate of 5.8% and 8.43% p. a., respectively. This is the rate at which SGL Group would have been able to secure alternative financing. In fiscal 2010, this resulted in a non-cash inputed interest cost expense in a total of €13.9 million (2009: €10.6 million).

This expense was compensated in part through higher interest income resulting from a higher average balance of cash funds and an increased interest rate level for sight and time deposits. At a total of €17.6 million, the interest portion of the allocation to pension provisions in 2010 was €1.1 million higher than in 2009 (€16.5 million), mainly due to changed currency exchange rates. Please refer to **Note 23** for further details.

Currency translation gains and losses on Group loans to foreign subsidiaries developed in the opposite direction. In the year under review, a currency translation loss of €0.4 million arose in this respect versus a currency translation loss of €2.2 million recorded in the previous year. Other financial income amounted to €8.2 million in the year under review, primarily due to currency translation gains from our bank loans in Malaysia denominated in a foreign currency and the non-controlling interest in the net loss of our subsidiary SGL Rotec.

In aggregate, net financing costs improved significantly to €40.8 million, compared to €45.2 million in the prior year.

10. INCOME TAXES

As in the previous year, the corporate income tax rate of 15% is used as the basis for determining the income tax rate in Germany. Moreover, a solidarity surcharge of 5.5% is levied on the corporate income tax rate. In addition, German corporations are subject to trade tax. The trade tax rate depends on the municipalities where the business operations are located. The average trade tax rate of SGL Group companies was 13.3% in 2010 (2009: 13.3%). This resulted in an income tax rate of 29.1% for German companies, which has not changed compared to the previous year. The income tax rate for foreign companies is between 19% and 42% (2009: between 19% and 42%).

€m	**2010**	2009
Current income tax expense		
Germany	–2.5	–1.7
Other countries	–13.6	–17.8
Deferred tax expense		
Germany	2.8	–13.6
Other countries	–9.7	–9.5
	–23.0	**–42.6**

In 2010, the tax expense declined to €23.0 million (2009: €42.6 million) due to the profit before tax of €75.7 million (2009: loss before tax of €18.1 million). The Group tax rate for 2010 amounts to 30.4%, compared to a negative Group tax rate 2009. The presentation of a tax expense against the backdrop of a loss before tax in 2009 is mainly attributable to valuation adjustments on recognized deferred tax assets. Income tax expenses are incurred from current taxation at domestic and foreign companies. Taxes included in the tax expenses for prior years amounted to €–2.1 million (2009: €2.4 million). Tax payments amounted to €19.7 million in 2010 (2009: €32.9 million).

The tax expense reported differs from the tax income calculated on the basis of an expected tax rate of 29.1% as follows:

€m	2010	2009
Profit/loss before tax	**75.7**	**–18.1**
Expected income tax (–)/expense at 29.1%	**22.0**	**–5.2**
Increase/decrease in income tax liability from		
– Income adjustments	3.7	5.7
– Change from expected tax rate	–3.0	–5.3
– Change in loss carryforwards and valuation allowances	–0.7	26.0
– Valuation allowances on deferred taxes, impairment test	0.0	22.4
– Tax effect for equity accounted investments	2.4	2.4
– Tax from prior periods	–0.6	–3.4
– Other	–0.8	0.0
= Effective tax expense	**23.0**	**42.6**

The income adjustments relate primarily to non-deductible operating expenses, the non-exempt portion of dividend income in Germany, and adjustments for the purpose of calculating German trade tax. The reduction to reflect the different tax rate takes account of the effects of withholding taxes and minimum taxes as well as taxation differences in other countries as a result of varying income tax rates.

11. EARNINGS PER SHARE (EPS)

Earnings per share are calculated by dividing the net profit/loss for the year attributable to the shareholders of SGL Group by the average number of outstanding shares during the year under review. The average number of outstanding shares is computed from the weighted average number of common shares in circulation during the reporting period and amounted to a total of 65,425,068 shares in 2010 and 65,127,038 shares in the prior year.

The calculation of diluted earnings per share assumes the conversion of outstanding debt securities (convertible bonds) to shares or exercise of other contracts for the issue of common shares such as stock options or stock appreciation rights. The above-mentioned financial instruments are included in the calculation of diluted earnings per share only if they had a dilutive effect during the reporting period concerned.

The table below details the calculation of earnings per share for fiscal 2010 and 2009:

€m	Overall potentially dilutive financial instruments 2010	**Dilutive financial instruments used for the calculation 2010**	2009
Numerator for basic earnings per share (proportion of net income attributable to the shareholders of the parent company)	**52.2**	**52.2**	**–60.8**
plus: Increase in profit equivalent to convertible bond interest expense	16.5	0.0	0.0
Numerator for diluted earnings	**68.7**	**52.2**	**–60.8**
Number of shares			
Denominator for basic earnings per share (weighted average number of shares)	**65,425,068**	**65,425,068**	**65,127,038**
Potentially dilutive securities (weighted average, in each case)			
Convertible bond 2007 (see **Note 25**)	5,476,451	0	0
Convertible bond 2009 (see **Note 25**)	6,464,784	0	0
Share-based payment plans (see **Note 31**)	84,060	83,867	0
Stock Appreciation Rights (see **Note 31**)	424,515	267,443	0
Denominator for potentially diluted earnings per share	**77,874,878**		
thereof to be included for dilution (adjusted weighted average)		**65,776,378**	**65,127,038**
Basic earnings per share (€)		0.80	–0.93
Diluted earnings per share (€)		0.79	–0.93

As of December 31, 2010, the convertible bonds 2007 and 2009, the Stock Option Plan, and the Stock Appreciation Rights were still outstanding. As of December 31, 2010, only the stock option plans and the Stock Appreciation Rights in a total of 351,310 shares had a dilutive effect. No dilutive effect on earnings per share resulted from taking into account the additional 5,476,451 shares from the convertible bond issued in 2007 or the additional 6,464,784 shares from the convertible bond issued in 2009 since the profit or loss for the period is adjusted for the interest expense (interest payments and non-cash interest cost) for both convertible bonds, which is recognized in net financing costs. In the future, these instruments may become fully dilutive.

As a result of the loss incurred in 2009, potentially dilutive financial instruments were not taken into account in the calculation of earnings per share (diluted), since this would have no dilutive effect. For the same reason, the consolidated net profit or loss has not been adjusted for the interest expense on the convertible bonds.

Please refer to **Note 22** for information on the capital increases conducted after the balance sheet date.

The numerator for the calculation of earnings per share in 2009 was increased by €–0.4 million to €–60.8 million due to the retrospective change in accounting principles (see **Note 1**). This had no impact on earnings per share.

Consolidated Balance Sheet Disclosures

12. INTANGIBLE ASSETS

€m	Industrial rights, software and similar rights	Customer relationships	Capitalized development costs	Goodwill	**Total**
Historical cost					
Balance as of January 1, 2010	54.3	9.0	6.3	112.1	181.7
Foreign currency translation	0.7	0.2	0.0	3.6	4.5
Reclassifications	1.2	0.0	1.6	0.0	2.8
Additions	2.1	0.0	4.4	0.0	6.5
Disposals	–0.9	0.0	0.0	0.0	–0.9
Other	0.0	0.0	0.0	0.8	0.8
Balance as of December 31, 2010	**57.4**	**9.2**	**12.3**	**116.5**	**195.4**
Cumulative amortization					
Balance as of January 1, 2010	37.0	1.0	3.0	0.0	41.0
Foreign currency translation	0.3	0.2	0.1	0.0	0.6
Reclassifications	0.0	0.0	0.0	0.0	0.0
Additions	4.0	0.9	0.0	0.0	4.9
Disposals	–0.9	0.0	0.0	0.0	–0.9
Balance as of December 31, 2010	**40.4**	**2.1**	**3.1**	**0.0**	**45.6**
Net carrying amount as of December 31, 2010	**17.0**	**7.1**	**9.2**	**116.5**	**149.8**
Historical cost					
Balance as of January 1, 2009	57.0	9.0	3.2	92.8	162.0
Change in scope of consolidation	–3.6	0.0	0.0	0.0	–3.6
Foreign currency translation	0.1	0.0	0.0	–0.3	–0.2
Reclassifications	0.0	0.0	0.0	0.0	0.0
Additions	1.7	0.0	3.1	0.0	4.8
Disposals	–0.9	0.0	0.0	0.0	–0.9
Other	0.0	0.0	0.0	19.6	19.6
Balance as of December 31, 2009	**54.3**	**9.0**	**6.3**	**112.1**	**181.7**
Cumulative amortization					
Balance as of January 1, 2009	34.3	0.2	0.0	0.0	34.5
Change in scope of consolidation	–3.3	0.0	0.0	0.0	–3.3
Foreign currency translation	–0.2	0.0	0.0	0.0	–0.2
Reclassifications	0.0	0.0	0.0	0.0	0.0
Additions	4.9	0.8	0.1	0.0	5.8
Impairment losses	2.0	0.0	2.9	0.0	4.9
Disposals	–0.7	0.0	0.0	0.0	–0.7
Balance as of December 31, 2009	**37.0**	**1.0**	**3.0**	**0.0**	**41.0**
Net carrying amount as of December 31, 2009	**17.3**	**8.0**	**3.3**	**112.1**	**140.7**

In the year under review, recognized goodwill was adjusted by €0.8 million (2009: €19.6 million). The goodwill adjustment reflects the change in value of the non-controlling interests in subsidiary partnerships (limited partnership interests) that are reported as financial liabilities in the consolidated financial statements (2010: €0.4 million; 2009: €20.8 million) and the subsequent recognition of deferred tax assets from an acquisition in 2008 (2010: €0.4 million; 2009: €–1.2 million).

The change in value of the non-controlling interests in subsidiary partnerships (limited partnership interests) was accounted for in accordance with the method set out in **Note 3** (section entitled "Financial liabilities").

Intangible assets include carrying amounts of €3.0 million (2009: €3.0 million) that are not subject to amortization. These relate to the Rotec brand und are allocated to the Business Area CFC. SGL Group assumes that the brand has an indefinite useful life due to its being a corporate brand name.

Industrial rights, software and similar rights mainly comprise purchased and internally developed IT software. Additions in the year under review primarily reflect the integration of additional companies into the standard Group-wide SAP system (SGL-ONE) in the amount of €0.6 million (2009: €0.9 million). Of this amount, a total of €0.1 million of own work was capitalized in connection with the SGL-ONE project in 2010 (2009: €0.5 million). Together with the capitalized development costs shown separately, internal development costs of €4.5 million were capitalized in 2010 (2009: €3.6 million).

The additions to capitalized development costs include an amount of €3.7 million (2009: €2.3 million) representing costs for the development agreement concluded with the BMW Group, a joint venture partner. The agreement involves the development of carbon fiber processes and textile semi-finished products for use in vehicle construction. In addition, €0.8 million (2009. €0.8 million) was capitalized for the REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) project. Borrowing costs capitalized in the reporting period amounted to €0.3 million, determined on the basis of a borrowing rate of 6%.

The reclassification line item primarily includes a reclassification of €1.2 million relating to a delivery right from inventories to intangible assets.

Please refer to **Note 7** for information on impairment testing of intangible assets (excluding goodwill).

SGL Group tests goodwill for impairment at least once annually in accordance with IFRS, using the procedure described in the section entitled "Goodwill" in **Note 3**. In fiscal years 2010 and 2009, the recoverable amounts for the business areas calculated on the basis of fair value less costs to sell were already estimated as being higher than the carrying amounts. Consequently, no impairment loss was identified by management.

The following table shows the most significant assumptions used to determine fair value less costs to sell for impairment tests related to the business areas to which a considerable amount of goodwill was allocated:

Sept. 30, 2010	Goodwill in €m	Discount rate after tax in %	Long-term growth rate in %
Business Area PP	11.0	10.1	1.0
Business Area GMS	19.3	10.2	1.0
Business Area CFC	84.6	7.5	2.0

Sept. 30, 2009	Goodwill in €m	Discount rate after tax in %	Long-term growth rate in %
Business Area PP	10.6	10.5	1.0
Business Area GMS	18.3	9.6	1.0
Business Area CFC	62.5	9.3	2.0

In the Business Area CFC, where many of the products are only at the beginning of their life cycles, growth rates are projected to be higher than in the other segments according to the five-year plan.

When calculating the weighted average cost of capital (WACC) the following parameters, which were determined for each Business Area on the basis of a peer group, were used in addition to the market risk premium of 5.0% (2009: 4.75%): a 5-year monthly beta of 1.75 (2009: 1.53) for PP and 1.57 (2009: 1.42) for GMS, and a maturity equivalent risk-adjusted debt rate of 5.42% (2009: 5.39%), based on the respective financing structure of the peer group.

In the Business Area CFC, the average cost of capital was determined separately for each individual business unit in order to adequately take into account the differences in the risks specific to the individual business units. For this purpose, we assumed a 5-year monthly beta of 0.96-1.76 (2009: 1.36) and maturity equivalent risk-adjusted debt rates ranging from 4.0% to 5.42% (2009: 5.39%) based on the respective financing structure of the peer group.

The impairment test performed on the basis of September 30, 2010 confirmed the value of the existing goodwill.

CFC has the highest goodwill among the business areas and the lowest excess of recoverable amount over the carrying amount of the net assets attributed to the Business Area CFC (“headroom”). The headroom for CFC amounted to €111.6 million (2009: €14.5 million).

This headroom would be reduced to zero under the following assumptions: in the event of a reduction of the terminal value growth rate by 1.6 percentage points (from 2.0% to 0.4%) or in the event of a reduction in the cash flows underlying the terminal value by 24.5% or an increase of the discount factor by 1.3 percentage points.

13. PROPERTY, PLANT AND EQUIPMENT

€m	Land, land rights and buildings	Plant and machinery	Office furniture and equipment	Advance payments and assets under construction	**Total**
Historical cost:					
Balance as of January 1, 2010	423.6	1,187.9	88.2	181.1	1,880.8
Foreign currency translation	15.3	38.9	1.2	19.4	74.8
Reclassifications	30.2	131.6	0.7	–169.9	–7.4
Additions	7.3	32.4	2.6	88.1	130.4
Disposals	–13.0	–91.7	–13.4	0.5	–117.6
Balance as of December 31, 2010	**463.4**	**1,299.1**	**79.3**	**119.2**	**1,961.0**
Cumulative depreciation:					
Balance as of January 1, 2010	219.6	905.9	74.5	28.3	1,228.3
Foreign currency translation	4.4	21.0	0.8	1.0	27.2
Reclassifications	0.3	28.9	–0.3	–29.0	–0.1
Additions	9.8	47.4	4.3	0.0	61.5
Disposals	–12.7	–91.8	–12.8	0.4	–116.9
Balance as of December 31, 2010	**221.4**	**911.4**	**66.5**	**0.7**	**1,200.0**
Net carrying amount as of December 31, 2010	**242.0**	**387.7**	**12.8**	**118.5**	**761.0**
Historical cost:					
Balance as of January 1, 2009	369.9	1,140.2	89.6	185.2	1,784.9
Change in scope of consolidation	0.0	–21.4	–3.0	–3.5	–27.9
Foreign currency translation	–0.9	–7.5	–0.3	0.5	–8.2
Reclassifications	42.1	65.5	1.7	–111.0	–1.7
Additions	18.4	16.8	3.5	110.4	149.1
Disposals	–5.9	–5.7	–3.3	–0.5	–15.4
Balance as of December 31, 2009	**423.6**	**1,187.9**	**88.2**	**181.1**	**1,880.8**
Cumulative depreciation:					
Balance as of January 1, 2009	206.3	853.3	74.6	0.0	1,134.2
Change in scope of consolidation	0.0	–10.7	–2.4	0.0	–13.1
Foreign currency translation	–0.3	–6.8	–0.5	0.2	–7.4
Reclassifications	–0.6	–0.2	0.0	0.1	–0.7
Additions	8.1	42.4	4.1	0.2	54.8
Impairment losses	6.7	33.0	1.6	27.8	69.1
Disposals	–0.6	–5.1	–2.9	0.0	–8.6
Balance as of December 31, 2009	**219.6**	**905.9**	**74.5**	**28.3**	**1,228.3**
Net carrying amount as of December 31, 2009	**204.0**	**282.0**	**13.7**	**152.8**	**652.5**

Capital expenditure on property, plant and equipment amounted to €130.4 million in the year under review, a decline of €18.7 million on the 2009 figure of €149.1 million. The focus of investment activities in 2010 was the continued expansion of the production facilities in Banting, Malaysia (€40.3 million) as well as the expansion of the production capacities for the aviation industry at HITCO CARBON COMPOSITES Inc., USA (€18.0 million). In addition, we invested €8.8 million to expand isostatic graphite capacities at the Bonn site. In our technology center in Meitingen (T&I), €6.0 million was invested in the continuing development of carbon fibers for the aviation industry. Necessary replacement investments were made at our US sites St. Marys, Pennsylvania, Morganton, North Carolina, and Ozark, Arkansas as well as in Raciborz (Poland).

Depreciation of property, plant and equipment amounted to €61.5 million compared to €54.8 million in the prior year. This increase is mainly the consequence of the year-on-year increase in the volume of property, plant and equipment from investment projects conducted in the last years, resulting in these assets being put into operation. Capitalized amounts under finance leases included within "Land, land rights and buildings" as well as "Plant and machinery" amounted to €20.6 million as of December 31, 2010 (2009: €21.1 million). The amount of borrowing costs capitalized in the reporting period amounted to €0.6 million, determined on the basis of a borrowing rate of 6%.

The reclassification line item includes an amount of €5.3 million, representing the reclassification of several machines to the balance sheet item "Assets held for sale" due to their planned sale to the joint venture SGL Automotive Carbon Fibers LLC (USA).

Please refer to **Note 7** for information on impairment testing of property, plant and equipment.

14. EQUITY ACCOUNTED INVESTMENTS

Equity accounted investments as of December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
PowerBlades GmbH, Bremerhaven, Germany	49%	49%
European Precursor GmbH (EPG), Kelheim, Germany	44%	44%
Benteler SGL GmbH & Co KG, Paderborn, Germany	50%	50%
SGL TOKAI CARBON Ltd. (STS), China	51%	51%
Brembo SGL Carbon Ceramic Brakes S.p.A., Milan, Italy	50%	50%
SGL Automotive Carbon Fibers GmbH & Co KG, Munich, Germany	51%	51%
SGL Automotive Carbon Fibers LLC, Charlotte, USA	51%	–
MRC-SGL Precursor Co. Ltd., Tokyo, Japan	33%	–
DONCARB GRAPHITE OOO (Doncarb), Russian Federation	–	50%

As of December 31, 2010, the carrying amount of the equity accounted investments amounted to €59.8 million (2009: €49.8 million). The additions in the year under review relate to the associate MRC-SGL Precursor Co. Ltd., Tokyo (Japan), which was established together with Mitsubishi, as well as the US-based joint venture SGL Automotive Carbon Fibers LLC, Charlotte (USA), which was established together with BMW to manufacture carbon fibers for use in vehicle construction. DONCARB GRAPHITE OOO was liquidated in 2010.

With the exception of PowerBlades GmbH, which has a financial year ending March 31, all remaining equity investments report as of December 31, 2010.

The following table provides summarized financial information on our equity accounted investments for fiscal years 2010 and 2009:

€m *	**2010**	2009
Sales revenue	158.0	91.1
Total expenses	175.9	109.6
Profit/loss for the period	–17.9	–18.5
Current assets	99.4	80.3
Non-current assets	117.3	83.5
Current liabilities	66.9	36.7
Non-current liabilities	56.4	48.9

* 100% values for companies

15. RECEIVABLES FROM LONG-TERM CONSTRUCTION CONTRACTS

In 2010, total sales revenue of €39.9 million (2009: €36.9 million) was recognized with respect to long-term contracts using the percentage-of-completion method (cost-to-cost) in accordance with IAS 11. After deduction of costs incurred of €35.8 million (2009: €24.9 million), the profit on these contracts in the year under review was €4.1 million (2009: €12.0 million). In the prior year, the completion of a contract in the Business Area GMS had a significantly positive impact. On the balance sheet, total advance payments of €14.4 million (2009: €5.2 million) received from customers in respect of these contracts were offset against the respective cumulative receivables of each contract, resulting in receivables of €73.5 million and payables of €0.5 million (2009: receivables of €40.8 million and payables of €1.1 million). Since a portion of these receivables from PoC-accounting is non-current, €51.0 million (2009: €28.1 million) is reported as a separate item under non-current assets. The current portion is reported under trade receivables.

