



# DETERMINED

2007

2008

2009

2010

2011

**2012**

**Broad Base. Best Solutions.**



## KEY FIGURES 2012

€m	2012	2011	Change
Sales revenue	1,709.1	1,540.2	11.0%
<i>thereof outside Germany</i>	82%	81%	–
<i>thereof in Germany</i>	18%	19%	–
EBITDA <sup>1)</sup>	239.7	231.7	3.5%
Operating profit (EBIT) before special effects <sup>1)</sup>	154.2	160.4	–3.9%
Operating profit (EBIT)	100.0	165.5	–39.6%
Profit before tax	9.7	83.7	–88.4%
Consolidated net profit attributable to equity holders	7.2	73.2	–90.2%
Earnings per share, basic (in €)	0.10	1.09	–90.8%
Dividend per share (in €)	0.20	0.20	–
Return on sales (ROS) <sup>1)2)</sup>	9.0%	10.4%	–1.4%-pts
Return on capital employed (ROCE) <sup>3)</sup>	8.9%	10.0%	–1.1%-pts
Total assets	2,560.0	2,271.3	12.7%
Equity attributable to the shareholders of the parent company	1,066.1	1,041.1	2.4%
Equity ratio <sup>4)</sup>	41.6%	45.8%	–4.2%-pts
Net debt	459.3	343.3	33.8%
Gearing (ratio of net debt to equity) <sup>5)</sup>	0.43	0.33	–
Capital expenditure on intangible assets and property, plant, and equipment	133.5	138.8	3.8%
Free cash flow	–80.0	–33.1	> –100%
Number of employees (December 31)	6,686	6,447	3.7%

<sup>1)</sup> Before project write-offs of €54.2 million in 2012 and before reversal of impairment losses and impairment losses of €5.1 million in 2011.

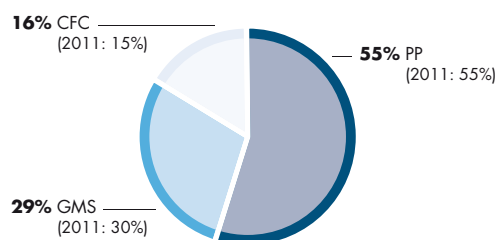
<sup>2)</sup> EBIT to sales revenue

<sup>3)</sup> EBIT (before project write-offs in 2012 and before reversal of impairment losses and impairment losses in 2011) to average capital employed

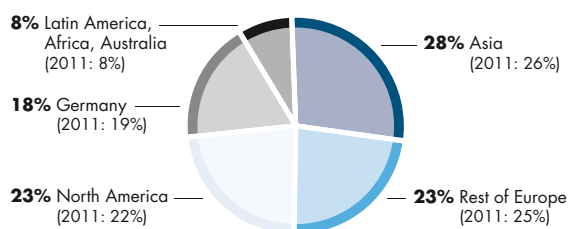
<sup>4)</sup> Shareholders' equity to total assets

<sup>5)</sup> Net financial debt to shareholders' equity

### Sales Revenue by Business Area 2012



### Sales Revenue by Region 2012



## BUSINESS AREAS:

WITH OUR BROAD BASE WE OFFER OUR CUSTOMERS BEST SOLUTIONS.

### PERFORMANCE PRODUCTS (PP)

The product portfolio of the Business Area Performance Products covers carbon and graphite electrodes, cathodes and furnace linings. We supply these products to the aluminum and steel industries as well as other metallurgical industries.



Key Figures		2012	2011	Change
Sales revenue	€m	940.7	845.7	11.2%
EBITDA	€m	222.8	179.9	23.8%
Operating profit (EBIT)	€m	181.7	143.3	26.8%
Return on sales	%	19.3	16.9	-

### GRAPHITE MATERIALS & SYSTEMS (GMS)

The Business Area Graphite Materials & Systems supplies products to various different industries. Coarse and fine-grain graphite and expanded natural graphite are used primarily in the chemical, automotive, semiconductor, LED, lithium ion battery and solar industries.



Key Figures		2012	2011	Change
Sales revenue	€m	486.2	468.7	3.7%
EBITDA	€m	88.4	101.6	-13.0%
Operating profit (EBIT)	€m	69.3	84.0	-17.5%
Return on sales	%	14.3	17.9	-

### CARBON FIBERS & COMPOSITES (CFC)

The Business Area Carbon Fibers & Composites covers the entire value chain from carbon fibers to finished components. The Business Area CFC supplies, among others, manufacturers from the aerospace, wind energy and automotive industries.



Key Figures		2012	2011	Change
Sales revenue	€m	277.2	220.2	25.9%
EBITDA <sup>1)</sup>	€m	-20.6	-5.3	> -100%
Operating profit (EBIT) before special effects <sup>1)</sup>	€m	-39.2	-16.9	> -100%
Return on sales <sup>1)</sup>	%	-14.1	-7.7	-

<sup>1)</sup> Before project write-offs of €54.2 million in 2012 and before reversal of impairment losses and impairment losses of net €5.1 million in 2011.

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# OUR **BROAD BASE** TAKES US TO THE TOP.

SGL Group is one of the largest producers of carbon products. We consistently pursue our corporate vision of being the world's leading carbon company. In this dynamic market environment, our success factors are profitable growth, global presence, and technological leadership. To reach our goal, we use the potentials inherent in carbon as a versatile material for the development of innovative future applications. We invest in our sites, in our strong team, and in our relationships with suppliers and partners.

2001

2002

2003

2004

2005

2006



01. **Determined** investment



02. **Determined** production



03. **Determined** research and development

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“The Carbon Age begins  
over and over again.”