16. OTHER NON-CURRENT ASSETS

This item includes the advance payment made with regard to the purchase price for the planned acquisition of shares in ASL Aircraft Services Lemwerder GmbH in the amount of €12.4 million. SGL Group plans to expand the business activities of SGL Rotec, one of its subsidiaries, and intends to acquire ASL for this purpose. As the assets to be acquired and the liabilities to be assumed have not yet been measured, the potential effects on the Group's financial position, financial performance and cash flows for 2011 and subsequent years cannot be defined. Legal and beneficial ownership with regard to the shares will be transferred to SGL Group at the beginning of fiscal 2011. In this respect, we refer to **Note 38** "Events after the balance sheet date" as well as to the explanations in the management report (section "Events after the balance sheet date"). In addition, other non-current assets include securities that were purchased to cover pension benefits by foreign subsidiaries. These securities, which amounted to €3.8 million as of year-end 2010, are classified as "available for sale" (2009: €3.5 million).

17. INVENTORIES

€m	**December 31, 2010**	December 31, 2009
Raw materials and supplies	152.5	142.3
Work in progress	211.8	178.7
Finished goods and purchased goods	78.5	77.2
	442.8	**398.2**

The total carrying amount of inventories measured at net realizable value was €12.3 million (2009: €9.7 million). Write-downs to net realizable value amounted to €12.4 million in 2010 (2009: €16.0 million).

18. TRADE RECEIVABLES

€m	**December 31, 2010**	December 31, 2009
from customers	235.0	206.1
from equity accounted investments	10.9	12.7
Trade receivables, current	**245.9**	**218.8**

SGL Group reports the total amount of trade receivables as follows:

€m	**December 31, 2010**	December 31, 2009
Receivables from long-term construction contracts (see **Note 15**)	51.0	28.1
Trade receivables, current	245.9	218.8
Total trade receivables	**296.9**	**246.9**

The following table shows the extent of the credit risk related to total receivables:

€m	**December 31, 2010**	December 31, 2009
Trade receivables neither written down nor overdue	**271.9**	**216.8**
Overdue trade receivables not written down on an individual basis		
less than 30 days	15.3	13.8
30 to 60 days	3.7	4.3
61 to 90 days	1.2	0.7
more than 90 days	2.1	0.8
Total	**22.3**	**19.6**
Receivables written down on an individual basis	8.7	18.4
less valuation adjustment	–6.0	–7.9
Trade receivables, net	**296.9**	**246.9**

The majority of our trade receivables are paid by the contractually agreed due date. As of the balance sheet date, the amount of receivables that was not impaired was €294.2 million (2009: €236.4 million). The total amount of valuation allowances on receivables amounted to €6.0 million (2009: €7.9 million). The specific valuation allowances were calculated on the basis of uniform Group accounting policies and reflect the expected default risk based on the trend in customer sectors as well as the specific situation of the customer concerned. The allowances for doubtful receivables are comprised of estimates and assessments of the individual receivables made by our sales organization on the basis of the creditworthiness of the respective customer, historical experience, and current economic trends as well as existing collateral in the form of credit insurance. The portfolio of receivables is subject to continuous quality monitoring as part of our credit management system. Further details can be found under Note 29 "Credit risk."

The following table shows the movement of allowances:

€m	**2010**	2009
Balance as of January 1	7.9	9.8
Additions recognized as expense	3.5	3.8
Reversals	–4.6	–5.0
Utilizations	–0.8	–0.7
Balance as of December 31	**6.0**	**7.9**

19. OTHER RECEIVABLES AND OTHER ASSETS, ASSETS HELD FOR SALE

€m	**December 31, 2010**	December 31, 2009
Positive fair values of financial instruments (currency and interest rate derivatives)	6.7	0.7
Other tax claims	9.5	10.1
Advance payments for leases and insurance premiums	4.0	4.6
Receivables from employees	1.7	2.1
Other receivables due from equity accounted investments	0.7	0.9
Other assets	8.6	13.3
Other receivables and other assets	**31.2**	**31.7**

The positive fair values of financial instruments increased considerably in reporting period, above all due to the trend in exchange rates.

In the year under review, assets held for sale amounted to €6.0 million (2009: €1.0 million) and mainly refer to several machines being transferred to SGL Automotive Carbon Fibers, a joint venture in the USA, as the construction of that company's carbon fiber plant progresses. The reported value corresponds to the previous carrying amount. The assets are allocated to the Business Area Corporate/Technology and Innovation. In 2009, one plot of land, which was allocated to the Business Area PP, was recognized in this item.

20. LIQUIDITY

Total liquidity comprise short-term time deposits with a maturity of more than three months (2010: €200.0 million; 2009: €0.0 million) and the balance sheet item "Cash and cash equivalents," depending on the respective original maturity. Cash and cash equivalents include current account balances with an original maturity of less than three months in the amount of €64.7 million (2009: €262.3 million) as well as fund shares payable on demand in the amount of €20.0 million (2009: €40.0 million).

The breakdown of cash funds as of December 31, 2010 is as follows: 91% in euros (2009: 89%), 2% in U.S. dollars (2009: 6%), 2% in Japanese yen (2009: 2%), 1% in pound sterling (2009: 1%), and 4% (2009: 2%) in other currencies. As in the prior year, there was no significant amount of cash on hand as of the balance sheet date.

21. DEFERRED TAXES

Deferred tax assets mainly refer to deferred taxes on loss carryforwards as well as deferred taxes on measurement timing differences between IFRS and the tax base resulting from differences in the measurement of non-current assets, provisions, inventories, and financial derivatives. Deferred tax liabilities primarily arise from differences in the depreciation and amortization methods between the IFRS consolidated financial statements and the tax accounts.

As of December 31, 2010, there were domestic tax loss carryforwards of €202.8 million (2009: €210.4 million) relating to corporate income tax and €135.0 million (2009: €152.5 million) to municipal trade tax. In addition, foreign tax loss carryforwards existed mainly in the U.S. in the amount of US$94.7 million (2009: US$83.8 million) relating to federal tax and in the UK in the amount of £46.6 million (2009: £45.8 million). The loss carryforwards in Germany and the UK may be carried forward without limitation in accordance with currently applicable laws. In the U.S., the loss carryforwards will expire starting 2022.

No deferred tax assets were recognized for the following items as of December 31, 2010, and December 31, 2009, respectively:

€m	**December 31, 2010**	December 31, 2009
Deductible temporary differences		
from impairment test	67.0	74.0
from other recognition and measurement differences	10.9	2.2
Tax loss carryforwards and tax refunds received	156.0	202.3
Total	**233.9**	**278.5**

Deferred taxes predominantly have a maturity of more than one year.

Deferred tax assets and liabilities are derived as follows from loss carryforwards or differences between the tax base and the IFRS financial statements:

€m	**Deferred tax assets Dec. 31, 2010**	**Deferred tax liabilities Dec. 31, 2010**	Deferred tax assets Dec. 31, 2009	Deferred tax liabilities Dec. 31, 2009
Non-current assets	28.6	–58.5	29.9	–48.8
Inventories	7.9	–5.5	12.3	–3.8
Receivables/other assets	1.4	–3.4	0.1	–4.2
Provisions for pensions and similar employee benefits	40.0	–3.1	36.6	–1.9
Other provisions	8.7	–0.6	8.5	–0.3
Liabilities/other liabilities	6.5	1.7	2.6	–1.7
Tax loss carryforwards and tax refunds received	95.5		106.8	
Other	5.7	–1.3	2.1	–1.1
Total	**194.3**	**–70.7**	**198.9**	**–61.8**
Allowance	–73.0		–85.3	
Netting	–63.0	63.0	–58.0	58.0
Carrying amount	**58.3**	**–7.7**	**55.6**	**–3.8**

Deferred tax assets and liabilities are netted insofar as these refer to income taxes of the same taxable entity.

The balance of deferred tax assets and liabilities declined by €1.2 million in 2010 (2009: €17.6 million) to a total of €50.6 million (2009: €51.8 million). The effect on earnings totaled €6.9 million in 2010 (2009: €23.0 million). Deferred taxes declined by €1.6 million (2009: increase of €0.2 million) as a result of changes in foreign exchange rates. Other changes of €–4.4 million (2009: €-3.7 million) not affecting the income statement relate to items recognized in equity. These primarily include the increase in deferred tax assets not recognized in income resulting from valuation differences in pension provisions due to the actuarial losses recognized in equity. Other changes not affecting the income statement resulted from cash flow hedges as well as future tax benefits in relation to share-based payment plans. In addition, €0.3 million (2009: €-1.2 million) related to deferred taxes offset against goodwill. Another €–0.6 million related to the deconsolidation of Group companies in 2009.

A deferred tax liability of €1.3 million (2009: €1.1 million) was also recognized in Germany with respect to foreseeable future dividend payments by foreign operations. Recognition of this liability resulted from the fact that a portion of foreign dividend income is not tax-free in Germany in addition to withholding taxes. Any further profits of foreign operations that will not be distributed in the foreseeable future would lead to an additional deferred tax liability of €3.6 million (2009: €2.9 million).

22. EQUITY

As of December 31, 2010, the Company's issued capital amounted to €167,878,295.04 (2009: €167,370,821.12) and was divided into 65,577,459 (2009: 65,379,227) no-par-value ordinary bearer shares, each with a notional value of €2.56. The shares are traded on various markets in Germany (including Frankfurt).

Capital structure
Authorized capital as of December 31, 2010

Articles of Association	Date of resolution/ limitation	€/ Number of shares	Capital increase via:	Exclusion of pre-emptive rights
para. 3 sec. 6	April 29, 2009 limited until April 28, 2014	52,608,929.28 € = 20,550,363 shares	Cash contribution or contribution in kind	Pre-emptive rights are excluded – if new shares are issued to employees from the Matching Share Plan up to €768,929.28 = 300,363 shares – if issued via contribution in kind
para. 3 sec. 8	April 28, 2006 limited until April 27, 2011	1,994,250.24 € = 779,004 shares	Cash contribution or contribution in kind	if new shares are issued to employees
para. 3 sec. 11	April 25, 2008 limited until April 26, 2012	23,873,251.84 € = 9,325,669 shares	Cash contributions	if new shares are issued up to a max. of 10% of the Company's issued capital, provided the issue price of the new shares is not significantly lower than the stock exchange price

The Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the Company's issued share capital by way of an issue of new no-par value bearer shares on one or several occasions.

Shareholders are generally to have pre-emptive rights to any such issue. Pre-emptive rights may be disapplied, subject to the consent of the Supervisory Board, in the context of shares issued to employees, shares issued in return for contributions in kind, and the issuance of shares of up to 10% of the issued share capital.

Conditional capital as of December 31, 2010

Articles of Association	Date of resolution	€/Number of shares	Capital increase via:	Exclusion of pre-emptive rights/ Execution of the capital increase
para. 3 sec. 9	April 27, 2000	2,241,920.00 € = 875,750 shares	Stock Option Plan 2000-2004	Share capital increase will be executed if participants make use of their subscription rights.
para. 3 sec. 7	April 30, 2004	€2,593,689.60 = 1,013,160 shares	SAR-Plan* 2005-2009	Share capital increase will be executed if participants make use of their subscription rights.
para. 3 sec. 12	April 29, 2009	5,376,000.00 € = 2,100,000 shares	SAR-Plan* 2010-2014	Share capital increase will be executed if participants make use of their subscription rights.
para. 3 sec. 10	April 29, 2009	16,640,000.00 € = 6,500,000 shares	To be used for the convertible bond 2007	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.
para. 3 sec. 13	April 29, 2009	20,480,000.00 € = 8,000,000 shares	To be used for the convertible bond 2009	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.
para. 3 sec. 14	April 30, 2010	35,840,000.00 € = 14,000,000 shares	To be used for convertible bonds/ bonds with warrants	Authorization to issue convertible bonds/ bonds with warrants up to €500 million (limited till April 29, 2015) with the possibility to exclude pre-emptive rights up to 10% of the Company's issued capital

* SAR Plan = Stock Appreciation Rights Plan (see **Note 31**)

The Annual General Meeting has resolved contingent capital increases to service the share-based management incentive plans (see **Note 31**) as well as to service convertible bonds and bonds with warrants (see **Note 25**).

Increase in the Company's Share Capital

	Number of shares 2010	Number of shares 2009
Balance as of January 1	65,379,227	64,706,991
Stock Option Plan 2000-2004	36,300	7,001
SAR Plan 2005-2009	62,295	53,365
Issuance to employees for bonus entitlements	17,006	450,615
Own bonus shares	32,994	99,385
New shares for share plan participants	49,637	61,870
Balance as of December 31	**65,577,459**	**65,379,227**

The total number of shares rose from 65,379,227 as of December 31, 2009 to 65,577,459 as of December 31, 2010, an increase of 198,232.

A total of 99,637 new shares were issued for the purpose of servicing bonus entitlements as well as entitlements of employees in relation to the Matching Share Plan 2008. The new shares were issued at a price of €2.56 each, increasing issued capital to a total of €255,070.72. Of the 50,000 new shares, a total of 17,006 shares were transferred to employees of the Company at a price equivalent to the opening price in XETRA trading on March 16, 2010 in order to satisfy bonus entitlements in accordance with the terms of the agreed bonus arrangements. The Company purchased 32,994 shares at a price of €2.56 per share. These shares were not needed to satisfy bonus entitlements because of the increase in the share price between the date on which the resolution to increase issued capital was passed and March 16, 2010, and will in future be offered to present or former employees of the Company or its affiliated companies for purchase. A total of 49,637 new shares were issued to employees of Group companies under the 2008 Matching Share Plan at the end of the vesting period from the capital increase in March 2010.

On January 25, 2011, the Board of Management approved a €1,120,737.28 increase in issued capital through the issue of 437,788 new shares by making partial use of authorized capital. The new shares are designated for employees of the Company and to support the 2009 Matching Share Plan; they carry dividend rights for 2010. As of December 31, 2010, 30,904 (2009: 106,315) treasury shares were held at a carrying amount of €79,114.24 (2009: €456,358.46).

Disclosures on Capital Management

In addition to ensuring liquidity, one of the primary objectives of capital management is to optimize financing structures on a continuous basis. In order to achieve this objective, various methods are used to reduce the cost of capital and improve our capital structure as well as to ensure effective risk management. Capital management includes both equity and debt components. Key figures include net debt, gearing (net debt/equity) and the equity ratio.

Net debt is defined as borrowings at their principal amount less cash, cash equivalents and time deposits.

The indicators changed as follows:

€m	**December 31, 2010**	December 31, 2009
Net debt	410.5	367.9
Equity attributable to shareholders of the parent company	864.4	749.4
Gearing	0.47	0.49
Equity ratio	40.9%	39.6%

SGL Group pursues active debt management as one of its capital management tools. The Group is under an obligation to comply with certain covenants with respect to our lenders and bondholders. Adherence to these covenants is monitored continuously. In addition, financial risks are monitored and controlled using certain indicators as part of internal risk management.

Since 2004, SGL Group has commissioned the rating agencies Moody's and Standard & Poor's (S&P) to prepare an issuer rating which supports both private and institutional investors to evaluate the Group's credit quality. At the moment, SGL Group has a "Ba2" rating from Moody's and a "BB" rating from Standard and Poor's. The corporate bond has received an investment grade rating from S&P ("BBB-"), while the convertible bonds are rated "BB" by S&P. Moody's gives the corporate bond a Ba1 rating and the convertible bond issued in 2007 a Ba3 rating.

23. PROVISIONS FOR PENSIONS AND SIMILAR EMPLOYEE BENEFITS

The employees of SGL Group worldwide benefit from various pension plans that provide retirement benefits for the employee and surviving dependants. These benefits are granted in accordance with the specific situation in the various countries. Some of the arrangements are tied to the level of employee remuneration, whereas others are based on fixed amounts linked to employee ranking in terms of both salary classification and position within the Company hierarchy. Some arrangements also provide for future increases based on an inflation index.

The various pension arrangements for the employees of SGL Group in Germany were standardized on April 1, 2000. Post-employment benefit entitlements dating from the period before April 1, 2000, are not affected and the financial obligations arising under these pension plans remain within SGL Group, where they are covered by provisions. The basis of the modified pension scheme is the legally independent pension fund for employees of the Hoechst Group VVaG, which is funded by employee and employer contributions. The contributions made by SGL Group to this pension fund are determined by a specific ratio to the contributions made to the fund by employees.

In the case of defined contribution plans, the Company pays contributions to pension insurance providers on the basis of statutory or contractual requirements. The Company generally has no further obligations other than to pay the contributions. The Hoechst VVaG pension fund is a defined benefit multi-employer plan. There is insufficient information available about this pension plan to allow the Company to classify it as a defined benefit plan because the plan assets cannot be allocated among the participating companies. A situation where this pension plan is underfunded cannot arise as the future employer contributions are to be assessed in such a way that prevents underfunding. If overfunding occurs, the contributions of the participating companies will be reduced accordingly. The contributions made by SGL Group to the pension fund are currently equivalent to 300% of the employee contributions (2009: 300%). The contribution payments each year are recognized as operating expenses for defined contribution plans in the year concerned.

Most of the obligations with respect to current pension benefits and projected pension benefits in the European companies are covered by the provisions reported on the balance sheet. The North American subsidiaries have country-specific pension plans which are largely covered by pension funds. The provisions to be recognized are determined in accordance with IAS 19 and are measured on the basis of actuarial opinions. The amount of the provisions depends on the length of service within the Company as well as from the pensionable remuneration. The provisions are calculated using the so-called projected unit credit method, assuming an increasing service cost.

In addition to biometrical bases for calculation and the current long-term market interest rate, this method takes into account in particular assumptions with respect to future salary and pension increases.

The following parameters are applied in Germany and the USA, the countries with the most significant post-employment benefit obligations:

Basis of calculation and parameters for pension provisions

	German Plans		US Plans	
%	**2010**	2009	**2010**	2009
Discount rate	5.00	5.50	5.25	5.75
Projected salary increase	2.50	2.50	3.00	3.00
Projected pension increase	1.75	2.00	–	–
Return on plan assets	–	–	8.00	8.00

In the U.S., pension benefits are traditionally provided via a pension fund, in which the plan assets are invested solely for the purpose of providing future pension benefits to the beneficiaries and minimizing the costs of administering the assets. SGL Group regularly reviews the assumptions on the expected return on plan assets of the North American, fund-financed pension plan. As part of the review, independent actuaries calculate a range for expected long-term returns on total plan assets. The range calculation is based on forecasts of long-term returns as well as historical market data on past returns. The assumed long-term return on plan assets of the North American pension plan was 8.0 % in fiscal 2010 (2009: 8.0%).

The investment policy of SGL Group is geared toward distributing assets equally among growth-oriented equities and interests in companies and among fixed-interest bonds and cash. As of December 31, 2010, 49.5% of the plan assets in the USA were invested in equities and interests in companies (2009: 48.1%), 44.8% in fixed-interest securities (2009: 45.9%), and 5.7% in cash (2009: 6.0%). In certain companies in SGL Group, the provisions also cover amounts for post-employment healthcare and severance payments. The future benefit obligations are calculated using actuarial methods based on prudent estimates of the relevant parameters. The calculation parameters may be influenced to a significant degree by the assumptions with respect to the increase of costs within the healthcare sector. In the year under review, the assumed rates of increase for medical costs (first/last/year) amounted to (8.05%/5.0%/2024) for beneficiaries at the age of less than 65 and (7.55%/5.0%/2024) for beneficiaries at the age of more than 65. The assumed rates for 2009 were (8.0%/5.0%/2022) and (7.5%/5.0%/2022), respectively. An increase or decrease of the assumed growth rate for healthcare costs by 1 percentage point would have led to an increase (decline) of the present value of the defined benefit obligation of €1.7 million (€–1.4 million) and an increase (decline) of service and interest cost of €0.1 million (€–0.1 million).