# DETERMINED

2007

2008

2009

2010

2011

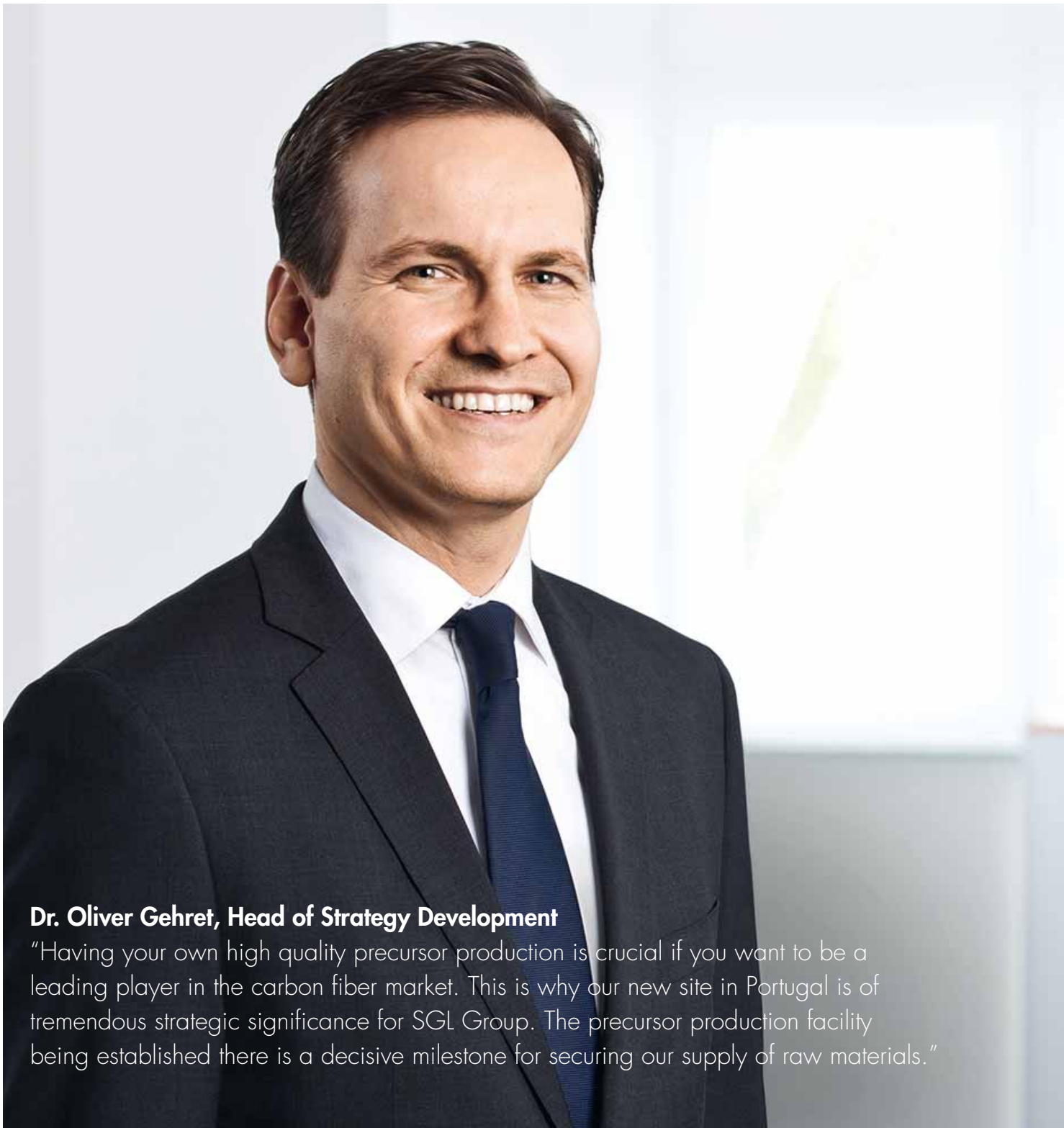
**2012**

## 04. **Determined** expansion

### **Carbon is a material with unique characteristics – multifunctional, fascinating, and strong.**

Carbon is the perfect match for the challenges of our time, and its long-term potential is far from exhausted. It is our strength in innovations which transforms carbon into technological progress. That's why we never stop working on new concepts and innovative solutions. We deliver results for lightweight construction, renewable energies, energy efficiency, and mobility. The carbon age begins over and over again because carbon is the future.

## 01. DETERMINED INVESTMENT



**Dr. Oliver Gehret, Head of Strategy Development**

“Having your own high quality precursor production is crucial if you want to be a leading player in the carbon fiber market. This is why our new site in Portugal is of tremendous strategic significance for SGL Group. The precursor production facility being established there is a decisive milestone for securing our supply of raw materials.”



2012

# STRATEGIC HIGH TECH SITES FOR THE FUTURE.

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The quality of the precursor significantly specifies the material properties of carbon fiber and is a major cost factor in their production process.

330 qualified employees, expandable production capacities, state-of-the-art R&D facilities, high cost efficiency, and well-developed logistics: all this has been safeguarded with our acquisition of the Portuguese acrylic fiber manufacturer Fisipe. An international team on location is gradually converting the existing acrylic fiber production to the manufacture of precursors. This enables us to expand the supply of our own raw materials and gain an important degree of independence from suppliers.



## 01. DETERMINED INVESTMENT

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Arrived: the new graphite production center in Bonn received its core element after fifteen months of construction, the largest cold isostatic press in the world.



Ring furnace construction at our Yangquan (China) site.

# STRENGTHENING **MARKET POSITIONS** WITH STRATEGIC INVESTMENTS

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A COMPREHENSIVE INVESTMENT PROGRAM IS  
**MODERNIZING AND EXPANDING** OUR GLOBAL  
PRODUCTION CAPACITIES FOR ISOSTATIC GRAPHITE.

**We are investing in our facilities** in order to sustainably safeguard the value chain for isostatic graphite. In this context, the largest single investment is the new green manufacturing plant currently under construction in Bonn. In 2012, we also commissioned a new post-treatment facility in Bonn. Further important elements of our global investment program include the construction of an additional furnace at our Chinese plant in Yangquan and the expansion of coating capacities in St. Marys, Pennsylvania (USA).



**The joint venture between** Benteler Automobiltechnik GmbH and SGL Group develops and produces composite components – in particular structural parts – for the automotive industry, to satisfy a rapidly growing market. Based on the existing know-how of both companies and the consistent development of the production facility in Ried, Austria, efficient products and processes have been developed that facilitate the use of composite components in large-scale production, especially those made with carbon fiber materials. In 2012, Benteler-SGL spent €36 million on the construction of the first production facility for the serial production of composite components in Ort, Austria.



Perfect teamwork: Benteler-SGL paves the way for serial production of composite components for the automotive industry such as structural parts for the Lamborghini Aventador.

**Pooling knowledge for continuous improvements.** The development of our employees is an especially important investment for the future. The “Black Belts” at SGL Group are a good example: these specially trained project managers contribute their knowledge to sustainably optimize processes across the entire company. As part of a global network, active and former Black Belts, who have since taken on leadership and other functions within SGL Group, continuously use and share their knowledge and experiences. This approach helps us retain and deploy valuable expertise within the Company and keep alive our dialog-oriented culture of continuous improvement.



## 02. DETERMINED PRODUCTION

2012

# STRONG PARTNER- SHIPS FOR INNOVATIVE PRODUCTS



Our SIGRAFIL® carbon fibers are predestined for high performance applications due to their unique characteristics. In 2012, the globally leading gas and engineering company Linde Group selected us as exclusive supplier for its new gas cylinder range GENIE®. The innovative lightweight gas cylinders can hold more gas than conventional cylinders and can be transported significantly more efficiently. This means less fuel consumption and hence also lower transportation emissions.