The change in pension obligations relating to direct commitments and post-employment healthcare obligations, the change in plan assets, and the financing status of the pension plans are described in the following.

The reconciliation to the amount reported in the consolidated statement of comprehensive income is as follows:

€m	Germany 2010	USA 2010	Other 2010	**Total 2010**
Present value of the defined benefit obligation at beginning of year	180.8	100.1	25.7	306.6
Service cost	4.2	1.8	1.1	7.1
Interest cost	9.7	6.1	1.5	17.3
Actuarial losses	5.6	5.3	3.3	14.2
Benefits paid	–8.2	–6.7	–1.5	–16.4
Plan amendments	0.0	0.2	0.0	0.2
Other changes	0.4	0.7	0.0	1.1
Exchange differences	0.0	7.8	1.3	9.1
Present value of the defined benefit obligation at end of year[1]	**192.5**	**115.3**	**31.4**	**339.2**
Fair value of plan assets at beginning of year	16.8	58.8	6.9	82.5
Actual return on plan assets	0.3	8.1	0.6	9.0
Employer contributions	0.0	6.0	0.7	6.7
Employee contributions	0.2	0.7	0.0	0.9
Benefits paid	–0.6	–6.7	–0.2	–7.5
Exchange differences	0.0	4.5	1.0	5.5
Present value of the defined benefit obligation at end of year[2]	**16.7**	**71.4**	**9.0**	**97.1**
Funded status as of December 31	**175.8**	**43.9**	**22.4**	**242.1**
Past service cost not recognized	0.0	–0.2	0.0	–0.2
Amount recorded	**175.8**	**43.7**	**22.4**	**241.9**
Provision for termination benefits	0.0	1.5	4.3	5.8
Provisions for pensions and similar employee benefits	**175.8**	**45.2**	**26.7**	**247.7**

[1] Thereof €23.6 million for post-retirement healthcare benefits
[2] In addition, there are €3.8 million in assets to cover pension entitlements recognized as other non-current assets.

The funded status for 2009 was as follows:

€m	Germany 2009	USA 2009	Other 2009	**Total 2009**
Present value of the defined benefit obligation at beginning of year	167.0	92.5	23.9	283.4
Service cost	3.6	1.6	0.6	5.8
Interest cost	9.7	5.6	1.2	16.5
Actuarial losses	9.0	13.2	1.4	23.6
Benefits paid	–8.3	–5.6	–2.4	–16.3
Plan amendments	0.0	–4.6	0.0	–4.6
Other changes [1]	–0.2	0.7	0.0	0.5
Exchange differences	0.0	–3.3	1.0	–2.3
Present value of the defined benefit obligation at end of year [2]	**180.8**	**100.1**	**25.7**	**306.6**
Fair value of plan assets at beginning of year	14.0	52.9	5.2	72.1
Actual return on plan assets	0.6	7.3	1.0	8.9
Employer contributions	2.5	5.3	0.7	8.5
Employee contributions	0.0	0.7	0.0	0.7
Benefits paid	–0.3	–5.6	–0.6	–6.5
Exchange differences	0.0	–1.8	0.6	–1.2
Present value of the defined benefit obligation at end of year [3]	**16.8**	**58.8**	**6.9**	**82.5**
Funded status as of December 31	**164.0**	**41.3**	**18.8**	**224.1**
Past service cost not recognized	0.0	–0.3	0.0	–0.3
Amount recorded	**164.0**	**41.0**	**18.8**	**223.8**
Provision for termination benefits	0.0	1.5	4.9	6.4
Provisions for pensions and similar employee benefits	**164.0**	**42.5**	**23.7**	**230.2**

[1] Thereof €–0.6 million for the disposal of SGL Brakes
[2] Thereof €20.4 million for post-retirement healthcare benefits
[3] In addition, there are €3.5 million in assets to cover pension entitlements recognized as other non-current assets.

The consolidated statement of comprehensive income includes the following amounts:

€m	Germany 2010	USA 2010	Other 2010	**Total 2010**	Total 2009
Actuarial gains (+)/losses (–)	–5.6	–5.3	–3.3	–14.2	–23.6
Actual return on plan assets	0.3	8.1	0.6	9.0	8.9
Less expected return on plan assets	0.3	5.1	0.6	6.0	5.3
Gains (+)/losses (–) for the reporting year (gross) recognized in equity	**–5.6**	**–2.3**	**–3.3**	**–11.2**	**–20.0**
Tax effect	1.6	1.0	0.5	3.1	6.5
Gains (+)/losses (–) for the reporting year (net) recognized in equity	**–4.0**	**–1.3**	**–2.8**	**–8.1**	**–13.5**

In fiscal year 2010, the present value of the defined benefit obligation increased due to the reduction of the discount rate for the domestic and foreign pension plans. The negative effect from the reduction of the discount rates was partially compensated by a reduction of the projected pension increase as well as by experience adjustments. Experience adjustments resulting from differences between actuarial assumptions and actual outcome caused a decline of 1.0% in the present value of the defined benefit obligation in fiscal 2010. The following amounts were recognized for defined benefit plans for the current and the preceding reporting periods:

Trend of experience adjustments:

€m	**2010**	2009	2008	2007	2006
Present value of defined benefit obligation	339.2	306.6	283.4	275.8	291.5
Plan assets	97.1	82.5	72.1	72.2	70.7
Funded status	242.1	224.1	211.3	203.6	220.8
Plan liabilities experience adjustments	–3.0	1.6	–7.8	–2.0	2.4
Plan assets experience adjustments	3.0	3.6	–12.2	–0.5	1.7

Pension provisions with a maturity of less than one year amounted to approximately €17.0 million (2009: €14.4 million).

SGL Group has pension and healthcare obligations in the amount of €95.2 million (2009: €89.3 million) arising from fund-financed pension plans. Pension obligations arising from non-fund-financed pension plans amounted to €244.0 million (2009: €217.3 million). The actual return on plan assets in 2010 amounted to a total of €9.0 million (2009: €8.9 million).

To cover the pension obligations to members of the Board of Management, the Company has entered into reinsurance policies with two large insurance companies. As of December 31, 2010, the asset value included in the pension provisions totaled €11.5 million (2009: €11.2 million). In fiscal 2010, no additional one-off payments were made to reinsurers (2009: €2.2 million). The benefits under the insurance policies have been pledged to the relevant members of the Board of Management. The pension expense for active members of the Board of Management is detailed in **Note 32**.

The breakdown of pension expenses for 2010 and 2009 is as follows:

€m	Germany 2010	USA 2010	Other 2010	**Total 2010**
Service cost	4.2	1.8	1.1	7.1
Interest cost	9.7	6.1	1.5	17.3
Expected return of plan assets	–0.3	–5.1	–0.6	–6.0
Past service cost	0.1	0.5	0.0	0.6
Income from plan curtailment	0.0	–0.3	0.0	–0.3
Expenses for defined benefit plans	**13.7**	**3.0**	**2.0**	**18.7**
Expenses for defined contribution plans	–	–	–	5.3
Interest cost from severance payments	–	–	–	0.3
Pension expenses	**–**	**–**	**–**	**24.3**

€m	Germany 2009	USA 2009	Other 2009	**Total 2009**
Service cost	3.6	1.6	0.6	5.8
Interest cost	9.7	5.6	1.2	16.5
Expected return of plan assets	–0.6	–4.3	–0.4	–5.3
Past service cost	0.0	0.1	0.0	0.1
Income from plan curtailment	0.0	–4.6	0.0	–4.6
Expenses for defined benefit plans	**12.7**	**–1.6**	**1.4**	**12.5**
Expenses for defined contribution plans	–	–	–	5.2
Pension expenses	**–**	**–**	**–**	**17.7**

The total expense for pensions and other employee benefits, including interest expenses for termination benefits amounting to €0.3 million, was €17.6 million (2009: €16.5 million). Employer contributions to U.S. plan assets in 2011 are estimated at €1.6 million (2009: €1.5 million). As of December 31, 2010, the anticipated future pension benefit payments by SGL Group to its former employees or their surviving dependants were as follows:

Pension payments to employees

Year	€m
Payable in 2011	17.0
Payable in 2012	17.5
Payable in 2013	18.8
Payable in 2014	19.5
Payable in 2015	20.4

24. OTHER PROVISIONS

€m	Taxes	Personnel expenses	Warranties, price reduction and guarantees	Other	**Total**
Balance as of January 1, 2010	7.5	42.7	17.7	12.1	80.0
Utilizations	–6.7	–26.9	–2.6	–7.4	–43.6
Releases	–0.2	–6.4	–10.0	–3.1	–19.7
Additions	3.2	44.5	5.1	17.1	69.9
Other changes/exchange differences	0.1	3.3	0.1	–	3.5
Balance as of December 31, 2010	**3.9**	**57.2**	**10.3**	**18.7**	**90.1**
(thereof with a maturity of up to one year)	*3.9*	*47.8*	*10.1*	*16.9*	*78.7*
(thereof with a maturity of more than one year.)	–	*9.4*	*0.2*	*1.8*	*11.4*

The provisions for taxes include amounts for tax risks relating to financial years that have not yet been fully assessed by the tax authorities.

Provisions for personnel expenses mainly comprise provisions for annual bonuses of €24.3 million (2009: €12.6 million), provisions for jubilee benefits of €5.6 million (2009: €5.8 million), provisions for partial retirement of €5.3 million (2009: €5.6 million), and provisions for outstanding vacation days of €4.9 million (2009: €3.8 million).

All warranties, price reductions, and guarantees contain provisions for price reduction risks including bonuses, volume discounts, and other reductions in price. Other provisions comprise provisions for outstanding supplier invoices in the amount of €6.4 million (2009: €4.0 million) and for legal fees in the amount of €1.8 million (2009: €0.2 million).

25. LIABILITIES

€m	**Dec. 31, 2010**	Remaining maturity > 1 year	Dec. 31, 2009	Remaining maturity > 1 year
Interest-bearing loans/financial liabilities				
Corporate bond	200.0	200.0	200.0	200.0
– nominal value of convertible bond	*390.0*		*390.0*	
– less IFRS equity component	*–80.7*		*–80.7*	
– plus interest cost under effective interest method	*36.4*		*22.5*	
Convertible bonds	345.7	345.7	331.8	331.8
Bank loans, overdrafts and other financial liabilities	104.6	73.6	80.2	71.1
Refinancing expenses	–7.9	–5.2	–10.3	–7.7
	642.4	**614.1**	**601.7**	**595.2**
Trade payables	**134.1**	**0.0**	**99.8**	**0.0**
Other financial liabilities				
Derivative financial instruments	5.5	0.0	17.5	0.0
Finance lease liabilities	19.9	18.7	20.1	18.9
Miscellaneous other financial liabilities	41.0	26.5	41.5	41.5
	66.4	**45.2**	**79.1**	**60.4**
Income tax payables	2.0	0.0	2.4	0.0
Miscellaneous other liabilities	45.0	2.6	39.9	0.7
	889.9	**661.9**	**822.9**	**656.3**

Interest-bearing Loans

CONVERTIBLE BONDS

In 2007, the Company issued an unsecured convertible bond with a nominal value of €200.0 million. The security has a maturity of six years, and each bond has a face value of €50,000, an initial conversion price of €36.52 and a coupon of 0.75% p. a.. The convertible bond was issued at 100% of its nominal value.

In 2009, the Company issued another unsecured convertible bond with a nominal value of €190.0 million. The bond has a maturity of seven years and was issued at 100% of its face value. Bond holders have the option of returning the bond prematurily in 2014. The initial conversion price of the convertible bond was €29.39 and the coupon amounts to 3.5% p. a. The bondholders are entitled to terminate all or some of the bonds not converted or redeemed after five years effective June 30, 2014 ("put option"). In such case, SGL Group must redeem the notes concerned at face value plus interest.

In accordance with IAS 39, the liabilities associated with the convertible bonds were initially recognized at the fair value of the consideration received. The relevant principal amounts were split between the equity component, which under IAS 32 represents the conversion right, and the borrowing component. The fair value of each borrowing component was derived from a comparable bond without conversion rights, the fair value of which was calculated as the present value (using the comparable interest rate) of agreed payments.

The equity element of the 2007 convertible bond was derived from the difference between the nominal value of €200.0 million and the present value of €150.0 million calculated on the basis of a market discount rate of 5.8% p. a. After deduction of the associated transaction costs of €0.9 million, the equity element amounted to €49.1 million and was posted to capital reserves. This IFRS-specific equity component will remain in capital reserves regardless of whether the bond is actually converted or not.

The equity element of the 2009 convertible bond in the amount of €30.7 million was derived from the difference between the nominal value of €190.0 million, the fair value of the put option of €17.4 as of the date of issue, and the present value of €141.9 million calculated on the basis of a market interest rate of 8.43% p. a. After deduction of the associated transaction costs of €0.5 million, this equity element was posted to capital reserves.

The carrying amounts of the 2007 and 2009 bond liabilities will be subsequently measured using the effective interest method based on their coupons of 5.8% and 8.43% p. a., respectively. In aggregate, the present value determined as of the issue date for the 2007 bond liability of €150.0 million was increased by an additional €28.3 million to €178.3 million. The present value determined as of the issue date for the 2009 bond liability was increased from €159.3 million (including the fair value of the put option of €17.4 million) by a total of €8.1 million as of the balance sheet date to €167.4 million. In the year under review, the 2007 bond liability was increased by €8.4 million (2009: €7.9 million) and the 2009 bond liability by €5.5 million (2009: €2.7 million). The additional amounts represent the difference between the coupon interest and the effective interest.

CORPORATE BOND

In 2007, the Company issued an eight-year floating-rate corporate bond with a nominal value of €200.0 million. The corporate bond has a coupon equal to the three-month EURIBOR plus a margin of 1.25% p. a. This represented an interest coupon of 5.313% p. a. as of the issue date and interest rate of 2.30% p. a. as of December 31, 2010 (2009: 1.964% p. a.).

The issue price was 100% of the nominal amount. In the event of a change in ownership of the Company, the corporate bond immediately becomes due for repayment at a price of 101% of the nominal amount plus accumulated interest.

The terms of the corporate bond also include normal market provisions with regard to compliance with financial covenants and restrictions. The corporate bond is admitted to trading on the Luxembourg Stock Exchange in the EuroMTF market.

SYNDICATED CREDIT LINE

In addition to these bonds, SGL Group also has a secured syndicated credit line for a total of €200.0 million to be used for working capital and investments. The credit line is available until May 2012 and has equal ranking with the corporate bond. The credit line is available to various SGL subsidiaries and can be drawn down in euro and US dollar. The credit line had not been utilized as of the balance sheet date. In case of a change in ownership, the amounts drawn will become due for repayment. The agreed credit margin varies depending on the gearing of SGL Group during the term to maturity. The terms and conditions of the syndicated credit line include financing provisions in line with the market (net debt/EBITDA, and senior secured debt/EBITDA). This credit line is being provided by SGL Group's core banks.

The corporate bond and syndicated credit line have equal ranking and are secured by shares and/or corporate guarantees from selected SGL subsidiaries.

On February 23, 2011, the company concluded an agreement with its core banks to prematurely prolong the existing syndicated credit line in the amount of €200.0 million at unchanged terms until the end of April 2015.

The weighted average cash interest rate on financial liabilities in 2010 was 2.3% p. a. (2009: 2.2% p. a.). Including the non-cash interest cost on the convertible bonds, the weighted average interest rate for 2010 was 4.2% p. a. (2009: 4.4% p. a.). Bank loans, overdrafts and other financial liabilities amounted to €104.6 million as of December 31, 2010 (2009: €80.2 million). Of this amount, €1.8 million (2009: €4.9 million) was subject to fixed interest and €102.8 million (2009: €75.3 million) was subject to variable interest rates.

Trade Payables

The trade payables of €134.1 million in total as of December 31, 2010 (2009: €99.8 million) were due to third parties in the amount of €133.8 million. As in 2009, they were due for payment within one year.

Other Liabilities

As of December 31, 2010, other financial liabilities included liabilities from finance leases in the amount of €19.9 million (2009: €20.1 million), mainly attributable to an agreement on a heritable building right, which must be retrospectively classified as a finance lease due to the change in accounting principles set out in IAS 17. Please refer to the section entitled "Effects of new accounting standards" under **Note 1** for further explanations.

This line item also includes negative fair values relating to hedging instruments in the amount of €5.5 million as of December 31, 2010 (2009: €17.5 million).

Miscellaneous other financial liabilities include the non-controlling interests in subsidiary partnerships classified as liabilities in a total amount of €41.0 million (2009: €41.5 million).

Current income tax payables amounted to €2.0 million (2009: €2.4 million) as of December 31, 2010.

Miscellaneous other liabilities totaled €45.0 million (2009: €39.9 million) as of December 31, 2010 and included liabilities for payroll and church taxes of €14.7 million (2009: €11.6 million), accrued interest of €5.3 million (2009: €5.1 million), social security liabilities of €1.6 million (2009: €1.4 million), other tax liabilities of €4.2 million (2009: €3.6 million), and deferred income of €7.4 million (2009: €5.5 million).

The following table shows all contractually agreed payments as of December 31, 2010 for repayments of principal and payment of interest on recognized financial liabilities, including derivative financial instruments.

€m	**2011**	2012	2013	2014	2015	More than five years
Non-derivative financial liabilities						
Corporate bond	4.9	5.6	6.3	6.9	203.2	–
Convertible bonds	8.3	8.3	207.5	193.3	–	–
Bank loans, overdrafts and other financial liabilities	35.6	25.3	25.4	18.5	13.2	0.7
Finance lease liabilities	1.3	1.2	1.1	1.1	1.1	84.8
Trade payables	134.1	–	–	–	–	–
Miscellaneous other financial liabilities	14,5	–	–	–	–	26,5
Derivative financial liabilities	5.5	–	–	–	–	–
	204.2	**40.4**	**240.3**	**219.8**	**217.5**	**112.0**

The estimated interest payments for floating-rate financial liabilities were determined on the basis of the interest-rate curve on the balance sheet date. Miscellaneous other financial liabilities were determined using undiscounted contractual cash flows for the subsequent fiscal years. Derivative financial liabilities are classified as payable on demand, regardless of their actual contractual maturity. This enables a presentation of cash outflows in the event of an immediate cancellation of the underlying derivative contracts. The Group is of the opinion that this form of presenting liabilities from derivatives with a negative fair value as of the balance sheet date is appropriate.

Consolidated Cash Flow Statement Disclosures

26. CASH FLOW STATEMENT DISCLOSURES

The cash flow statement reports the changes in cash and cash equivalents at SGL Group resulting from cash inflows and outflows for the reporting year. Cash inflows and outflows are broken down separately by operating, investing and financing activities. A reconciliation to cash and cash equivalents as shown on the face of the balance sheet is also provided. Amounts in the cash flow statement attributable to foreign subsidiaries are translated at average exchange rates for the year, which approximate the historical rates on the transaction dates; cash and cash equivalents are translated at the closing rate, as on the face of the balance sheet.

Net Cash provided by Operating Activities

Net cash provided by operating activities reflects changes in working capital and other net assets as well as other cash-effective transactions. Net cash provided by operating activities amounted to €115.5 million (2009: €128.0 million) and includes the use of cash of €38.8 million in connection with the increase in working capital (2009: reduction of working capital of €10.4 million), interest payments of €15.9 million (2009: €13.3 million), tax payments of €19.7 million (2009: €32.9 million), and payments under defined contribution pension plans and defined benefit pension plans of €28.4 million (2009: €29.7 million).