**Peter Weber, Vice President Sales & Marketing,  
BU Carbon Fibers & Composite Materials**

"Being involved in developing innovations always feels special. Our carbon fibers turn revolutionary ideas into commercial products. This is why we are constantly finding exciting areas of application. For example, by designing gas cylinders in a way that substantially reduces weight, we were able to reach a totally new level of development."

## 02. DETERMINED PRODUCTION

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# HEADING INTO THE CARBON FUTURE **TOGETHER**

**Strong fibers.** The joint venture SGL Kumpers produces high-performance fabrics and braidings based on carbon, glass, and aramid. High stability with low material use are important qualities in many fields of application, particularly in automotive construction, where carbon braidings are also used for CFRP structural components.



A wide variety of industries use the high quality products from SGL Kumpers to reduce the weight of components.

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**JOINT VENTURE FOR “GREEN” CLIMATE CONTROL IN BUILDINGS.** ENERGY-EFFICIENT CLIMATE CONTROL IN BUILDINGS IS A GLOBAL GROWTH MARKET. LINDNER GROUP AND SGL GROUP ARE POOLING THEIR KNOW-HOW TO RESPOND TO THIS DEMAND. THE JOINT VENTURE UNITES OUR MATERIAL COMPETENCE IN THE PRODUCTION OF THE GRAPHITE CONSTRUCTION MATERIAL ECOPHIT® WITH LINDNER’S EXPERTISE IN THE AREA OF CEILING TECHNOLOGY AND GENERAL CONTRACTING.



Our construction material ECOPHIT® allows for cutting-edge, environmentally friendly climate control.



The use of hydro-chloro-fluoro-carbons (HCFCs) as propellants or refrigerants is largely prohibited today. However, as a consequence of inappropriate recycling of e.g. old refrigerators, they still can contaminate the atmosphere. SGL Group has now developed a specifically designed reactor which fully decomposes the HCFCs in an oxidative thermal process, before they get into the environment. They are destroyed under high heat and the corrosive decomposition products (hydrochloric and hydrofluoric acid) can be recycled in a controlled downstream process.

## 03. DETERMINED RESEARCH AND DEVELOPMENT



**Dr. Bernt Ketterer, Manager of the Alpha-Laion project within Technology & Innovation**

“Our many years of experience in the production of graphite anode materials, together with our broad technological base, put us in a position to drive forward the development of cost-effective, next-generation battery materials. Our participation in the joint project Alpha-Laion represents a major contribution to the further development of electric mobility.”



2012

# HOW IDEAS TURN INTO **SOLUTIONS**

The maximum driving range at the lowest cost is a key challenge facing battery research for electric vehicles. The joint project Alpha-Laion, initiated in 2012 with SGL Group's participation, focuses on exactly this challenge. The main goal is to develop lithium-ion cells with particularly high energy density. The German Federal Ministry of Economics and Technology is supporting the project with €13 million.



Alpha-Laion project team with associates from BASF SE, Wacker Chemie AG, SGL Group, Robert Bosch GmbH, Daimler AG, and BMW AG.

## 03. DETERMINED RESEARCH AND DEVELOPMENT

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# SETTING NEW STANDARDS IN THE **SPIRIT** **OF RESEARCH** AND WITH A ZEST FOR ACTION

**ALWAYS A STEP AHEAD.** OUR DEVELOPMENTS HELP TO SUSTAINABLY POSITION SGL GROUP IN THE MARKETPLACE AS A TECHNOLOGY COMPANY. WE DRIVE GOOD IDEAS, DEVELOP NEW SOLUTIONS FOR OUR CUSTOMERS, AND PROMOTE QUALIFIED EMPLOYEES AND TALENTED YOUNG PROFESSIONALS. THIS ALLOWS US TO SECURE OUR FUTURE PERFORMANCE IN AN ENVIRONMENT THAT IS BOTH COMPETITIVE AND FULL OF OPPORTUNITIES.

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**In the field of research and development,** we view ourselves as an initiator and a team player. For instance, we are a founding member of the leading-edge cluster M-A-I Carbon, which is one of the winners of the third round of the leading-edge cluster competition of the Federal Ministry of Education and Research. The most important goal of the cluster partners is to prepare carbon fiber composite components for serial production.

**60** NEW PATENTS  
A YEAR ON AVERAGE



Intensive research in the Business Area Performance Products: by continuously expanding our expertise in the modeling of graphite electrodes and cathodes, we are responding to our customers' needs while making our own production processes increasingly cost efficient.

**OUR NEW PRODUCT CARBOCRETE®** COMBINES CONCRETE WITH CARBON FIBERS. WHAT KIND OF IDEAS DOES THIS LIGHTWEIGHT CONSTRUCTION MATERIAL INSPIRE? IN 2012, WE AWARDED PRIZES FOR CREATIVE ANSWERS TO THIS QUESTION AS PART OF AN OPEN INNOVATION COMPETITION. ESPECIALLY ARCHITECTS AND DESIGNERS WERE ABLE TO INCORPORATE THE MULTIFUNCTIONALITY OF THE MATERIAL INTO THEIR IDEAS.



The first prize endowed with €6,000 went to the Leipzig-based designer team Stefan Paulisch, Uta Kleffling, and Pamela Voigt for their "Carbocrete Balcony" concept.

## 04. DETERMINED EXPANSION



2012

# TAKING ADVANTAGE OF **GLOBAL** DEVELOPMENT PROSPECTS LOCALLY

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Supplying regional markets with local production: The graphite electrode and cathode plant inaugurated in Banting, Malaysia in 2012 is the largest single investment in our Company's twenty-year history. The state-of-the-art production facility has an annual capacity of 60,000 tons and a promising future as a hub for graphite in Asia. It enables synergies and thus also offers growth opportunities for the other business units of SGL Group.

### **Khiuang Hua Lim, Managing Director SGL CARBON Bhd. Malaysia**

"We now have a plant equipped with the highest production and technology standards in a strategically favorable location right here in Malaysia. Banting represents the gateway to Asian growth markets. From here we can cost-effectively satisfy the rising demand for electric steel and aluminum in Asia and the Middle East."

€200 MILLION  
INVESTMENT VOLUME



## 04. DETERMINED EXPANSION

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**Expanding in key markets around the world.** Our path to profitable growth leads through the world's emerging economies. In Asia and in North America in particular, we are expanding our capacities and even developing new sites. India is steadily gaining importance for SGL Group. Consequently we constructed a new production facility in Pune for the production of graphite-based process equipment and graphite specialty products. The facility enables us to benefit from the dynamic development of India's chemical, pharmaceutical, and high-tech industries. In the US, the extraction of shale gas drives the increasing demand for hydrochloric acid synthesis units. In response, we added a new assembly hall to our facility in Strongsville, Ohio.

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**CUSTOMIZED SOLUTIONS** FOR HYDROCHLORID ACID (HCl) RECOVERY UNITS. IN 2012, THE MAJOR CHINESE COMPANY QINGHAI SALT LAKE INDUSTRY, ORDERED A HCl RECOVERY SYSTEM FROM SGL GROUP. THE SPECIFICALLY DESIGNED UNITS REDUCE ENERGY CONSUMPTION BY AS MUCH AS 45%. THE TOTAL CONTRACT IS WORTH MORE THAN €20 MILLION.

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**Globally present:** SGL Group has 47 production sites, of which 26 are in Europe, 12 in North America, and 9 in Asia, and a service network in more than 100 countries.



Site with potential: the facility in Pune, India, makes graphite-based process equipment for the chemical industry.

## THE BOARD OF MANAGEMENT



**ROBERT J. KOEHLER**  
Chairman/Chief Executive Officer

- Responsible for:
- Corporate Development
  - Corporate Communications
  - Legal
  - Management Development
  - Internal Audit
  - Asia



**THEODORE H. BREYER**  
Deputy Chief Executive Officer

- Responsible for:
- Carbon Fibers & Composites
  - Engineering
  - Corporate Security and Environmental Protection, Safety and Health at Work
  - Purchasing
  - North and South America





**ARMIN BRUCH**

Responsible for:

- Performance Products
- SGL Excellence
- Corporate Marketing & Advertising
- Europe and Russia

**JÜRGEN MUTH**

Chief Financial Officer

Responsible for:

- Group Financing
- Group Accounting
- Group Controlling
- Financial Reporting
- Human Resources
- Information Technology
- Taxes

**DR. GERD WINGEFELD**

Responsible for:

- Graphite Materials & Systems
- Technology & Innovation

## LETTER FROM THE BOARD OF MANAGEMENT

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*Dear Shareholders,*

We celebrated our twentieth anniversary in 2012, and we are proud to have witnessed SGL Group becoming the world's largest producer of carbon and graphite products. On our way to becoming the market leader in our industry, we have continued to evolve both structurally and operationally, especially in the recent past. The same is true of last year. Thanks to this development, we succeeded in generating a solid operating performance on the whole – despite the euro and financial crisis, high energy and raw materials costs, and increasing economic uncertainty. We also benefited from our broad base of materials, technologies and products resulting from SGL Group's strategic focus on both traditional, high-margin businesses (Base Materials) and new growth markets (Advanced Materials). Additionally, since 2012, we have moved into a corporate headquarters, thus uniting all corporate departments under one roof for the first time. This promotes our corporate identity and improves cooperation within SGL Group.

### **PP AND GMS MEET EXPECTATIONS – CFC DISAPPOINTS**

Nevertheless, 2012 was also a year of challenges for our Company. In our established Business Areas Performance Products (PP) and Graphite Materials & Systems (GMS), we achieved our targets. In Performance Products we were able to maintain our market leadership. Despite the cyclical downturn in the solar, semiconductor and LED industries, GMS achieved the second-best results in the Company's history. This being our most diversified Business Area, we were able to gain market share by taking advantage of our broad material base and commercializing innovative new products and solutions available for growth markets. Conversely, the development of our third Business Area, Carbon Fibers & Composites (CFC), was disappointing. The widespread delays in the aerospace and wind energy industries had an impact on the entire carbon fiber market and overshadowed progress. Even though we were surprised at the scope of the postponements, project delays and high start-up costs are typical for technologies and markets that are still at the beginning of their life cycle. On the whole, we were able to improve Group sales revenue by 11% to approx. €1.7 billion year on year. The operating profit (EBIT) remained nearly unchanged at approx. €154 million before project write-offs.

### **2012: ANOTHER IMPORTANT YEAR FOR DEVELOPMENT**

In times of increasingly intense global competition, the continuous strategic and operational development of SGL Group has become especially important. In pursuing this goal, we never lose sight of our commitment to stay close to the needs of our customers. The extensive investments we need to make in order to realize such targeted developments are of significant importance for the sustainability of our Company. As part of our expansion program, we invested approximately €134 million in increasing our worldwide production capacities and in new technologies in the year under review. In the past five years, we invested a total of more than €800 million. We are convinced that this is money well spent. Despite the strong investment activities, our balance sheet remained solid at year-end 2012. This applies both to our equity ratio of approximately 42% and our gearing ratio which is still within the clearly defined target of approximately 0.5.

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### **SUPPLYING REGIONAL MARKETS WITH OWN PRODUCTION**

Several important major projects are now entering the realization phase. In September 2012, for instance, our fully integrated graphite electrode and cathode plant was inaugurated in Malaysia. At more than €200 million, it represents the largest single investment in the Company's history and gives us our own production base in the strategically important growth market of Southeast Asia. GMS continued the expansion of production capacity for isostatic graphite in Germany, the USA, and China. The core of the new graphite production center in Bonn, which is expected to be completed in 2013, is the largest press in the world for isostatic graphite. Within the framework of this investment we also modernized our production infrastructure in the USA and China so that we will be able to more than double our worldwide capacity for isostatic graphite for the semiconductor, solar and LED industries. It aligns with our strategy of supplying local growth markets like China, Taiwan, South Korea, and Japan from our own regional production to continue the expansion of our global market position in these rapidly growing markets. In the Business Area CFC, SGL Group acquired the Portuguese textile fiber manufacturer Fisipe in 2012. We intend to further develop Fisipe to a precursor site, securing the supply of raw materials for our carbon fiber production from own production. We strengthen our carbon fiber value chain to include the supply of raw materials with this backward integration step.

### **TRAILBLAZER FOR A NEW CARBON AGE**

Our joint venture with BMW Group for the production of carbon fibers and carbon fiber fabrics is clearly setting trends for the future as well. The new BMW i3 serial-production vehicles are expected to be launched in 2013. Due to the passenger cell made of carbon fiber reinforced plastic (CFRP) the BMW i3 sets new standards in the lightweight automotive construction and allows an environmentally friendly form of mobility. For the automotive industry, they mark the beginning of a new carbon age. This will give an additional boost to our material in many other applications. Despite the setbacks we experienced in the carbon fiber business in 2012, the positive prospects encourage us to continue our expansion strategy in the Business Area CFC. Because of the pioneering BMW i3 and Boeing 787 projects, 2013 can become a milestone year for the use of CFRP on a large industrial scale in the automotive and aerospace industries.

### **SETTING THE COURSE FOR THE FUTURE IN 2013**

Once again, we are faced with challenging economic conditions in 2013. We cannot expect the economy to provide any tailwind at this point. Instead, skepticism prevails in light of the economic and geopolitical situation. The euro crisis is far from solved, the sovereign debt of important industrialized nations will reach new record highs, and growth in Asia is normalizing, especially in China, meaning it can only compensate for the weakness of the West to a limited extent. New capacities are entering the market, which is creating additional pressure on prices and margins. Additionally, we must anticipate a further rise in energy and raw material prices. As a result, the ordering behavior of our customers remains unpredictable and focused on the short term, which further complicates our ability to plan ahead.