Net Cash used in Investing Activities

Net payments for used in investing activities amounted to €153.8 million in fiscal 2010 (2009: €162.0 million), primarily due to the property, plant and equipment, intangible assets, and capital increases at companies accounted for using the equity method.

Payments for property, plant and equipment and intangible assets totaled €129.5 million and comprised, among other things, payments related to the further build-up of the site in Banting (Malaysia), payments for capital expenditures at the site in Gardena, CA (USA), payments for the Technology Center in Meitingen, and payments for capacity expansion related to isostatic graphite as well as in connection with the contract concluded with the BMW Group for the development of carbon fiber processes and textile semi-finished products, less the payments received from BMW for this project in the amount of €7.4 million.

In addition, the net cash used in investing activities in 2010 included down payments in the amount of €12.4 million for the acquisition of the ASL companies, which were acquired as of January 1, 2011 (see events after the balance sheet date) and have been consolidated since that date (2009: €0.0 million). Payments for capital increases at joint ventures totaled €18.0 million in 2010 (2009: €10.7 million). These payments largely referred to planned capital increases of joint ventures with BMW, European Precursor GmbH and Benteler SGL for the production of carbon fibers and clutches.

Due to the deconsolidation of SGL Brakes in the prior year, cash and cash equivalents in the amount of €0.2 million were disposed of. This amount is presented separately in the cash flow statement, together with compensation payments in the amount of €0.4 million.

Net Cash provided by Financing Activities

In fiscal year 2010, net cash provided by financing activities amounted to a total of €18.0 million (2009: €213.3 million). Apart from an increase in the amount drawn down at a local credit line in Malaysia by €5.5 million (2009: €25.5 million) as well as in Canada by €0.9 million (2009: €0.3 million), financial liabilities grew by €3.9 million (2009: €0.7 million) due to a loan granted by a non-controlling shareholder of a subsidiary. Net cash provided by financing activities also included the capital increase of a non-controlling shareholder related to a company consolidated by SGL Group in the amount of €7.4 million. The cash receipts in fiscal 2009 from the convertible bond issued in 2009 totaled €186.7 million, net of transaction costs. The proceeds from the capital increase as a result of stock options exercised by employees amounted to €0.7 million (2009: €0.6 million).

Cash and cash equivalents reported in the cash flow statement correspond to cash and cash equivalents as reported in the balance sheet in the amount of €84.7 million (2009: €302.3 million). Cash funds in the broader sense includes short-term term deposits with a maturity of up to twelve months (€200.0 million). As of December 31, 2010, cash funds available to us for financing current operations, for future capital expenditures, and for our growth amount to a total of €284.7 million (December 31, 2009: €302.3 million). The reduction of cash funds in 2010 by €17.6 million mainly resulted from investment activities in the fiscal year under review. In the prior year, cash funds had increased by €179.2 million to €302.3 million, primarily due to the inflow from the convertible bond. There was a positive exchange-rate effect of €2.7 million (2009: €–0.1 million) on the cash balance.

Other Disclosures

27. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As of December 31, 2010, outstanding guarantee obligations amounted to €5.7 million (December 31, 2009: €4.8 million). Contingent liabilities relating to investments accounted for using the equity method amounted to €7.6 million (2009: €1.5 million). In addition, other financial commitments in connection with purchase orders for approved capital expenditure on property, plant and equipment amounted to €47.1 million as of December 31, 2010 (December 31, 2009: €31.6 million). These amounts are mainly earmarked for orders placed in connection with the new production site in Malaysia. Some of these capital expenditure projects extend beyond one year.

SGL Group is maintaining individual guarantee credit lines until the planned phase-out date for the Surface Technology business sold in 2005. As of December 31, 2010, the guarantee facility had been substantially reduced to €0.3 million (2009: €2.3 million). As in 2009, we recognized an appropriate provision as of December 31, 2010 after careful assessment of possible future utilization.

Using procurement agreements with key suppliers, SGL Group secures the necessary raw materials for its production, especially for needle coke. These agreements are normally for one year, include minimum quantities to be purchased by SGL Group, and are fulfilled by physical delivery. The prices for the supplies are based on a base price that is adjusted for variable components (e.g. defined parameters of the needle coke producer's raw material price).

A number of agreements to provide collateral were also signed with lenders in conjunction with the new financing carried out in 2007. In contrast to the refinancing carried out in 2004, these agreements have been restricted to share pledge agreements and/or corporate guarantees for a selected number of companies in the Group. No charges over real estate or other assets have been pledged as collateral.

In addition, obligations under operating leases for land and buildings, IT equipment, vehicles and other assets amounted to €68.5 million as of December 31, 2010 (December 31, 2009: €55.9 million). As of December 31, 2010, the future payments were as follows:

€m	2011	2012	2013	2014	2015	2016 and thereafter	**Total**
Operating leases	**9.7**	**7.9**	**5.5**	**4.7**	**4.6**	**36.1**	**68.5**
Finance leases	1.3	1.2	1.1	1.1	1.1	84.8	90.6
– discount included	–0.1	–0.1	–0.1	–0.2	–0.2	–70.0	–70.7
= Present value of finance leases	**1.2**	**1.1**	**1.0**	**0.9**	**0.9**	**14.8**	**19.9**

There were no receipts from subleases in either 2010 or 2009. Finance leases exclusively comprised lease agreements for items of property, plant and equipment concluded as standard lease agreements without any specific purchase option as well as one heritable building right. In accordance with the amended IAS 17, a long-term contract regarding a heritable building right was accounted for as a finance lease; the prior-year figures were adjusted accordingly. The net carrying amount of finance leases, including the heritable building right, amounted to €20.6 million as of December 31, 2010 (2009: €21.1 million). The land lease rate is adjusted every 20 years, based on the then applicable market value of the property. The last adjustment was made in 2006. Estimates of future increases are shown in the above table. In fiscal 2009, an additional operating lease agreement was signed for a laboratory building at a total volume of €10.5 million. This total volume includes a sale-and-leaseback transaction in the amount of €5.0 million. The term of the lease is 15 years. The lease terms provide for purchase options at market conditions. Expenses for rental and operating lease agreements totaled €33.7 million in 2010 (2009: €31.4 million).

Various legal disputes, legal proceedings and lawsuits are either pending or may be initiated in the future. This includes legal action arising in connection with alleged defects in SGL Group products, product warranties, and environmental protection issues. Tax risks may also arise as a result of the Group structure. Litigation is subject to considerable uncertainty; the outcome of individual cases cannot be predicted with any certainty. There is a reasonable probability that individual cases could be decided against SGL Group. Identifiable risks have been adequately covered by the recognition of appropriate provisions.

The non-controlling shareholder of Rotec KG is entitled to transfer a limited partner's contribution in the amount of 23.9% to SGL Group until the first half of 2011 by way of a unilateral written request. According to the agreement, the economic situation at SGL Rotec as of December 31, 2008 (valuation date) is to be used as the basis for the purchase price.

28. RELATED-PARTY TRANSACTIONS

In the course of its business activities, SGL Group provides services to related companies and individuals. These individuals and companies also act as suppliers and service providers for SGL Group within the framework of their own business activities. All of these transactions are organized on an arm's length basis. All receivables from investments accounted for using the equity method are current and unhedged and amounted to €10.9 million (2009: €13.6 million). Details can be found in the relevant balance sheet and income statement item disclosures. Revenues from investments accounted for using the equity method in 2010 were €28.7 million (2009: €15.1 million). For further disclosures on our joint ventures and associates in fiscal 2010, please refer to **Notes 14 and 36.**

Franz-Jürgen Kümpers is the Managing Director of SGL Kümpers GmbH & Co. KG, based in Rheine, Germany. A total of 45.5% of the company is owned by Kümpers GmbH & Co. KG, in which Franz-Jürgen Kümpers holds a minority interest. Under service agreements, this company provides a small number of services for SGL Group at market conditions.

SGL Group holds a majority of the shares in NINGBO SSG Co., Ltd. in China. Mr. Yuan, our partner in this entity, is a shareholder in other companies that supply a variety of services to NINGBO SSG Co., Ltd. at market conditions. In 2010, these services amounted to €0.5 million (2009: €0.1 million), while the services received amounted to €0.3 million (2009: €0.1 million).

In Spain, SGL Group is tenant of Gelter S.A. in a building in Madrid that is the registered office of the subsidiary SGL Gelter S.A. The owner of the building holds the remaining 36% of the shares in the company, which is consolidated in SGL Group. The rental costs of €0.2 million charged in 2010 (2009: €0.2 million) were based at market conditions.

SGL Group holds a 80% majority in SGL Quanhai Carbon (Shanxi) Co. in China; the remaining 20% of the shares are held by Shanxi Quanhai Carbon Co., Ltd. Mr. Wang, the majority shareholder of Shanxi Quanhai Carbon Co., is also deputy chairman of the board of SGL Quanhai Carbon (Shanxi) Co. Both companies exchanged services in 2010 at market conditions. In fiscal 2010, Mr. Wang received a dividend payment equivalent to €97,000 (2009: €70,000) and was paid a remuneration equivalent to €36,000 (2009: €40,000) for his advisory services.

29. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts in accordance with the categories of IAS 39:

	Measurement category under IAS 39	**Carrying amount as of Dec. 31, 2010**	Amortized cost
Financial assets			
Cash and cash equivalents	1)	84.7	84.7
Time deposits		200.0	200.0
Trade receivables	1)	245.9	245.9
Receivables from long-term construction contracts	1)	51.0	51.0
Financial assets available for sale	2)	3.8	
Derivative financial assets			
Derivatives without a hedge relationship [1]	3)	5.0	
Derivatives with a hedge relationship	n.a.	1.7	
Financial liabilities			
Corporate bond	4)	200.0	200.0
Convertible bonds	4)	345.7	345.7
Bank loans, overdrafts and other financial liabilities	4)	104.6	104.6
Refinancing expenses	4)	–7.9	–7.9
Finance lease liabilities	n.a.	19.9	
Trade payables	4)	134.1	134.1
Miscellaneous other financial liabilities	4)	41.0	41.0
Derivative financial liabilities			
Derivatives without a hedge relationship [2]	5)	4.0	
Derivatives with a hedge relationship	n.a.	1.5	
Thereof aggregated by measurement category in accordance with IAS 39			
1) Loans and receivables		581.6	581.6
2) Financial assets available for sale		3.8	
3) Financial assets held for trading		5.0	
4) Financial liabilities measured at amortized cost		817.5	817.5
5) Financial liabilities held for trading		4.0	

[1] Thereof €2.5 million (2009: €0.4 million) classified as cash flow hedges prior to the settlement of the hedged item or for hedging of intercompany loans in foreign currency
[2] Thereof €4.0 million (2009: €6.5 million) classified as cash flow hedges prior to the settlement of the hedged item or for hedging of intercompany loans in foreign currency

n.a. = not applicable

	Fair value through equity	Fair value through profit or loss	Carrying amount under IAS 17	Carrying amount as of Dec. 31, 2009	Amortized cost	Fair value through equity	Fair value through profit or loss	Carrying amount under IAS 17
				302.3	302.3			
				218.8	218.8			
				28.1	28.1			
	3.8			3.5		3.5		
		5.0		0.5			0.5	
	1.7			0.2		0.2		
				200.0	200.0			
				331.8	331.8			
				80.2	80.2			
				–10.3	–10.3			
			19.9	20.1				20.1
				99.8	99.8			
				41.5	41.5			
		4.0		6.5			6.5	
	1.5			11.0		11.0		
				549.2	549.2			
	3.8			3.5		3.5		
		5.0		0.5			0.5	
				743.0	743.0			
		4.0		6.5			6.5	

The carrying amounts for cash and cash equivalents, time deposits, trade receivables and trade payables have short residual maturities and are approximately equivalent to fair value.

SGL Group measures non-current financial assets on the basis of various parameters, such as the customer's credit rating. Since no impairment losses had to be recognized, the carrying amounts of these assets approximate their fair values.

As of December 31, 2010, the fair values of the listed corporate bond amounted to €189.3 million (2009: €169.8 million), the fair value of the convertible bond 2007 was €197.2 million (2009: €175.8 million) and the fair value of convertible bond 2009 was €225.0 million (2009: €196.5 million).

SGL Group calculates the fair value of liabilities to banks, other non-current financial liabilities and liabilities from finance leases by discounting the estimated future cash flows using interest rates applicable to similar financial liabilities with comparable maturities. The fair values largely correspond to the carrying amounts.

The method used to calculate the fair values of the individual derivative financial instruments depends on the relevant type of instrument:

Currency forwards are measured on the basis of reference exchange rates, taking into account forward premiums and discounts. The fair values of currency contracts are determined using the SAP system on the basis of market data provided by an external service provider.

Interest-rate caps are measured using generally accepted option pricing models. The fair values of interest-rate caps are determined using a financial calculation model and market data provided by a renowned financial services provider.

The following table shows the breakdown of the assets and liabilities measured at fair value to the three levels of the fair value hierarchy as of December 31, 2010:

	Dec. 31, 2010			
€m	Level 1	Level 2	Level 3	**Total**
Financial assets available for sale	3.8	–	–	3.8
Derivative financial assets	–	6.7	–	6.7
Derivative financial liabilities	–	5.5	–	5.5

	Dec. 31, 2009			
€m	Level 1	Level 2	Level 3	**Total**
Financial assets available for sale	3.5	–	–	3.5
Derivative financial assets	–	0.7	–	0.7
Derivative financial liabilities	–	17.5	–	17.5

The levels of the fair value hierarchy and their application to the assets and liabilities is described in the following sections:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted market prices that are available either as directly (e. g. prices) or indirectly (e. g. derived from prices) observable market data.

Level 3: Inputs for assets and liabilities that are not based on observable market data.

Net gains or losses recognized for financial instruments by measurement category in accordance with IAS 39 were as follows:

Net gains/losses by measurement category

€m	**2010**	2009
Loans and receivables	4.5	1.2
Financial assets available for sale	0.0	0.2
Financial assets and financial liabilities held for trading	–22.7	–11.9
Financial liabilities measured at amortized cost	2.4	–0.2

Net gains/losses for the "Loans and receivables" measurement category include write-downs on trade receivables, reversals of write-downs, and receipts with respect to trade receivables already derecognized, together with gains/losses on currency translation.

Net gains/losses for the "Financial assets and liabilities held for trading" measurement category arise from the mark-to-market valuation of derivative interest-rate and currency instruments not subject to hedge accounting in financing activities, or, in operating activities, for which the hedging relationship in cash flow hedge accounting has been terminated because the hedged item is realized in profit or loss. Economically speaking, the derivative financial assets and liabilities are always based on a hedged item.

Net gains/losses for the "Financial liabilities measured at amortized cost" category mainly comprise gains/losses arising on currency translation.

Interest income and expense is not included in the net gains/losses, as they are already recognized as described in **Note 9**. For further information on write-downs, please refer to the overview of changes in valuation allowances for trade receivables in **Note 18**.

Financial Instrument Risks, Financial Risk Management and Hedging

SGL Group monitors financial risk (liquidity risk, default risk and market price risk) using tested control and management instruments. Group reporting enables periodic assessment, analysis, measurement and control of financial risks by the central Group Treasury function. These activities include all relevant Group companies.

Liquidity Risk

Liquidity risk is the risk that an entity might have difficulty in meeting its payment obligations in connection with its financial liabilities. Since the financial and economic crisis, liquidity risk has become a major focus of risk management. In order to ensure SGL Group's solvency as well as its financial flexibility, the Group carries out regular liquidity planning for the immediate future to cover day-to-day operations, in addition to financial planning, which normally covers five years. In order to secure financial stability, SGL Group has endeavored to put in place a balanced financing structure based on a combination of various financing components (including bank loans and capital market instruments). The financing of SGL Group is guaranteed, primarily due to the issue of the convertible bond 2009 and the resulting comfortable liquidity situation.

As of the balance sheet date, freely available liquid funds amounted to €284.7 million (2009: €302.3 million); undrawn credit line commitments amounted to €227.4 million (2009: €217.5 million). The free credit lines include the syndicated credit line in the amount of €200.0 million granted to SGL Group by its core banks.

SGL Group therefore has at its disposal an adequate liquidity reserve. Please refer to **Note 25** for information on the maturity of financial liabilities.

Credit Risk (Counterparty default Risk)

Credit risk is the risk that a counterparty in a financial instrument will not be able to meet its payment obligations. Contracts for derivative financial instruments and financial transactions are concluded with SGL Group's core banks, which have good credit quality.

By granting customers payment deadlines, SGL Group is exposed to normal market credit risks. In past years no significant defaults occurred.

As far as trade receivables and other financial assets are concerned, the maximum default risk is equivalent to the carrying amount as of the balance sheet date. SGL Group also has credit insurance in place covering most of the trade receivables due from customers. After an analysis of individual risks and country risks, the Group sometimes insists on cash in advance or letters of credit or on the provision of collateral in connection with certain activities. In the event of default on insured receivables, the economic loss is reduced by existing collateral and/or the insurance payment. The insurance recovery normally amounts to 90% of the default and includes a deductible of 10%.

As of the balance sheet date, a portion of 64% (2009: 60%) of our receivables was insured. The average days sales outstanding was 69 as of year-end 2010 (2009: 69 days). Please refer to **Note 18** for information on the breakdown of trade receivables by age. SGL Group has a credit management organization to manage customer credit risks.

On the basis of global credit management guidelines, the credit management organization initiates and supports all material credit management processes, and initiates credit management action where required.

Market Price Risk

As an enterprise operating at an international level, SGL Group is exposed to market risks arising in particular from changes in currency rates, interest rates and other market prices. These risks may result in fluctuations of earnings, equity and cash flows. The objective of risk management is to eliminate or limit these risks through appropriate measures, above all through the use of derivative financial instruments. The use of derivative financial instruments is subject to rigorous controls based on internal policies. As of the balance sheet date, the Group had currency forwards and interest-rate options in the form of interest-rate caps. Derivative financial instruments are exclusively used to minimize or pass off financial risk, not for speculative purposes.

Currency Risk

SGL Group operates on an international basis and is therefore exposed to currency risk arising from fluctuating exchange rates between various currencies. Currency risk is the risk that fair values or future payments of financial instruments will change as a result of exchange-rate movements. The risk arises when transactions are denominated in a currency other than the Group's functional currency. Where SGL Group has cash flows in a nonfunctional currency, it endeavors to achieve a balance between receipts and payments as a so-called natural hedge against currency risk.

Currency hedges are entered into for the remaining net currency position (less natural hedging). SGL Group hedges such net currency positions, as required, within a time horizon up to two years. The most important currency risk of SGL Group from operating transactions results from potential exchange rate changes between the euro and the Polish zloty. To protect the operating business, the corresponding net currency position in euros was hedged to a large extent by way of currency forwards with average hedge rates of EUR/PLN 4.05 for 2011 and EUR/PLN 4.13 for 2012.

In addition, intercompany loans and balances are exposed to currency risk when the currencies of such loans or balances differ from the functional currency of the lending company and / or the borrowing company. Such intercompany loans are usually hedged on an individual basis using currency forwards. Intercompany foreign currency balances that are held at the Group holding company SGL Carbon SE by subsidiaries and that do not represent a so-called natural hedge for sales revenue or other transactions are regularly refinanced to intercompany loans and secured through currency forwards.

As of the balance sheet date, SGL Group was not exposed to any material currency-related cash flow risks, either in its operating business or in its financing activities. The following table shows the notional amounts and recognized fair values for currency derivatives as of December 31, 2010. The notional amount in this case is defined as the functional-currency-denominated equivalent value of foreign currency amounts purchased from or sold to external partners.