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What exactly does this mean for 2013? We are first and foremost concentrating on improving our operational performance (EBITDA). An important goal for 2013 is to be able to report positive free cash flow once again and continue to keep our indebtedness low. After years of high investment spending, our biggest projects are now nearing completion, so investments will start to decline in 2013 as planned. We plan to slightly improve Group sales revenue compared to 2012. However, due to non-recurring income from the settlement of a long-term supply contract in the Business Area PP in 2012 and declining earnings for GMS because of the persistent weakness of the solar, semiconductor and LED industries, Group EBIT will be lower than in the prior year.

We are convinced that together with our employees, customers, suppliers, partners and shareholders, we will be able to make 2013 a successful year and take important steps to usher in a new carbon age under the leadership of SGL Group – The Carbon Company.

Our thanks go to all of our employees and other stakeholders for their excellent cooperation, commitment and loyalty.

Yours sincerely,

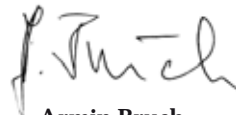
**The Board of Management of SGL Group**



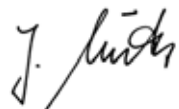
**Robert Koehler**



**Theodore H. Breyer**



**Armin Bruch**



**Jürgen Muth**



**Dr. Gerd Wingefeld**

## REPORT OF THE SUPERVISORY BOARD

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### Dear Shareholders,

The global economy continued to develop positively in 2011, however in 2012 the underlying conditions became increasingly gloomy, and the recovery expected for the second half of the year failed to materialize. As a result SGL Group's business was depressed, which led to a slight downturn in 2012 in Group EBIT before impairment compared to 2011. Revenues, adjusted for acquisitions, still grew by 8% year-on-year.

The Supervisory Board of SGL Carbon SE focused intensively on the Company's development during the year under review. 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 in a regular, timely and comprehensive manner. 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 seven times in the year under review, on March 21, May 10, September 12 and December 6 and in three extraordinary meetings on February 8, June 13 and October 29. None of the members of the Supervisory Board participated in less than half of its meetings. There were no indications for conflicts of interest among the members of the Board of Management or the Supervisory Board in the reporting period.

Prior to the ordinary meetings, the Board of Management conducted in-depth discussions with both the shareholder and employee representatives. In addition, the Board of Management provided regular reports on material transactions, quarterly financial statements, and the response of 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 regular 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 the extraordinary Supervisory Board meeting in February, the Supervisory Board dealt in detail with the Company portfolio and discussed strategic options at a group and company level. The acquisition of the Portuguese acrylic fiber manufacturer Fisipe to strengthen the raw materials supply chain for carbon fiber was unanimously approved. The transaction was successfully concluded in October 2012.

In addition to the 2011 annual financial statements, items discussed in the March meeting included the final budget for 2012 and the notice and agenda for the Annual General Meeting on May 10.

In the May 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 2012. Moreover, the Supervisory Board was presented with an overview of the status of the individual projects.

The extraordinary meeting in June was dedicated exclusively to the company's plans to enter into a strategic alliance in China in order to reinforce the positioning of the Business Area Performance Products. Preparatory discussions were held in earlier Supervisory Board meetings in advance of this meeting. The project was supported unanimously by the Supervisory Board.

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In the September meeting the Supervisory Board was informed about the operational planning assumptions for fiscal year 2013. In addition, in-depth discussions were held concerning the current situation in the Business Area Carbon Fibers & Composites.

The extraordinary Supervisory Board meeting in October focused on the discussion on the new or re-election of positions in the Supervisory Board at the 2013 General Meeting and on the consultation regarding a new chairman of the Supervisory Board.

Operational planning for fiscal year 2013 as well as medium-term outlook for subsequent years were extensively discussed in the December meeting. In addition, we were informed of the status of key projects and their financing.

#### **CORPORATE GOVERNANCE**

With respect to the further development of the German Corporate Governance Code as revised on May 15, 2012, we updated the corporate governance principles of SGL Carbon SE in the December meeting. The main change to the principles is the definition of the number of independent members in the Supervisory Board included in the Code. Otherwise only a few and, in some cases, purely editorial changes were needed. For more information, please refer to the Corporate Governance and Compliance Report on pages 28–34.

The declaration of compliance adopted in December pursuant to section 161 of the German Stock Corporation Act (AktG) contains one exception 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 at [www.sglgroup.com](http://www.sglgroup.com).

#### **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 and Compliance Report (pages 29–30). At the plenary sessions of the Supervisory Board, the committee chairmen reported in detail on the work of the committees.

In its December 6 meeting, the Strategy and Technology Committee dealt with the Business Area Carbon Fibers & Composites. The main issues were the current market conditions and operational situation of carbon fibers and components, the long-term growth potential along the value chain, and, in particular, the future direction of this Business Area. The Strategy and Technology Committee was able to obtain a comprehensive picture of the Board of Management's strategic considerations, and supported the planned activities.

The Audit Committee is informed of the Company's financial results on a regular basis prior to publication of the quarterly reports. 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 from the audit of the financial statements 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, and the audit fees for 2012. The Audit Committee also dealt with the audits performed during the

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fiscal year and material findings from internal audits and the audit plan for 2013. The status and development of the group's pension obligations, tax status and derivative financial instruments were also regular issues of discussion. The Audit Committee supported the global compliance management activities 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. Core issues in the discussions and for resolution were the target agreements with the Board of Management, adjusting the base salaries for the Board of Management from January 2013 and the proposal to increase the Supervisory Board compensation at the 2013 Annual General Meeting. Comparisons have shown that the remuneration received to date by the Supervisory Board is significantly lower than the MDAX average.

In several meetings in June, October and December, the Nominating Committee discussed the future shareholder representatives on the Supervisory Board of SGL Carbon SE.

#### **ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2012**

Both in the Audit Committee meeting as well as in the full meeting on March 11 and 12, 2013, the Supervisory Board verified that the books and records, the separate financial statements of SGL Carbon SE and the consolidated financial statements for the period ended December 31, 2012, and the combined 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 May 10, 2012. We received the audit reports for the consolidated and separate 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. After an in-depth review and discussions, while considering the best interests of the Company and the shareholders, we concur with the Board of Management's recommendation for the appropriation of profits.

In its meeting on March 12, 2013, 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 (pages 109–114). The Supervisory Board has examined the disclosures and is satisfied that they are complete.

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 positive development of SGL Group in 2012 would not have been possible.