EUR	Notional amounts				Fair values	
€m	Purchase Dec. 31, 2010	Sale Dec. 31, 2010	**Total Dec. 31, 2010**	Total Dec. 31, 2009	**Total Dec. 31, 2010**	Total Dec. 31, 2009
Forward contracts	**135.4**	**239.9**	**375.3**	**391.4**	**–1.5**	**–16.7**
USD	35.4	216.1	251.5	145.4	–1.5	–2.0
GBP	0.0	1.2	1.2	136.3	0.0	–1.0
PLN	100.0	0.0	100.0	79.8	0.5	–13.6
Remaining term to maturity < 1 year	*75.0*	*0.0*	*75.0*	*79.8*	*0.6*	*–13.6*
Remaining term to maturity > 1 year	*25.0*	*0.0*	*25.0*	*0.0*	*–0.1*	*0.0*
JPY	0.0	22.6	22.6	21.9	–0.5	0.0
Other	0.0	0.0	0.0	8.0	0.0	0.0

USD	Notional amounts				Fair values	
Mio. US-$	Purchase Dec. 31, 2010	Sale Dec. 31, 2010	**Total Dec. 31, 2010**	Total Dec. 31, 2009	**Total Dec. 31, 2010**	Total Dec. 31, 2009
Forward contracts	**50.8**	**4.7**	**55.5**	**25.0**	**0.2**	**–0.2**
CAD	29.8	0.0	29.8	10.0	0.8	–0.1
GBP	21.0	0.0	21.0	15.0	–0.6	–0.1
JPY	0.0	4.7	4.7	0.0	0.0	0.0

The fair values shown in the table represent financial assets or liabilities of SGL Group. In contrast, the notional amounts describe the hedged volume expressed in euros or US dollars. The residual maturity of all derivative financial instruments for hedging currency risks was no more than two years (2009: up to one year).

Derivative Financial Instruments in Hedge Accounting

SGL Group uses currency forwards to hedge currency risk from future receivables and liabilities denominated in foreign currencies. The derivatives used are accounted for as cash flow hedges (hedge accounting). The items hedged with cash flow hedges comprise highly probable future sales revenue or purchases denominated in foreign currency. These are expected to materialize between April 2011 and December 2011 or December 2012 for EUR/PLN and will be recognized in the income statement when realized. The maturity of hedges designated as cash flow hedges is matched with the maturity of the relevant hedged items. As of December 31, 2010, these hedges had positive fair values of €1.7 million (2009: €0.2 million) and negative fair values of €1.5 million (2009: €11.0 million).

Changes in the fair value of hedges assigned to intercompany loans as well as to hedged items already realized as of the balance sheet date and therefore no longer designated as cash flow hedges were recognized through profit or loss on the balance sheet date.

Positive market values amounted to €2.5 million (2009: €0.1 million); negative market values amounted to €4.0 million (2009: €6.5 million). The related amounts accumulated directly in equity as hedging reserves were reclassified to the income statement as soon as the hedged item was entered into. The residual maturity of these derivatives may be up to five months.

The effectiveness of designated hedges is determined prospectively using the critical terms match method in accordance with IAS 39. Quantitative effectiveness tests are carried out retrospectively using the dollar offset method. In this case, the cumulative change in value of anticipated cash flows from hedged items is compared against the change in the fair value of the currency forwards using the relevant forward rates. Quantitative effectiveness measurements are carried out as of each balance sheet date. It is generally assumed that a hedging relationship is effective if the changes in fair value of the hedge virtually offset (80% to 125%) the changes in the cash flows for the hedged items. As of the balance sheet date, these ratios were close to 100%.

In accordance with IFRS 7, sensitivity analyses are required to illustrate the currency risk relating to financial instruments. The analyses show the effects of hypothetical changes in relevant risk parameters on profit or loss and equity.

The analyses include all primary financial instruments used by SGL Group (principally, cash and cash equivalents, trade receivables, trade payables, interest-bearing financial liabilities, and non-interest-bearing liabilities) in addition to the derivative hedging instruments used in the Group's operating activities. Specifically, these include cash and cash equivalents of €10.4 million (2009: €20.7 million), trade receivables of €75.3 million (2009: €77.0 million), trade payables of €17.5 million (2009: €18.0 million), and interest-bearing financial liabilities of €40.8 million (2009: €34.0 million). Furthermore, foreign currency effects from internal lending activities recognized in profit/loss or directly in equity, together with the corresponding derivative hedging instruments, are also included. It is assumed that the balance as of the balance sheet date is representative of the reporting period as a whole. All financial instruments not denominated in the functional currency of the respective SGL subsidiary are therefore generally considered to be exposed to currency risk. Changes in the exchange rate result in changes in fair value and impact profit/loss or the hedging reserve as well as the overall equity of SGL Group. The following table provides a comparison between the amounts reported as of December 31, 2010, and December 31, 2009. The analysis is based on a hypothetical 10% increase in the value of the euro and the US dollar against the other currencies as of the balance sheet date.

EUR	**Hypothetical exchange rate**		**Change in fair value/equity**		**thereof: change in net profit/loss**		**thereof: change in hedging reserve**	
€m	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
USD	1.4698	1.5847	–18.6	–15.6	–18.6	–15.6	0.0	0.0
PLN	4.3563	4.5190	2.6	4.4	2.7	3.4	0.0	1.0
GBP	0.9468	0.9769	0.6	1.0	–0.2	0.2	0.7	0.8
CAD	1.4654	1.6641	–0.2	–0.6	–0.2	–0.6	0.0	0.0
Other	–	–	–1.2	–0.2	–1.2	–0.2	0.0	0.0

USD	**Hypothetical exchange rate**		**Change in fair value/equity**		**thereof: change in net profit/loss**		**thereof: change in hedging reserve**	
USD m	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
GBP	0.6442	0.6781	0.4	0.3	0.2	0.3	0.2	0.0
CAD	1.0030	1.1551	1.2	0.9	1.3	0.9	–0.1	0.0
MYR	3.0647	3.7664	–5.0	–4.4	–5.0	–4.4	0.0	0.0
Other		–	2.1	–1.8	2.1	–1.8	0.0	0.0

The approximate effect of a hypothetical 10% decrease in the value of the euro and the US dollar against other currencies on the equity, profit or loss, and hedging reserve of SGL Group would be a reversal of the positive and negative signs shown above, with the amounts themselves remaining approximately the same.

Interest-rate Risk

Interest-rate risk is the risk that the fair values of or future cash flows from existing or future financial liabilities may fluctuate due to changes in market interest rates.

Interest-rate risks are managed using interest-rate derivatives as approved by the Board of Management. As of the balance sheet date, SGL Group had financial liabilities with a notional amount of €695.2 million (2009: €670.2 million). Of this amount, liabilities of €302.8 million (2009: €275.3 million) had a floating interest rate. The remaining liabilities of €392.4 million (2009: €394.9 million) had a fixed interest rate.

These liabilities were partially offset by cash and cash equivalents as well as time deposits of €284.7 million (2009: €302.3 million).

The following table shows the interest-rate derivatives held by SGL Group as of the balance sheet date:

		Notional amounts		**Fair values**	
€m	Remaining maturity	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Derivate interest-rate instruments					
Interest-rate caps	<=1 year	0.0	40.0	0.0	0.0
	> 1 year	160.0	160.0	0.0	0.1
	> 3 years	150.0	–	2.5	–

SGL Group benefited from the low interest level and has optimized its interest rate hedges through the use of interest rate caps (interest-rate options) in a notional amount of €150 million and an interest rate of not more than 3% p. a. Additional interest hedges from 2007 have a notional value of €160 million with an upper cap of 5% p. a. Accordingly, there is a limited cash flow risk from an increase in the market interest level and, therefore, the variable reference interest rate of the interest-bearing financial liabilities. On the other hand, a drop in the rate of interest would result in a decrease in interest payments on floating-rate liabilities. This would cause a drop in the fair values of the interest-rate options (caps). Changes in the fair value of these interest-rate derivatives are recognized in net financing costs of SGL Group.

Sensitivity analyses in accordance with IFRS 7 have been carried out to quantify the interest-rate risks associated with the above financial liabilities and interest-rate derivatives. These analyses show the effect of the financial instruments on profit or loss and equity in the event of a parallel shift by 100 basis points upward (downward) in the entire yield curve as of the balance sheet date.

Changes in market interest rates can affect fair values of fixed-interest primary financial liabilities and impact on the corresponding carrying amounts if these liabilities are recognized at fair value. As both fixed-interest convertible bonds and the floating-rate corporate bond are recognized at amortized cost, these liabilities are not regarded as primary financial instruments subject to interest-rate risk.

However, changes in market interest rates do have an influence on interest payments from floating-rate financial instruments and thus on the income statement as the interest rate on these instruments is periodically adjusted to current market rates.

The following table presents a sensitivity analysis of the derivative financial instruments and the effects of changes in market rates on interest payments:

€m	**2010**	2009
Interest-rate caps	2.8	0.4
Floating-rate primary financial liabilities	–3.0	–2.8
Total	**–0.2**	**–2.4**

An assumed increase in interest rates of 100 basis points would cause a theoretical change in profit or loss from financial instruments of €-0.2 million (2009: €-2.4 million). An assumed decrease in interest rates of 100 basis points would have a corresponding hypothetical impact on profit or loss of €1.3 million (2009: €2.7 million).

An increase in interest rates of 100 basis points would have a theoretical effect on profit or loss from cash and cash equivalents as well as time deposits of €2.8 million (2009: €3.0 million). It is assumed that the hypothetical upward or downward change in the interest structure would have no effect on the fair values of currency derivatives.

30. SEGMENT REPORTING

For the purpose of company management, SGL Group is organized into business areas based on product groups and has the following three reportable business segments:

- The Performance Products (PP) business segment produces graphite electrodes and carbon products (electrodes, cathodes and furnace linings).

- The Graphite Materials & Systems (GMS) business segment focuses on expanded graphites and products for industrial applications, machine components, products for the semiconductor industry, composites and process technology.

- The Carbon Fibers & Composites (CFC) business segment produces carbon fibers, carbon-fiber-based fabrics, composites and structural components.

Segment reporting is based on internal control and management within SGL Group. The definition of the individual segment data corresponds to that used for Group management. The performance of the segments is assessed by the management based on the operating result, cash generation, and capital employed. However, Group financing (including financial income and expense) as well as income taxes are managed uniformly on a Group-wide basis and are not allocated to the individual business units.

The following tables provide information on income, profit or loss, and assets and liabilities in the business units of SGL Group. External sales revenue was attributable almost exclusively to product sales. Trading or other sales revenue was insignificant. Intersegment sales revenue was generally derived from transactions at market-based transfer prices less selling and administrative expenses. Cost-based transfer prices may be used in exceptional cases. The Business Unit "Other" comprises SGL Carbon SE and companies that largely perform services for the other business units.

In 2010, the main non-cash expenses were additions to provision for restructuring measures of €3.1 million (2009: €0.0 million) and additions to provision for warranties and discounts of €1.0 million (2009: €9.7 million) in the Business Segment PP as well as the write-down of capitalized costs in the Business Segment CFC in the amount of €2.7 million (2009: impairment losses of €74.0 million) as well as allocations to restructuring cost in the amount of €1.2 million (2009: €0.0 million).

Capital expenditure and depreciation/amortization relates to property, plant and equipment and intangible assets (excluding goodwill). The consolidation adjustments item relates to the elimination of transactions between the business areas.

Disclosures relating to the business areas of SGL Group are shown below.

€m	PP	GMS	CFC	Other	Consoli-dation ad-justments	**SGL Group**
2010						
External sales revenue	762.6	395.9	218.5	4.8	0.0	1,381.8
Intersegment sales revenue	4.2	7.1	3.0	40.7	–55.0	0.0
Total sales revenue	**766.8**	**403.0**	**221.5**	**45.5**	**–55.0**	**1,381.8**
Profit/loss from operations (EBIT)	144.1	36.9	–6.6	–46.0	0.0	128.4
Capital expenditure [1]	66.3	21.1	29.6	19.9	0.0	136.9
Amortization/depreciation on intangible assets and property, plant and equipment	33.5	18.0	11.4	3.5	0.0	66.4
Working capital [2]	329.9	143.2	135.6	–3.1	0.0	605.6
Capital employed [3]	775.4	301.5	378.8	60.7	0.0	1,516.4
Cash generation [4]	95.9	18.7	–55.8	–61.2	0.0	–2.4
Loss/income from equity accounted investments	–1.0	0.0	–10.9	0.0	0.0	–11.9
Equity accounted investments	3.3	0.0	56.5	0.0	0.0	59.8
2009						
External sales revenue	641.6	364.5	208.0	11.7	0.0	1,225.8
Intersegment sales revenue	3.0	3.2	3.5	39.2	–48.9	0,0
Total sales revenue	**644.6**	**367.7**	**211.5**	**50.9**	**–48.9**	**1,225.8**
Profit/loss from operations (EBIT) before impairment losses	151.9	28.0	–22.9	–46.0	0.0	111.0
Impairment losses	0.0	0.0	–74.0	0.0	0.0	–74.0
Profit/loss from operations (EBIT) after impairment losses	151.9	28.0	–96.9	–46.0	0.0	37.0
Capital expenditure [1]	80.2	23.3	38.3	12.1	0.0	153.9
Disposals of non-current assets due to deconsolidation	0.0	0.0	0.0	–15.1	0.0	–15.1
Amortization/depreciation of intangible assets and property, plant and equipment	28.6	17.2	10.9	3.9	0.0	60.6
Working capital [2]	314.6	128.1	104.6	–2.0	0.0	545.3
Capital employed [3]	692.2	274.1	324.4	47.8	0.0	1.338.5
Cash generation [4]	105.5	36.3	–54.5	–36.9	0.0	50.4
Loss/income from equity accounted investments	–2.5	–0.3	–3.7	–3.4	0.0	–9.9
Equity accounted investments	4.0	0.0	18.8	27.0	0.0	49.8

[1] Defined as total of capital expenditure in intangible assets and property, plant and equipment
[2] Defined as total of inventories, non-current receivables from long-term construction contracts and trade receivables minus trade payables
[3] Defined as total of goodwill, other intangible assets, property, plant and equipment, and working capital
[4] Defined as total of EBIT before impairment losses plus amortization on intangible assets and depreciation on property, plant and equipment plus change in working capital minus capital expenditure

Information on geographical regions:

€m	Germany	Europe excluding Germany	North America	Asia	Other	**SGL Group**
2010						
Sales revenue (by destination)	236.8	386.2	333.4	312.7	112.7	1,381.8
Sales revenue (by company headquarters)	484.1	542.7	314.4	40.6	–	1,381.8
Capital expenditure	40.1	18.0	36.0	42.8	–	136.9
2009						
Sales revenue (by destination)	241.7	348.4	227.6	313.7	94.4	1,225.8
Sales revenue (by company headquarters)	473.0	500.3	225.1	27.4	–	1,225.8
Capital expenditure	36.1	24.0	36.6	57.2	–	153.9

31. MANAGEMENT AND EMPLOYEE PARTICIPATION SCHEMES

SGL Group currently has five different management and employee participation schemes:

LTCI Plan

Under the LTCI Plan, members of the Board of Management and selected senior managers are entitled to receive additional cash bonuses linked to specific performance targets. The LTCI Plan, which originally ran from January 1, 2008 to December 31, 2010, was closed as of December 31, 2009 due to the global economic crisis. The degree of target achievement in the years 2008 and 2009 was determined by the Supervisory Board on December 3, 2009. The payout was made in December 2009.

In 2010, a new LTCI Plan design was introduced. Under the previous LTCI plans, a new plan was offered only after an LTCI plan was terminated. Since 2010, the participating members of the Board of Management and senior managers are offered a new plan each year at a reduced contribution. Due to the new plan structures, the participants were offered two LTCI plans in the first quarter 2010: one plan with a regular term of three years, and one interim LTCI plan with a term of two years.

A precondition for the payment of an LTCI bonus is the achievement of predefined minimum values. If the minimum value is achieved as of the relevant LTCI plan's end of the term, 25% of the maximum bonus (minimum bonus) will be paid. If the target is fully achieved or exceeded as of the relevant end of the term, the maximum bonus will be paid. If the target achievement is between the minimum value and the target value as of the relevant LTCI plan's end of the term, the relevant degree of target achievement (Z) is determined as a percentage according to the following formula (Z= (actual value – minimum value)/(target – minimum value). Depending on their respective responsibility, the Board of Management and the Supervisory Board will communicate the degree of target achievement and, on this basis, the amount of the relevant LTCI bonus, to the participants by March 31 of the fiscal year following the relevant LTCI plan's end of the term.

The two-year LTCI Plan 2010 is based on a minimum return on assets (defined as EBIT to average capital employed (ROCE)) of 7.0%. The maximum bonus is achieved at an average return on assets of 9.0%. The three-year LTCI Plan 2010 is also based on targets related to the average return on assets, with a minimum return of 7.5% and 10.5% for achieving the maximum bonus. The total volume of the LTCI plans started in 2010 amounts to €3.9 each (senior managers and members of the Board of Management).

10% of the relevant LTCI bonus (before deduction of taxes and levies) must be used by the respective participant to acquire no-par-value shares of the Company which must be held for a period of two years. Participants are not entitled to a payout in that partial amount. The Company will appoint a credit institution or a financial services provider to acquire for the account of and in the name of the participant the relevant number of no-par-value shares within a period of up to five trading days from the relevant payout date and to hold such shares for the participant for a period of two years. The participant may dispose of the no-par-value shares held in his/her name only after such period is expired.

The Company or the equity investment in which the participant is employed immediately will make the funds necessary available to the appointed credit institution to acquire the no-par-value shares. Costs arising in connection with the acquisition or the custody of the no-par-value shares are borne by the Company or the equity investment.

Matching Share Plan

In March 2001, SGL Group launched the Matching Share Plan for members of the Board of Management and the next three management levels. Under the plan, participants may invest up to 50% of their annual bonus in shares of the Company. If they hold the shares for at least two years, they receive the same number of shares (matching shares). Please see **Note 22** for details on the number of shares available under the Matching Share Plan.

In 2010, 49,637 shares on the basis of a capital increase from authorized capital were used to support the 2008 Matching Share Plan to service the entitlements of the participating managers.

In the year under review, the members of the Board of Management and 163 senior managers participated in the current Matching Share Plan, which runs until 2012, purchasing a total of 102,793 SGL shares from their taxed income at a price of €21.67 per share.

The determination of the market value on the grant date represents the basis of recognition in the financial statements. The market value of shares to be granted in the Matching Share Plan running until 2012 was €21.67 per share, calculated using the price of SGL shares on the purchase date. The expense recognized for the Matching Share Plan in 2010 was €2.3 million (2009: €2.4 million).

Stock Option Plan

The Stock Option Plan was approved by the Annual General Meeting on April 27, 2000. A maximum of 1,600,000 shares from conditional capital was to be used to support the plan.

The options have a term of ten years from the grant date and were issued from 2000 until the end of 2004. They could only be exercised after a two-year vesting period.

Options may be exercised during the exercise period only during predetermined exercise windows of 20 days each after the publication of the operating results, if SGL Group has met its performance targets (increase of the total shareholder return on SGL Carbon SE shares by at least 15% compared to the exercise price) at the time the options are exercised. Following exercise, beneficiaries must retain shares in the Company with a value equivalent to a minimum of 15% of the gross proceeds for a period of a further twelve months. The terms of the Stock Option Plan also provide for protection against dilution.

The number of options granted and their respective exercise prices for members of the Board of Management and senior management members after dilution-related adjustment were therefore as follows:

- on July 3, 2000, a total of 234,500 options at an exercise price of €67.71;
- on January 16, 2001, a total of 257,000 options at an exercise price of €53.08;
- on January 16, 2002, a total of 261,000 options at an exercise price of €20.26;
- on August 12, 2002, a total of 247,000 options at an exercise price of €12.91;
- on January 16, 2003, a total of 258,500 options at an exercise price of €3.61;
- on January 16, 2004, a total of 254,000 options at an exercise price of €8.69;

A total of 1,512,000 options were granted under the Stock Option Plan. Of this total, 353,500 options expired without being exercised when plan participants left their employment with the Company as part of natural employee turnover. In the year under review, further 127,500 options expired due to the termination of the stock option plan. In the 2010 fiscal year, a total of 36,300 options were exercised by participants: 28,500 options from 2002 at €20.26, 4,500 options from 2002 at €12.91, 2,000 options from 2003 at €3.61 and 1,300 options from 2004 at €8.69. In total, 724,250 options have been exercised under the stock option plan. A total of 306,750 options still remain outstanding.