Wiesbaden, March 12, 2013

**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. During the year under review, SGL Carbon SE’s Board of Management and Supervisory Board dealt with the changes to the German Corporate Governance Code resolved by the Government Commission on May 15, 2012 in order to constantly improve corporate governance.

## Objectives for Composition of the Supervisory Board

In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board defined the objectives for its composition in December 2010. In view of the revisions made in May 2012 to the German Corporate Governance Code, the Supervisory Board added further detail to these objectives in December 2012 in that at least half of the shareholder representatives in the Supervisory Board should be independent and reinforced its other objectives as follows:

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 have to be in a position 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. As a result, at least half of the shareholder representatives in the Supervisory Board should be independent.

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 and Compliance 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 and strategy 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 employee representative candidates 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. If necessary, the Supervisory Board can also meet without the Board of Management.

There were no indications of conflicts of interest 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) with the deductible stated in Item 3.8 of the German Corporate Governance Code. 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 Susanne Klatten.

### 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.

### 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 monitoring the Company's financial accounting process, risk management, compliance, and consequently its internal control and auditing 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 Strategy/Technology 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 94–100.

#### **Updated Declaration of Compliance**

On December 6, 2012, 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 one exception.

#### **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") in the version dated May 15, 2012 (publication as of June 15, 2012) with the following exception:

- Code section 4.2.3 (4): The severance payment cap in case of the premature termination of a Board of Management member's contract is, in our view, inappropriate with respect to the current contract and compensation structure.

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" (Code) in its version dated May 26, 2010 (publication as of July 2, 2010) since the delivery of the last Declaration of Compliance on December 9, 2011 apart from the named deviations therein, and in compliance with the recommendations of the Code version dated May 15, 2012 since the publication of such version apart from the deviation named above and a further exception pursuant to Code section 5.4.1 (2) with regard to stating a concrete number of independent members of the Supervisory Board. The exception according to Code section 5.4.1 (2) originated from the revision of this section by the Code version as of May 15, 2012 and has been remedied with the amendment of the objectives of the Supervisory Board today [i.e., on December 6, 2012, the date this Declaration of Compliance was issued]

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.sglgroup.com](http://www.sglgroup.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 variable cash compensation with a short-term and a medium-term component, 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). A total of 10% of the annual 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

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, as defined by the Supervisory Board, are achieved (weighting: 70%) 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. 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 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 32** and **Note 33**, 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. The regular review together with the passing of resolutions on the base remuneration of the Board of Management was performed by the Supervisory Board's Personnel Committee and then by the full Supervisory Board in December 2012.

The remuneration report is part of the management report. Please refer to the remuneration report (**Note 33**) 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 2012.

**Directors' Dealings**

Date of transaction	Name of person	Type of security/ right	International Securities Identification Number (ISIN )	Type of transaction	Price (€)	Quantity	Total amount traded
01/20/2012	Robert J. Koehler	SGL Shares	723530/DE0007235301	Sale	37.872397	12,905	488,743.28
03/23/2012	Theodore H. Breyer	SGL Shares	723530/DE0007235301	Sale	36.15	5,000	180,750.00
03/30/2012	Robert J. Koehler	SGL Shares	723530/DE0007235301	Sale	35.26623	2,735	96,453.14
04/02/2012	Dr Gerd Wingefeld	SGL Shares	723530/DE0007235301	Purchase	35.44	8,939	316,798.16
04/02/2012	Theodore H. Breyer	SGL Shares	723530/DE0007235301	Purchase	35.44	10,455	370,525.20
04/02/2012	Jürgen Muth	SGL Shares	723530/DE0007235301	Purchase	35.44	7,450	264,028.00
04/02/2012	Armin Bruch	SGL Shares	723530/DE0007235301	Purchase	35.44	8,939	316,798.16
04/02/2012	Robert J. Koehler	SGL Shares	723530/DE0007235301	Purchase	35.44	13,612	482,409.28
05/25/2012	Armin Bruch	SGL Shares	723530/DE0007235301	Sale	32.01565	10,000	320,156.50
09/13/2012	Jürgen Muth	SGL Shares	723530/DE0007235301	Sale	31.44858	6,500	204,415.77

**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 the provisions of this section all members of the Supervisory Board receive a fixed base remuneration plus reimbursement of out-of-pocket expenses. Each member of a committee receives additional compensation for attending a committee meeting. Please refer to the notes to the consolidated financial statements (**Note 33**) for further information on the remuneration received by each member of the Supervisory Board. The company's management will make a proposal to the Annual General Meeting on April 30, 2013, to increase the fixed remuneration for ordinary members of the Supervisory Board to €50,000, for the Deputy Chairmen to €75,000, and to €125,000 for the Chairman of the Supervisory Board. In addition, in view of the large amount of time required for their activities, compensation for members of the Audit Committee should increase from €2,000 to €3,000 and the compensation for the Chairman of this committee should increase from €5,000 to €6,000.

**Directors' Dealings**

Pursuant to section 15a of the German Securities Trading Act (WpHG), the members of the Board of Management and the Supervisory Board and persons closely related to them 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 2012, the members of the Board of Management neither directly nor indirectly held more than 1% of the outstanding shares in the Company. According to her notification of voting rights dated May 2011 and her directors' dealings reports, at the end of the year 2012 Supervisory Board member Susanne Klatten holds approximately 28% of the outstanding shares through SKion GmbH.

## Compliance as Part of our Management and Corporate Culture

SGL Group introduced its Code of Business Conduct and Ethics in 2005. 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. The Code also reflects 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 Code of Business Conduct and Ethics of SGL Group and in compliance with the regulations of their respective work areas. Compliance must be ever-present in the minds of our executives and employees, and they must live this in their day-to-day business. This allows compliance to sustainably support the success of our business.

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 steer the required comprehensive organizational, communications, and control structures for SGL Group worldwide. Effective compliance goes beyond merely ensuring the adherence to legal and formal requirements and structures: Compliance must become an integral part of value-oriented corporate management. Main focuses of 2012 were the "Compliance Days 2012". The aim of the "Compliance Days 2012" was, in particular, to anchor compliance further in our corporate culture and to include all employees worldwide. The core of the activities of Group Compliance during the Compliance Days 2012 was to send four compliance suitcases on a four-month journey around all SGL Group sites in Germany, Europe, North America and Asia. The suitcases contained various messages and activities. Everything had to do with the issue of responsible behavior in



"Compliance Days 2012": four compliance suitcases were sent on a four-month journey around all sites.

daily business. Using the slogan "Strength through compliance!", the local compliance officers assumed the role of the host at the individual sites and, together with the management, they were available to answer questions from employees. Not only the most important message: "Compliance applies to all of us" was discussed with employees in all areas while taking the respective local requirements into account. In addition, further workshops and training sessions were held as part of the "Compliance Days 2012". This innovative communication approach has sustainably reinforced compliance awareness for all SGL Group employees around the world.