Stock Appreciation Rights Plan (SAR Plan)

The SGL Group shareholders resolved on April 29, 2009, to introduce – after the end of the SAR Plan 2005 on December 31, 2009 – a new Stock Appreciation Rights Plan (“2010 SAR Plan”) for the Board of Management and the top three management levels in line with the old SAR Plan 2005. The SAR Plan is to be supported by a maximum of 2,100,000 new shares from the year 2010, while the SAR Plan applicable until 2009 is supported by a total of 1,600,000 new shares from conditional capital against contributions in kind (see **Note 22** for details).

The SAR Plan 2010 came into effect on January 1, 2010. The SARs may be issued at any time during the period up to the end of 2014.

The Supervisory Board administers the plan for the members of the Board of Management. The Board of Management administers the SAR Plan for approximately 200 senior managers and executives in the Company and its subsidiaries.

A SAR entitles a beneficiary to receive from the Company variable remuneration equivalent to the difference (appreciation in price) between the SGL Carbon SE share price on the grant date (base price) and that on the SAR exercise date (exercise price) plus any dividends paid by the Company in this period, plus the value of the subscription rights, and to purchase at the exercise price the number of SGL Carbon SE shares whose market value equates to the appreciation in price. Each SAR entitles a beneficiary to receive that fraction of a new SGL Carbon SE share that is calculated by dividing the appreciation value by the issue price.

SARs may only be granted to the beneficiaries within a period of up to ten stock market trading days after the end of the fiscal year or after SGL Carbon SE published reporting dates. The base price is calculated on the basis of the average closing price of SGL Carbon SE shares in the XETRA trading system over the 20 stock market trading days immediately preceding the date on which the SAR is granted. The exercise price is calculated in the same way as the base price, except that the relevant 20 stock market trading days prior to the SAR exercise date are used. SARs have a term of up to ten years and SARs may not be exercised until the end of a vesting period of two years calculated from the grant date (holding period).SARs may then only be exercised during defined periods (exercise windows). The SARs expire if it is not exercised within this period.

Predetermined performance targets must be achieved to enable exercise. For 75% of the SARs granted, the performance target is the increase in total shareholder return (TSR) on SGL Carbon SE shares (absolute performance target). Accordingly, the absolute increase in the SGL Carbon SE share price between grant and exercise of the SARs must be at least 15%. The remaining 25% of the SARs may only be exercised if the performance of SGL Carbon SE shares is at least equivalent to that of the MDAX. The Company reserves the right to settle the appreciation through outstanding, repurchased SGL Carbon SE shares or cash, instead of issuing new shares. Finally, the beneficiaries must invest at least 15% of the gross receipts from the exercise of SARs in SGL Carbon SE shares and must hold these for a further period of twelve months.

In 2009, a total of 747,920 SARs were issued at a base price of €22.08 on January 15. In January 2010, further 850,670 SARs were issued at a base price of €21.96 within the context of a new SAR plan 2010. On January 14, 2011, further SARs were granted at a base price of €27.06. The closing price of the SGL share on the first issue date (January 15, 2010) was €22.42 and on the second issue date (January 14, 2011) €28.39. In total, 3,405,245 SARs have been granted to date under the SAR plan 2005, of which 197,050 have expired without being exercised as the individuals holding these SARs are no longer employed by the Group and 1,114,441 SARs have been exercised. Under SAR Plan 2010, a total of 1,671,263 SARs have been granted, including those granted in January 2011. Of these SARs, 24,600 have already expired.

The total expense for SARs in fiscal 2010 amounted to €6.7 million (2009: €6.5 million). The SARs were measured on the grant date on the basis of a Monte Carlo simulation, taking into account the market conditions described above (TSR increase and MDAX index). SGL Group-specific valuation parameters (such as dividends) were used and specific employee exercise behavior was assumed. For the SARs granted in 2010 and 2009, we have assumed for valuation purposes that no dividend payment will be made. The assumed risk-free zero interest rates were 3.43% for the 2010 SARs and 3.17% for the 2009 SARs. A volatility of 51.58% was calculated for the SAR tranche in 2010; the volatility calculated for the 2009 SAR tranche was 47.16%. The volatilities are calculated on the basis of daily XETRA closing prices for the SGL Carbon SE shares during the last five years. The fair value per SAR issued to be recognized for the expense from share-based payments required to be reported under IFRS amounted to €10.87 for the 2010 SARs and €6.74 for 2009 SARs.

Bonus Program for Employees

All non-exempt and exempt employees of the material German companies receive an annual bonus, the amount of which is based on the achievement of corporate targets, personal performance, and the amount of the individual fixed remuneration. The bonus is paid entirely in shares to non-exempt employees, and exempt employees receive 50% in shares (Bonus Shares). The goal is to enable all employees to share in the Company’s success and in so doing provide each employee with a strong incentive to contribute to growth.

The bonus is determined based on the targets and the degree of target achievement of SGL Group and the respective business unit, the individual performance evaluation, and Group targets for the non-exempt employees.

The following criteria apply: income before taxes at SGL Group level and operating profit (EBIT) and cash generation for the business unit. Additional components are individual target achievement and, for tariff employees, the degree of target achievement with regard to defined and agreed group targets as well as the individual performance evaluation.

The bonus is paid in the form of shares in March or April of the following year. For the bonus paid in shares, the bonus amount is divided by the determined daily price quotation on March 16 of the relevant year. If no trading of shares takes place on that date, the price of the next trading day will be used. The resulting rounded number of shares is transferred to the employee's custodian account. A total of 30% of the shares are blocked for one year; 70% can be sold immediately. An amount of €9.6 million was expensed for the bonus plan 2010 (2009: €2.7 million).

The following table is an overview of the accounting method used for the various plans:

				Recognized liabilities for non equity-settled (in TEUR)	
	Share-based payment within the meaning of IFRS 2	Applied rule to recognize as liabilities	"Equity-settled" or "Cash-settled"	**Dec. 31, 2010**	Dec. 31, 2009
LTCI Plan	No	1. IAS 19.7	not applicable (n. a.)	3.169	0
Matching Share Plan	Yes	IFRS 2/IFRIC 11	Equity settled	n. a.	n. a.
Stock Option Plan					
Tranche before IFRS 2 transition date according to IFRS 2.53, November 7, 2002					
All grants before transition date	No	no balance sheet effect until exercise of the option	n. a.	0	0
Tranche after IFRS 2 transition date according to IFRS 2.53, i. e. November 7, 2002					
Grant starting 2003	Yes	IFRS 2	Equity settled	n. a.	n. a.
SAR plans	Yes	IFRS 2	Equity settled	n. a.	n. a.
Bonus Program for Employees					
Bonus for exempt employees	Yes	IFRS 2/IFRIC 11	Equity settled	n. a.	n. a.
Bonus for non-exempt employees					
... thereof 50% in cash used for bonus entitlement	No	IAS 19 (short-term employee benefit)	n. a.	2,702	1,705
... thereof 50% in new shares of SGL Carbon SE used for bonus entitlement	Yes	IFRS 2/IFRIC 11	Equity-settled	n. a.	n. a.

Additional information on instruments granted:

€m	SAR Plan Number	SAR Plan Avge. price in €	Matching Share Plan Number	Matching Share Plan Avge. price in €	"Stock option plan" Number	"Stock option plan" Avge. price in €
Balance as of January 1, 2009	1,788,492	23.13	150,686	29.90	532,551	41.87
Additions	747,920	22.08	137,864	18.53	0	0.00
Expired/returned	−38,550	29.15	−2,307	32.60	−40,000	59.74
Exercised	−192,312	16.92	−84,652	23.86	−7,001	10.10
Balance as of December 31, 2009	**2,305,550**	**23.21**	**201,591**	**24.63**	**485,550**	**40.61**
Balance as of January 1, 2010	2,305,550	23.21	201,591	24.63	485,550	40.61
Additions	850,670	21.96	102,793	21.67	0	0.00
Expired/returned	−57,400	25.78	−9,719	21.53	−142,500	66.88
Exercised	−178,996	17.15	−63,684	37.65	−36,300	18.02
Balance as of December 31, 2010	**2,919,824**	**23.17**	**230,981**	**19.86**	**306,750**	**31.09**
Range of exercise prices in €	9.74-34.98				3.61-53.08	
Expiration dates	Dec. 14/20		March 11/12		2011-2013	
Intrinsic value as of December 31, 2010 (in € m)	16.1		6.2		2.5	
Intrinsic value as of December 31, 2009 (in € m)	4.3		4.2		1.5	

The tranches from the Stock Option Plans from January and August 2002, 2003 and 2004 with an exercise price of €20.26, €12.91, €3.61, and €8.69, respectively, were in the money at the end of 2010: given the share price of €27.02 as of December 31, 2010, the SARs in these tranches have respective intrinsic values of €6.75, €14.10, €23.40, and €18.32, corresponding to a total value of €2.5 million. In 2010, a total of 36,300 options from the Stock Option Plan were exercised (2009: 7,001 options). The options were exercised during four trading windows in 2010 and 2009 in which the average share price in fiscal 2010 was as follows: €27.27 (2009: €25.42) for the January 2002 Stock Option Plan, €25.51 (2009: €24.04) for the August 2002 Stock Option Plan, €23.54 (2009: €23.52) for the 2003 Stock Option Plan, €28.75 (2009: €24.52) for the 2004 Stock Option Plan, €28.14 (2009: €23.60) for the 2005 SAR Plan, €28.76 (2009: €22.23) for the SAR Plan 2006 as well as €26.33 (2009: €24.08) for the SAR Grant 2007 and €26.94 (2009: not yet exercisable) for the SAR Grant October 2008. As of the balance sheet date, 761,909 SARs were exercisable at an average of €15.92 (2009: 920,155 SARs at €16.07) and 164,250 stock options at an average of €12.00 (2009: 201,050 stock options at €13.11).

The weighted average remaining maturity for the 2005 SAR plan is 6.75 years (2009: 4.8 years), for the SAR Plan 2010 nine years, for the Matching Share Plan 0.7 years (2009. 0.7 years), and for the Stock Option Plan 2.0 years (2009: 2.4 years).

32. REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF SGL GROUP

Pursuant to section 120 (4) of the German Stock Corporation Act (Aktiengesetz – AktG), which was newly incorporated into the German Stock Corporation Act by way of the German Act on the Appropriateness of Executive Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) of July 31, 2009, the resolution approving the remuneration system for members of the Board of Management was presented to the Annual General Meeting. The resolution was passed with more than 97% of voting in favor.

The Supervisory Board debates and decides on the structure of the remuneration system and also reviews the system at regular intervals. The annual bonus was capped in favor of a multi-year component. The share-based remuneration plans are continued (SAR plan/Matching Share Plan).

The full Supervisory Board is responsible for determining the remuneration the remuneration of the Board of Management. The Personnel Committee, with its members Max Dietrich Kley (Chairman of the Supervisory Board), Josef Scherer (Deputy Chairman of the Supervisory Board), and Susanne Klatten (member of the Supervisory Board), makes suggestions and prepares the resolutions to be passed by the Supervisory Board.

The remuneration of the Board of Management of SGL Carbon SE is based on the Company's size and global activities, its economic and financial position, the amount and structure of remuneration paid at this level in comparable companies as well as the performance of the members of the Board of Management. The remuneration is set at a level that is competitive in the market for highly qualified executives and that provides an incentive for success in a high-performance culture.

The remuneration comprises four components: (i) a basic remuneration, (ii) a variable cash compensation, (iii) share-based payment, and (iv) a pension.

The **basic remuneration** is paid monthly as a salary.

The **Variable Cash Compensation** comprises an annual bonus (60% of the Variable Cash Compensation) and a multi-year component (40% of the Variable Cash Compensation). A total of 10% of the pre-tax bonus under the Variable Cash Compensation must be invested in SGL Carbon SE shares, which are subject to a minimum lock-up period of 24 months.

Annual bonus

For each member of the Board of Management, a maximum bonus of not more than 120% has been defined. The maximum bonus is payable in the case of 100% target achievement. Payment of the bonus depends on achieving earnings before tax and free cash flow targets set by the Supervisory Board (weighted at 35% each in 2010 for a total of 70%) as well as an evaluation of the overall performance of the Board of Management conducted by the Supervisory Board (weighted at 30%). The Supervisory Board may review the appropriateness and the suitability of the defined targets and set new targets. The targets are based on the annual planning of the Company. In the context of the overall evaluation of the performance of the Board of Management, the Supervisory Board determines an amount to be paid of between 0% and 100% of the target bonus amount defined for the performance of the Board of Management. The performance evaluation is based on evaluation criteria that are defined in advance, comprising in 2010 the strategic and employee-specific development as well as the cost savings resulting from the SGL Excellence Initiative.

Multi-year component (Long-Term-Cash-Incentive Plan or LTCI Plan)
The multi-year component is determined based on the average attainment of annual return on capital employed (ROCE) targets within a two or three-year period. Target and threshold values of this multi-year approach are determined by the Supervisory Board on annual basis. A total of 10% of the gross proceeds must be invested in SGL shares over a further period of twelve months. (see **Note 31** for information on the LTCI Plan).

Share-based payment consists of stock appreciation rights (SAR Plan) granted under the terms of the 2010 Stock Appreciation Rights Plan approved by the Annual General Meeting of the Company on April 29, 2009. At the end of a two-year vesting period, the exercise of these SARs is contingent upon the achievement of defined performance targets. A total of 15% of the gross proceeds must remain invested in SGL shares over a further period of twelve months (see **Note 31** for more information on the SAR Plan).

Furthermore, the members of the Board of Management can participate in the Company's Matching Share Plan adopted by the Annual General Meeting held on April 27, 2000 and invest up to 50% of their annual bonus in Company shares at the prevailing market price fixed over the last five trading days in March. The shares are paid for from the net income after tax of the individual Board of Management member. After a two-year holding period, each member of the Board of Management concerned is granted the same number of shares again. This additional financial benefit is taxed on the basis of the market price on the date the shares are allocated. (see **Note 31** for information on the Matching Share Plan).

In accordance with German Accounting Standard 17 (DRS 17), the disclosure of remuneration under share-based payments is based on the total amount of the equity instruments granted (SARs and Matching Shares) as of the grant date.

The remuneration paid to the Board of Management for 2010 and 2009 is set out below:

	Basic remuneration		**Annual bonus**	
€ thousand	2010	2009	2010	2009
Robert J. Koehler	600	600	720	432
Theodore H. Breyer	450	450	540	324
Armin Bruch	400	330	480	238
Jürgen Muth	400	330	480	238
Dr. Gerd Wingefeld	400	330	480	238
Total	**2,250**	**2,040**	**2,700**	**1,470**

The bonus entitlement acquired in 2010 reflects the bonus provisions recognized as an expense in connection with the expected target achievement. The annual bonus for 2009 reflects the actual target achievement, which is slightly above the original degree of target achievement assumed for the recognition of provisions.

	Estimates LTCI		Provisions for Matching Share Plan	
€ thousand	**2010**	2009	**2010**	2009
Robert J. Koehler	417	67	216	326
Theodore H. Breyer	278	46	166	238
Armin Bruch	278	–	119	59
Jürgen Muth	278	–	95	65
Dr. Gerd Wingefeld	278	–	119	92
Total	**1,529**	**113**	**715**	**780**

The LTCI expense reflects the pro-rata provisions for fiscal year 2010, assuming an expected full target achievement for both plans. A cash payment may be made for the first time in 2012.

In 2010, the total notional remuneration recognized in respect of participation by the members of the Board of Management in the Matching Share Plan was €715 thousand (2009: €780 thousand). This corresponds to the price for the purchases of SGL shares by the members of the Board of Management made from their taxed income. The extent to which this amount will actually materialize after the two-year holding period will depend on the level of the SGL share price in March 2012. The remuneration component may be higher or lower upon settlement in 2012.

A total of 180,000 SARs were granted to the members of the Board of Management in 2010 (2009: 170,000 SARs).

	SAR Plan			
	Granted SARs		SAR expense	
	2010 Number	2009 Number	**2010** € thousand	2009 € thousand
Robert J. Koehler	50,000	50,000	544	337
Theodore H. Breyer	40,000	30,000	435	202
Armin Bruch	30,000	30,000	326	202
Jürgen Muth	30,000	30,000	326	202
Dr. Gerd Wingefeld	30,000	30,000	326	202
Total	**180,000**	**170,000**	**1,957**	**1,145**

The base price of the SARs granted as of January 15, 2010, was €21.96 per SAR (SARs granted as of January 15, 2009: €22.08 per SAR). The calculation of the value of these SARs (based on a "Monte Carlo simulation" using valuation parameters specific to SGL Carbon) produced a figure of €10.87 per SAR for the SARs granted as of January 15, 2010 (January 15, 2009: €6.74 per SAR).

The imputed total value of SARs granted to the members of the Board of Management was therefore €1,957 thousand in 2010 and €1,145 thousand in 2009. The value of these SARs on the exercise date will differ from the calculated theoretical values and may be either higher or lower. As of December 31, 2010, the price of SGL shares was quoted at €27.02, resulting in an intrinsic value of €909 per SAR as of December 31, 2010 for the SARs granted as of January 15, 2010, compared to a total value of €1,957 thousand recognized as remuneration.

TOTAL REMUNERATION

The total remuneration for the Board of Management, including payments in kind, bonus entitlements, and share-based components, amounted to €9,306 thousand in 2010 (2009: €5,694 thousand). Payments in kind comprise for each Board member the costs for company cars, social security charges, and accident insurance.

RETIREMENT BENEFITS

The amount of the post-employment benefit commitment and of the pension benefit depends on the number of terms of appointment and the number of years of service on the Board of Management, and represents a percentage of the last fixed monthly salary. This percentage is 80% of the last fixed monthly salary received for the Chairman of the Board of Management, and not more than 70% of the last fixed monthly salary received for all other members of the Board of Management. The maximum entitlement has been earned by Robert J. Koehler and Theodore H. Breyer due to their being members of the Board of Management for several years. The benefit entitlement for the Board members Armin Bruch, Jürgen Muth and Dr. Gerd Wingefeld currently amounts to 50%.

	Pension commitments			
	Present value of DBO as of		Service cost	
€ thousand	**Dec. 31, 2010**	Dec. 31, 2009	**2010**	2009
Robert J. Koehler	8,163	8,095	0	0
Theodore H. Breyer	5,191	5,024	0	0
Armin Bruch	2,857	1,467	646	523
Jürgen Muth	1,434	728	390	318
Dr. Gerd Wingefeld	1,390	777	320	265
Total	**19,035**	**16,091**	**1,356**	**1,106**

The total pension expense is determined based on the service cost and the additionally calculated interest cost and amounted to €2.4 million (2009: €1.9 million) for the active Board members in the year under review.

Pursuant to their employment contract, all Board members are subject to non-competition agreements applicable after the end of the employment contract. This non-competition agreement has a term of two years during which the Company pays in return a compensation in the amount of 60% of the previous remuneration (for the Board members Robert J. Koehler and Theodore H. Breyer, the agreement runs five years and provides for a compensation of 75% of the last remuneration). The company may, at any time, waive the non-competition clause.

The total remuneration for former members of the Board of Management, executive management and their surviving dependants amounted to € 0.6 million in 2010 (2009: €0.5 million). Provisions of € 12.5 million (December 31, 2009: €9.3 million) were recognized as of December 31, 2010 to cover pension obligations to former members of the executive management and their surviving dependants.