Furthermore in 2012 a process to evaluate business partners (business partner compliance) was added to the existing compliance management system, also including requirements resulting from the UK Bribery Act. After a project phase involving the Business Units, the various provisions will successively be rolled out throughout the company.

Part of the compliance organization in SGL Group is the network of regional and local compliance officers. In 2012 the existing information and communication structures were reviewed and further improved with the aim of increasing and institutionalizing the transfer of knowledge between the respective regional compliance officers, the local compliance officers and Group Compliance.

SGL Group's Code of Business Conduct and Ethics with its whistleblowing policy and its gifts and entertainment policy is part of the information package for new hires and handed out to all new employees. The policies are now available in nine languages.

An E-Learning program has been added to the training on the Code of Business Conduct and Ethics. The test phase involving the compliance network was successfully completed, and the program is scheduled to be launched in the second quarter of 2013.

The "Compliance Intranet" site has been migrated successfully to SGL Group's new intranet platform, and is available in German and English. It provides all employees with information on all aspects of compliance: The information that can be downloaded includes all of the group-wide guidelines that are relevant for compliance, presentations from workshops and information on the compliance network.

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 160 training sessions have been conducted worldwide with approximately 2,680 employees. In 2012, 120 employees took part in the personal training. In addition 193 employees have been trained on antitrust law in Europe and Asia via the eLearning program. A US-specific program was added to the interactive module, which will supplement the face-to-face training sessions starting from 2013.

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. Furthermore, training sessions and workshops on export control compliance are held regularly. In addition, the E-Learning program for export control has been developed. This will also be launched in 2013.

The Supervisory Board's Audit Committee addressed the Company's compliance activities in detail at its meeting in December 2012.

## CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility means going beyond economics and including environmental as well as social factors in our actions. Socially responsible, environmentally conscious behavior, commitment to employees as well as society while advancing sustainable product solutions are significant components of SGL Group's corporate culture and objectives. They are a key prerequisite for the success of our business.

The following chapter provides an overview of SGL Group's principal activities surrounding corporate social responsibility. You will find more details and further examples under Corporate Social Responsibility in the Company section of our corporate website at [www.sglgroup.com](http://www.sglgroup.com).

### Integrity and Values

Acting responsibly and in accordance with the law is anchored in SGL Group's corporate philosophy. Our Code of Business Conduct and Ethics sets binding standards for how we behave in our day-to-day business. The Code defines how we, as a company, meet our legal and ethical responsibilities while taking the respective social and cultural standards into account and reflecting our Common Values. We act fairly and honestly vis-a-vis our business partners, shareholders, the authorities and the general public. Our employees treat each other with courtesy and respect and we deal responsibly with the environment – these are all key aspects of our principles. The Code plays an important role in building and maintaining trust and supports the personal integrity of our employees.

Each employee is personally responsible for ensuring that their actions are in line with the Code. The Code also provides the framework for other corporate guidelines, in which specific regulations are described and explained in greater detail. Employees can turn to local compliance officers as well as executives and management when they have questions. In addition, our Group compliance program, with its regular training sessions and campaigns like the "Compliance Days 2012," helps us to maintain our compliance standards and

legal requirements (see also the Corporate Governance and Compliance Report on page 33).

Furthermore, we are also committed to the conduct of our business partners meeting our compliance standards (business partner compliance). In 2012, we developed a process to review our partners for this purpose.

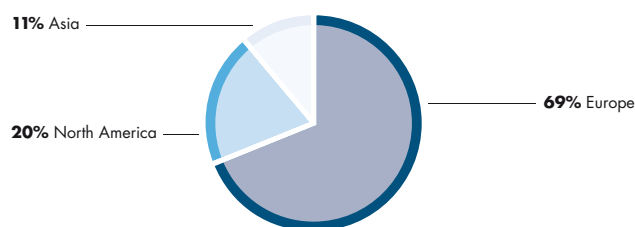
### Responsibility for Employees

SGL Group is continuously developing. Our fascination with carbon is what binds us together. Every single day our employees contribute their experience, dedication and passion for carbon, helping to further advance the Company.

#### SGL GROUP EMPLOYEES – THE STRATEGIC ADVANTAGE OF DIVERSITY

At the end of 2012, SGL Group had a total of 6,686 employees – up 3.7% year on year. This increase is primarily attributable to the acquisition of the Portuguese company Fisipe as well as to the further growth of our Asian workforce (see also page 89 in the management report). The Group's workforce continues to be very international: Europe has the greatest share with 69% (2011: 67%), followed by North America with 20% (2011: 22%) and Asia with 11% (unchanged).

#### Employees by region



The diversity and global structure of the workforce is an important strategic advantage for SGL Group. Interaction among and the exchange of knowledge between employees is supported, for example, by actively sending employees on foreign assignments to our facilities in other countries. In 2012, approximately 25 executives were on international expatriate assignments. At present, the largest groups of expatriates are in China, Malaysia and Portugal. International collaboration is also supported by technical innovations, such as an online-based document filing system in the Group's Intranet, which was introduced in 2012.

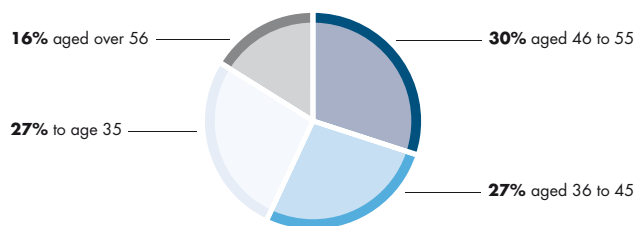
**EQUAL OPPORTUNITY AND SOCIAL RESPONSIBILITY**

As a forward-looking company, we support equal opportunity, the respectful treatment of all our employees and placing male and female employees on an equal footing. The share of women in our workforce in 2012 remained unchanged compared with the previous year at 15%. The share of women in executive positions was 16% as of the end of the year, an increase of two percentage points above 2011.

SGL Group increasingly supports a work-life balance. Beyond flexible working hours, we have also offered specific programs at some sites for the first time. For instance, SGL Group's site in Meitingen has partnered with the Sommerkinder (summer children) initiative of the Vereinigung der Bayerischen Wirtschaft e.V. (Bavarian Business Association) and the bayerischen Metall- und Elektro-Arbeitgeber (Employers' Associations for the Bavarian Metalworking and Electrical Industries), which offers an extensive summer vacation program to children of employees.

The Group's workforce continues to have a balanced age structure, which only changed marginally compared to the prior year. 27% of all employees are younger than 36 years old (2011: 26%), or between 36 and 45 years old (2011: 28%); 30% are 46 to 55 years old (2011: 31%); 16% (2011: 15%) are more than 55 years old.