Additional Disclosures on share-based Payment Instruments in Fiscal Year 2010

STOCK OPTIONS

Robert J. Koehler and Theodore H. Breyer still hold stock options from the Stock Option Plan running from 2000 to 2004. In fiscal 2010, Robert J. Koehler exercised 20,000 options with a weighted base price of €20.26 at a price of €27.50. In addition, 20,000 options of Robert J. Koehler and 12,000 options of Theodore H. Breyer expired at a weighted base price of €67.71 each in 2010. At year-end 2010, Robert J. Koehler held 20,000 options with an exercise price of €53.08 (remaining contractual term: 0.1 years), and Theodore H. Breyer held 60,000 options with exercise prices ranging from €3.61 to €53.08 per option (weighted base price: €19.71, weighted remaining contractual term: 1.6 years).

SAR PLAN	Balance as at Jan. 1, 2010		Additions in 2010	
	Number of SARs	Base price in € (weighted)	Number of SARs	Base price in €
Robert J. Koehler	150,000	25.27	50,000	21.96
Theodore H. Breyer	150,000	20.01	40,000	21.96
Armin Bruch	34,500	21.78	30,000	21.96
Jürgen Muth	41,750	21.44	30,000	21.96
Dr. Gerd Wingefeld	34,500	21.78	30,000	21.96
Total	**410,750**	**22.37**	**180,000**	**21.96**

MATCHING SHARES	Balance as at Jan. 1, 2010		Acquired in 2010	Due in 2010	Balance as of Dec. 31, 2010	
	Number of matching shares rights	Average price in € on acquisition date	Number of matching shares rights	Number of matching shares rights	Number of matching shares rights	Average price in € on acquisition date
Robert J. Koehler	25,104	24.23	9,967	7,490	27,581	19.66
Theodore H. Breyer	17,814	23.85	7,647	4,957	20,504	19.70
Armin Bruch	3,183	18.53	5,482	0	8,665	20.52
Jürgen Muth	3,482	18.53	4,386	0	7,868	20.28
Dr. Gerd Wingefeld	4,939	18.53	5,482	0	10,421	20.18
Total	**54,522**	**22.89**	**32,964**	**12,447**	**75,039**	**19.91**
Average price on acquisition date in €			21.67	37.65		
Share price on day of allocation in €				22.11		

Exercise 2010			Balance as at Dec. 31, 2010			
Number of SARs	Base price in € (weighted)	Share price in € (average)	Number of SARs	Base price in € (weighted)	Number of exercisable SARs	Base price in € (weighted)
0	0	0	200,000	24.44	100,000	26.86
0	0	0	190,000	20.42	120,000	19.49
0	0	0	64,500	21.86	4,500	19.79
11,750	19.79	26.94	60,000	22.02	0	0
0	0	0	64,500	21.86	4,500	19.79
11,750	**19.79**	**26.94**	**579,000**	**22.30**	**229,000**	**22.72**

None of the matching shares held as of December 31, 2010 in the private portfolio of the members of the Board of Management were exercisable since the two-year holding period had not elapsed.

In 2010, the imputed total expense for the share-based payments to be recognized in accordance with IFRS 2 was €6.7 million for the SAR Plan (2009: €6.5 million) and €2.3 million for the Matching Share Plan (2009: €2.4 million). The share of this total expense attributable to the members of the Board of Management in 2010 and 2009 was as follows:

	Share in total SAR expense		Share in total MSP expense	
	2010	2009	2010	2009
Robert J. Koehler	6.6%	7.7%	12.2%	12.7%
Theodore H. Breyer	4.8%	4.6%	8.9%	8.7%
Armin Bruch	4.1%	1.8%	3.2%	0.9%
Jürgen Muth	4.5%	2.2%	3.0%	1.0%
Dr. Gerd Wingefeld	4.1%	1.8%	4.0%	1.5%
Total	**24.1%**	**18.1%**	**31.3%**	**24.8%**

SUPERVISORY BOARD REMUNERATION

In addition to the reimbursement of expenses, each member of the Supervisory Board receives fixed remuneration of €30 thousand payable after the end of the financial year. The Chairman of the Supervisory Board receives double this amount and the Deputy Chairman one-and-a-half times this amount. Each member of a Supervisory Board committee receives €2 thousand for each committee meeting attended. The chairmen of the Personnel Committee, Strategy Committee, and Technology Committee each receive €3 thousand per meeting; the chairman of the Audit Committee receives €5 thousand per meeting.

The total remuneration of the Supervisory Board for 2010 was €468.5 thousand (2009: €487.9 thousand). The following amounts were expensed in 2010 (the basic remuneration for 2010 will be paid out in 2011):

				Remuneration		
€ thousand	Member since	Age [4]	Period of service (appointed up to)	Basic remuneration	Additional remuneration	**Total**
Max Dietrich Kley, Chairman	2004 [1]	71	GM 2013	60.0	15.8	75.8
Josef Scherer, Deputy Chairman	2003	54	GM 2013	45.0	10.8	55.8
Dr. Daniel Camus	2008	58	GM 2013	30.0	2.6	32.6
Edwin Eichler (since July 29, 2010)	2010	52	GM 2011	12.8	2.0	14.8
Dr. Ing. Claus Hendricks (deceased April 8, 2010)	1996			12.1	0.0	12.1
Helmut Jodl	2008	49	GM 2013	30.0	2.8	32.8
Dr. Ing. Hubert H. Lienhard	1996 [2]	60	GM 2013	30.0	3.8	33.8
Susanne Klatten	2009	48	GM 2015	30.0	6.8	36.8
Michael Pfeiffer	2007	49	GM 2013	30.0	4.8	34.8
Marek Plata	2009	45	GM 2013	30.0	0.8	30.8
Andrew H. Simon	1998 [3]	65	GM 2013	30.0	14.8	44.8
Stuart Skinner	2009	33	GM 2013	30.0	0.8	30.8
Heinz Will	2005	54	GM 2013	30.0	2.8	32.8
Total				**399.9**	**68.6**	**468.5**

[1] Also Chairman of the Personnel Committee
[2] Chairman of the Technology/Strategy Committee
[3] Chairman of the Audit Committee
[4] As of the date of release of the 2010 annual report

33. "CHANGE IN CONTROL" AGREEMENT

The members of the Board of Management have the right to terminate their contract of employment in the event of a change in control, i. e. if (i) the Company is notified that a third party has gained 25% or more of the voting rights in the Company and providing that attendance at the most recent Annual General Meeting of the Company was below 50%, (ii) a third party, alone and/or together with voting rights attributable to the third party, holds at least 30% or, based on the attendance at the Annual General Meeting of the Company, the majority of voting rights in the Company, (iii) the Company as an independent company enters into a control agreement within the meaning of section 291 et seq. of the German Stock Corporation Act (AktG) or is taken over, or (iv) SGL Carbon SE is merged with another company or changes its legal form. On exercising the special termination right, the resigning member of the Board of Management has the right to a severance payment equivalent to three years' income. In such cases, the annual salary is deemed to comprise the base salary plus the average annual bonus for the previous two years prior to the termination of the agreement. Forty-four senior executives have similar special termination rights. Seventeen of them would receive a severance payment equivalent to three years' income on exercising this right, and the rest would receive two years' income. Board of Management members or senior executives will not be entitled to these payments if they receive similar benefits from a third party in connection with the change in control.

34. AUDIT FEES

The following fees were incurred in the year under review for the services provided by the auditor of the consolidated financial statements in Germany:

€m	**2010**	2009
Audit fees	0.9	0.9
Other audit and valuation service	0.0	0.1
Tax consultancy services	0.1	0.0
Other services	0.2	0.0
Total	**1.2**	**1.0**

35. ANNUAL RESULT OF SGL CARBON SE

In 2010, SGL Carbon SE, as the parent company of SGL Group, reports a net profit for the year of €15.2 million in accordance with the German Commercial Code (HGB).

Pursuant to section 58 of the German Stock Corporation Act (AktG), €7.6 million of the net profit for fiscal 2010 in the amount of €15.2 million will be transferred to retained earnings. We plan to propose to the Annual General Meeting to be held on May 3, 2011 to transfer the total net profit of €7.6 million to distributable profit carried forward.

36. LIST OF COMPANIES PURSUANT TO SECTION 313 GERMAN COMMERCIAL CODE (HGB)

A. Consolidated companies			Interest in %	held via
a)	**Germany**			
1	SGL CARBON SE	Wiesbaden	100.0	
2	SGL CARBON GmbH	Meitingen	100.0 [1]	1
3	Dr. Schnabel GmbH	Limburg	100.0 [1]	2
4	SGL CARBON Beteiligung GmbH	Wiesbaden	100.0 [1]	1
5	SGL TECHNOLOGIES GmbH	Meitingen	100.0 [1]	1
6	SGL epo GmbH	Willich	100.0 [1]	5
7	SGL Technologies Composites Holding GmbH	Meitingen	100.0 [1]	5
8	SGL TECHNOLOGIES Beteiligung GmbH	Meitingen	100.0 [1]	5
9	SGL Kümpers Verwaltungs-GmbH	Rheine	54.5	8
10	SGL Kümpers GmbH & Co. KG	Rheine	54.5	8
11	SGL TECHNOLOGIES Zweite Beteiligung GmbH	Meitingen	100.0 [1]	5
12	SGL Rotec GmbH & Co. KG	Lemwerder	51.0	11
13	SGL Rotec Verwaltungs- und Beteiligungs- GmbH	Lemwerder	100.0	12
14	Rotec Immobilien GmbH	Lemwerder	100.0	12
15	FVT Verwaltungs- und Beteiligungs- GmbH	Lemwerder	100.0	12
16	SGL/A&R Immobiliengesellschaft Lemwerder mbH	Lemwerder	51.0	5
b)	**Outside Germany**			
17	SGL CARBON Holding S.L.	La Coruña, Spain	100.0	4
18	SGL CARBON S.A.	La Coruña, Spain	99.9	17
19	SGL Gelter S.A.	Madrid, Spain	64.0	17
20	SGL CARBON S.p.A.	Milano, Italy	99.8	17
21	SGL CARBON do Brasil Ltda.	Diadema, Brazil	100.0	17
22	SGL CARBON Sdn. Bhd.	Kuala Lumpur, Malaysia	100.0	17
23	SGL Carbon Holding GmbH	Steeg, Austria	100.0	1
24	SGL CARBON GmbH	Steeg, Austria	100.0	1
25	SGL Carbon Fibers Ltd.	Muir of Ord, United Kingdom	100.0	24
26	Project DnF	Halifax, United Kingdom	100.0	24
27	SGL CARBON Holdings B.V.	Rotterdam, Netherlands	100.0	4
28	SGL CARBON Polska S.A.	Raciborz, Poland	100.0	27
29	SGL CARBON Luxembourg S.A.	Luxembourg	100.0	1
30	SGL CARBON Holding S.A.S.	Paris, France	100.0	1
31	SGL CARBON S.A.S.	Passy (Chedde), France	100.0	30

A. Consolidated companies		**Interest in %**	**held via**
32 SGL CARBON Technic S.A.S.	Saint-Martin d'Heres, France	100.0	30
33 SGL CARBON Ltd.	Alcester, United Kingdom	100.0	1
34 David Hart (Feckenham) Ltd.	Alcester, United Kingdom	100.0	33
35 GRAPHCO (UK) Ltd.	Alcester, United Kingdom	100.0	34
36 RK CARBON International Ltd.	Wilmslow, United Kingdom	100.0	5
37 RK Technologies International Ltd.	Wilmslow, United Kingdom	100.0	36
38 SGL CARBON LLC	Charlotte, NC, USA	100.0	4
39 Quebec Inc.	Montreal, Quebec, Canada	100.0	38
40 SPEER CANADA Inc.	Kitchener, Ontario, Canada	100.0	39
41 SGL Technologies North America Corp.	Charlotte, NC, USA	100.0	38
42 HITCO CARBON COMPOSITES Inc.	Gardena, CA, USA	100.0	41
43 SGL TECHNIC Inc.	Valencia, CA, USA	100.0	41
44 SGL Carbon Fibers LLC	Evanston, WY, USA	100.0	41
45 SGL CARBON Technic LLC	Strongsville, OH, USA	100.0	38
46 SGL CANADA Inc.	Lachute, Quebec, Canada	100.0	1
47 SGL CARBON India Pvt. Ltd.	Maharashtra, India	100.0	1
48 SGL CARBON Far East Ltd.	Shanghai, China	100.0	1
49 SSGL CARBON Japan Ltd.	Tokyo, Japan	100.0	1
50 SGL CARBON Korea Ltd.	Seoul, Korea	70.0	1
51 SGL CARBON Asia-Pacific Sdn. Bhd.	Kuala Lumpur, Malaysia	100.0	1
52 NINGBO SSG Co. Ltd.	Ningbo, China	60.0	5
53 SGL Quanhai Carbon (Shanxi) Co.	Yangquan, China	80.0	4
54 SGL Tokai Process Technology Pte.Ltd.	Singapore	51.0	1
55 SGL CARBON KARAHM Ltd.	Sangdaewon-Dong, Korea	50.9	54
56 SGL CARBON Graphite Technic Co. Ltd.	Shanghai, China	100.0	54
57 Graphite Chemical Engineering Co.	Yamanashi, Japan	100.0	54
58 SGL Process Technology OOO	Schachty, Russian Federation	100.0	2
B. Investments over 20%			
a) Germany			
59 European Precursor GmbH	Kehlheim	44.0	5
60 Benteler SGL Verwaltungs GmbH	Paderborn	50.0	7
61 Benteler SGL GmbH & Co. KG	Paderborn	50.0	7
62 PowerBlades GmbH	Lemwerder	49.0	15
63 SGL Automotive Carbon Fibers GmbH & Co . KG	Munich	51.0 [2]	5

B. Investments over 20%		**Interest in %**	**held via**
b) Outside Germany			
64 SGL Automotive Carbon Fibers LLC	Charlotte, NC, USA	51.0 [2]	38
65 SGL TOKAI Carbon Limited	Shanghai, China	51.0 [2]	1
66 Brembo SGL Carbon Ceramic Brakes S.p.A.	Stezzano, Italy	50.0	5
67 MRC-SGL Precursor Co. Ltd.	Tokyo, Japan	33.3	5

[1] Exemption in accordance with Section 264 (3) HGB
[2] Non-controlling interest due to contractual details

37. DECLARATION PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT (AKTG)

The declaration of compliance with the German Corporate Governance Code prescribed by section 161 of the German Stock Corporation Act (AktG) has been submitted for SGL Carbon SE and made available to shareholders on the website of SGL Carbon SE.

38. EVENTS AFTER THE BALANCE SHEET DATE

On February 23, 2011, SGL Group concluded an agreement with its core banks to prematurely prolong the existing syndicated credit line in the amount of €200.0 million until the end of April 2015.

Effective January 1, 2011, SGL Group took over ASL Aircraft Services GmbH (ASL) by acquiring 51% of the shares in SGL/A&R Immobiliengesellschaft Lemwerder mbH. The assets and liabilities of ASL will be taken over by SGL Group as of January 1, 2011.

Wiesbaden, February 28, 2011

SGL Carbon SE
The Board of Management

ADDITIONAL INFORMATION

Independent Auditors' Report

"We have audited the consolidated financial statements prepared by SGL CARBON SE, Wiesbaden, comprising the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the group management report for the fiscal year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and group management report in accordance with IFRS [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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

Our audit has not led to any reservations.

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

Eschborn/Frankfurt am Main, Germany, 28 February 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Turowski	Bösser
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, February 28, 2011

SGL Carbon SE

The Board of Management of SGL Group

Robert J. Koehler Theodore H. Breyer Armin Bruch

Jürgen Muth Dr. Gerd Wingefeld

Corporate Bodies

Board of Management
(as of December 31, 2010)

ROBERT J. KOEHLER
Chief Executive Officer SGL CARBON SE

Responsible for:
- Corporate Development
- Corporate Communication
- Legal
- Management Development
- Internal Audit
- Asia

External board memberships:
- Benteler International AG, Salzburg, Austria [1)]
- Demag Cranes AG, Wetter/Ruhr
- Heidelberger Druckmaschinen AG, Heidelberg
- Klöckner & Co SE, Duisburg
- Lanxess AG, Leverkusen

Internal board memberships:
- SGL CARBON S.p.A., Milano, Italy
- SGL CARBON SDN BHD, Banting, Malaysia
- SGL CARBON S.A., La Coruña, Spain

THEODORE H. BREYER
Deputy Chief Executive Officer SGL CARBON SE

Responsible for:
- Carbon Fibers & Composites
- Engineering
- Corporate Security and Environmental Protection, Safety and Health at work, Technical Audits
- Purchasing
- North and South America

Internal board memberships:
- Brembo SGL CARBON Ceramic Brakes S.p.A., Milan, Italy
- HITCO CARBON COMPOSITES Inc., Gardena, USA [1)]
- SGL CARBON LLC., Charlotte, USA

JÜRGEN MUTH
Chief Financial Officer SGL CARBON SE

Responsible for:
- Group Treasury
- Group Accounting
- Group Controlling
- Financial Reporting
- Human Resources
- Information Services
- Taxes

Internal board memberships:
- SGL CARBON GmbH, Meitingen[1)]
- SGL CARBON Holding S.L., La Coruña, Spain

ARMIN BRUCH

Responsible for:
- Performance Products
- SGL Excellence
- Corporate Marketing & Advertising
- Europe, Russia

External board memberships:
- SKW Stahl-Metallurgie Holding AG, Munich, Austria

Internal board memberships:
- SGL CARBON Polska S.A., Raciborz, Poland
- SGL CARBON SDN BHD, Banting, Malaysia
- SGL Tokai CARBON Ltd., Shanghai, China[1)]
- SGL CARBON Asia-Pacific SDN BHD, Banting, Malaysia
- SGL CARBON DO Brasil LTDA, São Paolo, Brazil[1)]

DR. GERD WINGEFELD

Responsible for:
- Graphite Materials & Systems
- Technology & Innovation

Internal board memberships:
- SGL Tokai Process Technology Pte. Ltd., Singapore[1)]
- SGL Quanhai CARBON (Shanxi) Co. Ltd., Shanxi Province, China[1)]
- SGL CARBON Far East Ltd., Shanghai, China
- SGL CARBON Japan Ltd., Tokyo, Japan[1)]

[1)] Chairman of the Supervisory Board
With memberships outside Germany, the respective country is mentioned.

Supervisory Board
(as of December 31, 2010)

MAX DIETRICH KLEY
Chairman

former Deputy Chief Executive Officer
BASF AG (now SE), Ludwigshafen

External board memberships:
- BASF SE, Ludwigshafen
- HeidelbergCement AG, Heidelberg

JOSEF SCHERER
Deputy Chairman

Chemical Laboratory Assistant
SGL CARBON GmbH, Meitingen

DR. DANIEL CAMUS
Group Senior Executive Vice President, International & Strategy and Member of Executive Committee (CFO) EDF, Electricité de France, Paris, France

EDF-Internal board memberships:
- EDF International, Paris, France [1)]
- EDF Energies Nouvelles, Paris, France
- EDF Energy UK Ltd, London, Great Britain [1)]
- EnBW AG, Karlsruhe
- Constellation Energy Group, Baltimore, USA

External board memberships:
- Valéo SA, Paris, France
- Vivendi SA, Paris, France
- Morphosys AG, Munich

EDWIN EICHLER
(AS OF JULY 29, 2010)
Member of the Board of Management ThyssenKrupp AG and Chairman of the Board of Management of ThyssenKrupp Steel Europe AG, Duisburg

ThyssenKrupp board memberships:
- Hüttenwerke Krupp Mannesmann GmbH, Duisburg
- ThyssenKrupp Nirosta GmbH, Krefeld
- ThyssenKrupp Materials International GmbH, Düsseldorf

External board memberships:
- Heidelberger Druckmaschinen AG, Heidelberg

DR.-ING. CLAUS HENDRICKS
(PASSED AWAY IN APRIL 2010)
former Member of the Board of Management of Thyssen Krupp Steel AG, Duisburg

HELMUT JODL
Programmer CNC
SGL CARBON GmbH, Meitingen

SUSANNE KLATTEN
Entrepreneur

External board memberships:
- ALTANA AG, Wesel
- BMW AG, Munich
- UnternehmerTUM GmbH, Munich [1)]

DR.-ING. HUBERT LIENHARD
Chairman of the Board of Management
Voith GmbH, Heidenheim

Voith-Internal board memberships:
- Voith Industrial Services, Stuttgart [2]
- Voith Hydro Holding GmbH & Co.KG, Heidenheim [2]
- Voith Paper Holding Verwaltungs GmbH & Co. KG, Heidenheim [2]
- Voith Turbo GmbH & Co.KG, Heidenheim [1]

External board memberships:
- Sulzer AG, Winterthur, Switzerland (Verwaltungsrat)

MICHAEL PFEIFFER
Political Secretary of IG Metall
Verwaltungsstelle Augsburg, Augsburg

External board memberships:
- Fujitsu Technology Solutions GmbH, Munich

MAREK PLATA
Personalreferent
Personnel and Administration Specialist
SGL CARBON Polska S.A., Nowy Sacz, Poland

ANDREW H. SIMON OBE MBA
Consultant and Supervisory Board Member of various companies

External board memberships:
- BCA Osprey 1 Ltd, London
- Exova Group plc, London
- Icon Infrastructure Management ltd, Guernsey
- Management Consulting Group plc, London
- Travis Perkins plc, Northampton (all Great Britain)
- Finning International Inc., Vancouver, Canada

STUART SKINNER
Deputy Team Leader Production
SGL CARBON Fibers Ltd., Muir of Ord, Great Britain

HEINZ WILL
Electrician
SGL CARBON GmbH, Frankfurt

[1] Chairman of the Supervisory Board
[2] Chairman of the advisory committee
With memberships outside Germany, the respective country is mentioned.

Glossary

Commercial Glossary

BOND
Collective term for interest-bearing debt instruments with contractually fixed repayment terms. Bonds are issued either by governments or companies and sold through financial institutions and provide long-term external financing.

CASH FLOW
An economic measure for the inflow and outflow of cash funds representing the net inflow from sales activity and other current activities in a period. In a cash flow statement, the change in cash and cash equivalents is broken down by operating activity, investing activity and financing activity.

CASHFLOW HEDGE
A hedge of a recognized asset or of future, highly likely (foreign currency) transactions. The change in value of the hedging instrument is recognized directly in equity.

CASH GENERATION
Total EBIT plus amortization/depreciation on intangible assets and property, plant & equipment plus change in working capital less capital expenditure.

CAPITAL EMPLOYED
The sum of Goodwill, other intangible assets, property, plant & equipment, inventories, trade receivables and non current receivables from long-term construction contracts less trade payables.

CONVERTIBLE BOND
Corporate bond that includes a share option. Under the option, the bond can be exchanged (converted) for shares in the company subject to certain preconditions. The exchange is possible within a specific period at a fixed price. The conversion price normally exceeds the share price on the date of the bond issue.

CORPORATE GOVERNANCE
The German Corporate Governance Code is the primary legislation governing the management and monitoring of German publicly traded companies and comprises international standards for adequate and responsible corporate management.

DECLARATION OF COMPLIANCE
Declaration of Compliance by the Board of Management and Supervisory Board of compliance with the German Corporate Governance Code pursuant to section 161 German Stock Corporation Act (AktG).

DEFERRED TAXES
Assets and liabilities arising from the different treatment of transactions for financial and tax reporting purposes.

DERIVATIVE FINANCIAL INSTRUMENTS
Forward contracts whose value is derived from another existing (primary) market value. An example of a derivative currency option, in which the premium largely depends on the option price, the maturity of the option and the volatility of this currency.

DISTRIBUTABLE PROFIT CARRIED FORWARD
Result of SGL Carbon SE as reported in its German GAAP financial statements based on calculation pursuant to the German Commercial Code (HGB).

DSO (DAYS SALES OUTSTANDING)
Trade account receivables divided by sales revenue, times 360 (A low figure indicates that the company collects its outstanding receivables quickly).

EARNINGS PER SHARE (EPS)
The figure of EPS is calculated by dividing the net result of the year attributable to SGL Carbon SE shareholders by the weighted average number of outstanding shares for the financial year.

EBIT
Earnings before interest and tax. EBIT is an important key performance indicator for assessing the operational profitability of companies.

EBITDA
Earnings before interest, tax, depreciation and amortization. In the case of EBITDA, the focus is rather more on cash earnings potential.

EQUITY RATIO
The shareholders' equity as a proportion of total assets. The higher the equity ratio, the more independent a company is from external providers of capital. The equity ratio is also an indicator of the creditworthiness and robustness of a company.

EQUITY METHOD
Method used in the consolidated financial statements for measuring and accounting for investments in which the Group is not the majority shareholder. Under the equity method, investments of this kind are initially recognized at cost. In subsequent years, these investments then change in line with their profit or loss contribution.

EURIBOR
EURo InterBank Offered Rate (EURIBOR) is an interest rate at which euro interbank term deposits are offered

FREE CASH FLOW
The balance of cash flow from operating activities and cash flow from investing activities. Free cash flow therefore reflects the amount available to the company, for example, for debt repayment or distribution of dividends.

FREE FLOAT
The total number of shares not owned by major investors (e. g. the parent company). Free float shares are distributed among a large number of shareholders and can therefore be bought and sold by many people. The number of free float shares therefore also normally provides an indication of the liquidity of the shares.

FUNCTIONAL COSTS
Functional costs include cost of sales, R&D expenses, selling expenses, and general and administration expenses.

GEARING
The ratio of net debt to equity. Gearing is a key performance indicator reflecting financial strength and illustrates the dependency of a company on third-party lenders. The higher the figure, the greater the theoretical dependency.

GOODWILL
The excess of cost of an acquisition over the fair value of the acquired entity.

GROSS PROFIT
Sales revenue less cost of sales.

HEDGING
Strategy to limit or eleminate price risks. Hedging is standard practice in capital markets and is used by market players to offset risks.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), FORMERLY INTERNATIONAL ACCOUNTING STANDARDS (IAS)
Uniform accounting standards to enhance comparability of financial data. According to the IAS as endorsed by the European Union, publicly traded companies are required to prepare their consolidated financial statements in accordance with these rules.

JOINT VENTURE
A contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

MARKET CAPITALIZATION
Key performance indicator providing information on the stock market value of a listed company. It is calculated by multiplying the number of shares by the current share price.

RATING
Internationally recognized criteria for assessing the creditworthiness of a debtor or company. Ratings are determined by specialist agencies using standardized procedures.

RETURN ON SALES
Ratio of EBIT to sales revenue. Return on sales (ROS) provides information on a company's operating profit as a percentage of sales revenue in the period under review. A high return on sales indicates a high level of profitability.

ROCE (RETURN ON CAPITAL EMPLOYED)
The ratio of EBIT to capital employed. This key performance indicator provides information on the return on average capital employed by a company over a specific period.

SYNDICATED LOAN
A loan offered by a group of banks (called a syndicate) who work together to provide funds for a single borrower. The main goal of syndicated lending is to spread the risk of a borrower default across multiple banks.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)
An average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment.

WORKING CAPITAL
Inventories plus receivables from long-term construction contracts and trade receivables minus trade payables. This figure describes the current assets employed by a company in the short-term without creating a capital cost in the narrow sense. The lower the working capital, the better the liquidity position of a company.

Technical Glossary

CATHODES
Indispensible component in the production of primary aluminum. Cathode blocks are capital investment products, used to line large smelting cells, in which aluminum oxide is reduced by an electrolysis process to produce aluminum which is deposited on these blocks.

COARSE GRAIN GRAPHITE
The grain size lies between 1mm and up to approx. 20mm. Key material property is the high resistance to thermal shock. Typical product examples are graphite electrodes for steel scrap recycling, cathodes for aluminum electrolysis and furnace linings for crude steel production.

EXPANDED GRAPHITE
Specially refined natural graphite with very good thermal and electrical conductivity. Expanded graphite is also light and highly flexible, environmentally friendly, non-flammable and resistant to wear. Its main application is in foils for sealing and high temperature applications.

FIBER COMPOSITES
The materials of the future. Fiber composites are produced by combining different materials, e.g. carbon fibers and plastics. They represent an ideal combination of materials, being far lighter with great strength and stiffness. These product features are mainly used in engineering, sports equipment (e. g. golf clubs), automotive, aerospace and wind energy.

FINE GRAIN GRAPHITE
Specialty graphite with a fine grain structure and a grain size of between 1mm and few µm, with which the required material strengths can be achieved. Fine grain graphites have a broad spectrum of applications in the semiconductor, mechanical engineering, metallurgical, industrial furnace construction, medical and analysis technology industries (isostatic graphite).

GRAPHITE ELECTRODES
The core business of the Business Area Performance Products. Graphite electrodes are used in steel production in electric arc furnaces. In a furnace, they can withstand temperatures of up to 3,500 degrees Celsius and are therefore the "engine" in the melting process of scrap recycling to produce new steel. During the manufacturing process for electric steel, graphite electrodes are fully consumed within five to eight hours.

ISOSTATIC GRAPHITE
Special fine grain graphite for specific applications. Its name is derived from the method of production (isostatically pressed; in a chamber of water subjected to equal pressure from every side). The main features of isostatic graphite are strength, density, and isotropic structure. It is therefore used in all applications where the mechanical properties of conventional graphite are inadequate.

LITHIUM ION BATTERY

Rechargeable battery with high energy and performance density. The cathode is made from a lithium compound, the anode from carbon or graphite. During the charging process, the lithium ions in the cathodes migrate to the carbon lattice of the anode material (intercalation). During discharging, the lithium ions from the intercalation migrate back to the cathode. Lithium ion batteries are the standard batteries for mobile applications today, such as for mobile phones and laptops. They are growing in importance for power tools (e. g. cordless screwdrivers) and for electric vehicles.

NATURAL GRAPHITE

Is a natural mineral. It is extracted from both surface and underground mining. High purity (> 99%) is achieved by purification processes (flotation, thermal and chemical purification). Natural graphite possesses the nearly ideal crystalline structure of graphite. Its use as a lubricant is well known. The largest natural graphite amounts are used for fire proof applications. Small amounts are also included in the recipe for fine grain graphites. Inclusion of acids produces graphite salts, which are converted to expanded graphite in a thermal process.

PAN PRECURSOR

Synthetic fiber made from polyacrylonitrile (PAN). PAN precursor is the raw material used in the production of carbon fibers.

PETROLEUM COKE

Is a mass volume by-product of the oil refining process (80 m tons). Calcined petroleum cokes are used particularly for anodes in the aluminum electrolysis. The so-called needle coke is a special quality, which can only be produced by a few refineries. This needle coke is almost exclusively used for the production of graphite electrodes. Their outer form and tailor made physical properties enable the production of modern high performance electrodes.

POLYMERS

The two polymer classes Thermosetting Resins and Thermoplastics are generally both deployable as matrix components of fiber composite materials. Common Thermosetting Resins are epoxy resins (aircraft components) and polyester resins (sports equipment). Phenolic resins are used preferentially for the production of carbon fiber reinforced carbon due to their high carbon yield. Thermoplastics still play a minor role in the fiber composite arena. Their advantage lies in a simple thermal molding of a Thermoplastics/carbon fiber compound.

REACH (REGULATION FOR CHEMICALS)

REACH stands for Registration, Evaluation, Authorization and Restriction of Chemicals, an EU regulation for chemicals that became effective June 1, 2007. The scope of REACH includes manufacturers or importers who, in the European Union, either manufacture chemical substances and/or use such substances in formulations or import such substances into the European Union amounting to more than one ton per year.

REDOX FLOW METHOD

Rechargeable battery used preferentially in stationary applications. Memory capacity of this battery is defined by the tank size of liquid electrolytes at various oxidation stages. During operation, the electrolytes flow through the redox flow cell and are oxidized resp. reduced in this process. The redox flow cell consists of graphite bipolar plates as electric current conductors und carbon fleeces as electrodes, separated by a proton conductive membrane. The best known redox flow battery systems are vanadium ion based. These very large batteries are frequently used for grid independent electricity supply units, for supplementing electricity demand peaks resp. for emergency back up storage.

List of Acronyms

A

AktG
German Stock Corporation Act (Aktiengesetz)

C

Cefic
European Chemical Industry Council
CSR
Corporate Social Responsibility

D

DAX
German stock index
DRS
German Accounting Standard

E

EHSA
Environment, Health, Safety, Authorities
EPS
Earnings per share

G

GDP
Gross Domestic Product

H

HGB
German Commercial Code

I

IAS
International Accounting Standards
IASB
International Accounting Standards Board
IFRIC
International Financial Reporting Interpretations Committee
IFRS
International Financial Reporting Standards
IT
Information technology

L

LTCI
Long Term Cash Incentive

M

MDAX
Mid-Cap-DAX

O

OECD
Organisation for Economic Co-operation and Development

R

REACH
Registration, Evaluation, Authorisation and Restriction of Chemicals
ROCE
Return on Capital Employed

S

SAR
Stock Appreciation Rights
SOP
Stock Option Plan

V

VorstAG
Act on the Appropriateness of Management Board Remuneration

FINANCIAL CALENDAR

MARCH 17, 2011

Annual Report 2010, Year-end press conference and analyst meeting,
Conference call for analysts and investors

APRIL 28, 2011

Report on the first quarter 2011,
Conference call for analysts and investors

MAY 3, 2011

Annual general meeting

AUGUST 4, 2011

Interim financial reporting first half 2011,
Conference call for analysts and investors

NOVEMBER 3, 2011

Report on the first nine months 2011,
Conference call for analysts and investors

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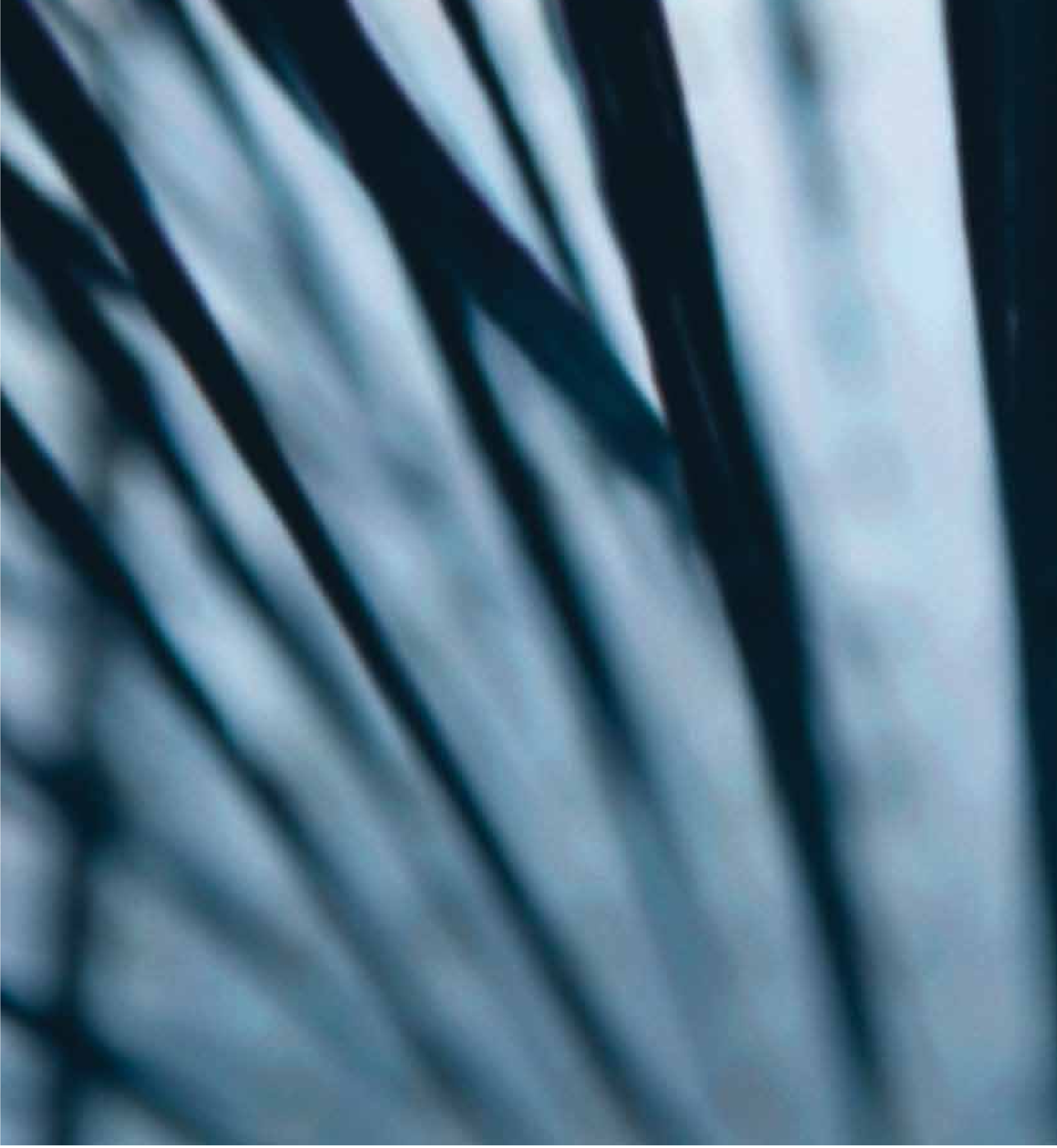
FIVE-YEAR FINANCIAL SUMMARY

€m	Note	2010
Result of operations		
Sales revenue		1,381.8
thereof outside Germany		*83%*
thereof in Germany		*17%*
EBITDA	1), 2)	194.8
Operating profit (EBIT)	1), 2)	128.4
Profit/loss before tax		75.7
Consolidated net profit/loss for the period	3)	52.2
Return on sales (ROS)	4)	9.3%
Return on capital employed (ROCE)	5) 6)	9.0%
Earnings per share, basic (in €)		0.80
Financial position		
Equity attributable to shareholders of the parent company		864.4
Total assets		2,113.3
Net debt		410.5
Equity ratio	7)	40.9%
Gearing ratio	8)	0.47
Other indicators		
Capital expenditure on property, plant and equipment and intangible assets		136.9
Depreciation and amortization		66.4
Working capital		605.6
Free cash flow	9)	−38.3
Number of employees (December 31)		6,285

1) Before impairment losses of €74.0 million in 2009
2) Till 2006: before expenses for antitrust proceedings and after restructuring
3) Consolidated net profit/loss (attributable to shareholders of the parent company)
4) EBIT (before impairment losses, expenses for antitrust proceedings and after restructuring) to sales revenue
5) EBIT (before impairment losses, expenses for antitrust proceedings and after restructuring) to average capital employed
6) Average capital employed (= the sum of goodwill, intangible assets, property, plant and equipment and working capital at beginning of year and end of year)
7) Equity attributable to shareholders of the parent company to total assets
8) Net debt to equity attributable to shareholders of the parent company
9) Cash flow from operating activities before expenses for antitrust proceedings less cash flow from investing activities

2009	2008	2007	2006
1,225.8	1,611.5	1,373.0	1,190.8
80%	*84%*	*85%*	*85%*
20%	*16%*	*15%*	*15%*
171.6	361.1	307.7	228.8
111.0	306.4	258.4	175.4
–18.1	258.2	193.0	81.8
–60.8	189.3	133.5	44.0
9.1%	19.0%	18.8%	14.7%
8.2%	25.4%	27.0%	20.9%
–0.93	2.95	2.10	0.71
749.4	762.7	603.9	398.2
1,891.0	1,791.1	1,473.6	1,229.8
367.9	332.6	285.2	229.1
39.6%	42.6%	41.0%	32.4%
0.49	0.44	0.47	0.58
153.9	239.5	130.5	65.2
60.6	54.7	49.3	53.4
545.3	578.0	485.1	427.4
–34.0	–35.9	–0.9	47.9
5,976	6,500	5,862	5,249



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