**Age structure of SGL employees**



We support flexible and seamless transition into retirement. In addition to applying the statutory pension schemes and training a successor early, we offer part-time employment options for former employees, for example, for event support or visitor tours. Furthermore, we provide attractive and traditional company pension plans in a number of regions. Our pension plan in Germany was expanded in 2012 to include an additional model: "SGL Altersversorgung PLUS."

SGL Group's responsibility for our employees' health is equally important across all age groups. In addition to extensive activities to ensure health and safety at work and regular support from company doctors, SGL Group also offers various health care programs, including some in cooperation with health insurance companies. One example is the Employee Assistance Program, a health program in place since 2011. Further examples include specific prevention campaigns at diverse locations.

**TRAINING AND EDUCATION**

Consistent HR development is an essential component of our company philosophy, both because of our responsibility to our employees and also for the long-term development of SGL Group. Our goal is to enable our employees to provide top performance and to encourage them to continuously develop themselves both personally and professionally. To this end we also train specialists in-house and foster the development of our employees through targeted training programs.





Consistent HR development also includes training of specialists in-house. One example is our initiative “SGL Class” in China, here during a workshop at the SGL Group site in Shanxi in May 2012

In 2012, SGL Group had a total of 142 apprentices at its German facilities, with the majority located at our Meitingen (75) and Bonn (39) sites. A further example of our commitment to HR development is the “SGL Class” initiative which was put in place in China in 2010 – an extensive training program for technical school students. In cooperation with the Fengxian Secondary Professional School, Shanghai Dianji College, Chien-Shiung Institute in Shanghai, Taiyun Science & Technical University in Shanxi and since last year the Yangquan Vocational School in Shanxi, SGL Group awards specially tailored apprenticeships and internships to talented high school students. How deeply entrenched the tradition of training is at SGL Group can also be seen in Bonn at the “Azubi- Wand” (apprentice wall), a 12.5m x 3.5m wall made of over 2,000 graphite blocks – one for each of the apprentices in the more than 100-year history of our Bonn facility.

To provide our employees with further education, we offer a Group-wide, uniform competency model to promote central, interdisciplinary competencies for specialists and managers in

addition to a wide variety of individual programs aimed at advancing our employees’ professional qualifications, semi-annual development meetings as part of the “SGL Dialog” performance reviews as well as the three-step program series “Leadership@Work.” We continued to refine this model in 2012 to better tailor it to the challenges of the future. The expanded model will be introduced throughout the course of 2013. Leadership@Work has had more than 1,000 participants since its launch over ten years ago.

#### **COMPETING FOR TALENT – GRANTS, INTERNSHIPS AND THESES**

As a dynamic, innovative company aimed at sustaining our business for the long term, we are always competing for the best talent. In this context, we are also pleased about our good performance in employer rankings such as the “Top Arbeitgeber Deutschland” (top German employer) study conducted by the CRF Institute. The study gave SGL Group excellent marks for the past year in all categories, including first place in the “Primary Benefits” category nationwide.

In order to demonstrate our passion for carbon to interested students and skilled professionals and give them the opportunity to get to know the Company at an early stage, we regularly visit universities and participate in career fairs. We also offer tangible support in the form of university grants, internships and provide opportunities for students to cooperate with us in writing dissertations and theses. We do this, for example, as part of our extensive alliances with various universities around the world (see “Promoting Science – Shaping the Future Together”, pages 42–43).

Furthermore, we participate in many other activities to support the exchange between business and students. In 2012, for example, we continued to be active in the “Formula Student,” an international series of construction competitions for students and organized events such as “Company Day” for students of the Compliance Officer advanced training course at the University of Augsburg.

**EMPLOYER BRANDING “PASSION FOR CARBON”**

Additional sponsoring activities also generate broad awareness for SGL Group by aiming to increase the Company’s visibility as an employer and to further reinforce our employer branding “Passion for Carbon.” Particularly noteworthy is our involvement with the German Bundesliga club FC Augsburg, which began in 2011. The focus is the naming right for the stadium – “SGL arena.” As part of the sponsorship, some of SGL Group’s activities in the past year have included supporting the club’s youth work, special SGL-FCA scarf giveaways to fans as well as a number of contests in which the children of our employees and youth teams supported by SGL Group had the opportunity to win a spot as player escorts at FC Augsburg matches.

**Products, Resources and Environmental Protection**

SGL Group is a specialist for carbon materials, the Company’s products contribute to protecting the environment and climate by enabling its customers to produce environmentally-conscious end products. Furthermore, conscious use of resources, environmental protection and upholding high standards in health and safety at work are key prerequisites for SGL Group’s responsible and sustainable growth.

The organizational foundation for monitoring and continuously developing all environmental protection, and health and safety activities are formed by the central function Corporate EHSA (Environment, Health, Safety, Audits), which coordinates all Group-wide activities, sets uniform standards and routinely audits developments in cooperation with local EHSA representatives.

**CARBON MATERIALS FOR ENVIRONMENTALLY FRIENDLY APPLICATIONS**

Carbon materials exhibit extraordinary properties making them uniquely appropriate for a wide variety of applications that help protect the environment and climate. In fiscal year 2012, a total of approximately two thirds of our Group sales revenue was linked to products for sustainable solutions. Additionally, the products produced by our At-Equity accounted investments contribute to environmental and climate protection.

The best known example for the use of carbon for sustainable solutions is lightweight construction, which plays an increasingly important role in both the aerospace and automotive sectors. In order to save weight and decrease fuel consumption as well as CO<sub>2</sub> emissions, many manufacturers are increasingly using components made of carbon fiber reinforced plastics (CFRP). Our materials are also used in producing renewable energy. For example, the use of carbon fibers in rotor blades enables ultra-large blades to be constructed for wind power plants. In the solar industry graphite is used to produce silicon for photovoltaic systems. Carbon is also the first choice for many applications in which energy storage and efficiency are critical factors, for example, as an anode material in lithium ion batteries or as heat conductors in cooling systems. Our materials are also used, in the form of electrodes, to recycle scrap steel in steel producers’ arc furnaces.

We carry out many of our own research activities and cooperate with universities and other partners in order to continuously advance the potential applications for carbon in sustainable solutions (see “Promoting Science – Shaping the Future Together” on pages 42–43 and pages 60–62 in the management report).

**ENERGY EFFICIENCY AS A FUNDAMENTAL PRINCIPLE**

The manufacture of products made of carbon and graphite demands the use of specific, energy-intensive and high-temperature technologies. Therefore, it also makes business sense that one of SGL Group’s fundamental principles is resource conservation. When planning new plants and buildings as well as operating existing facilities, we consistently develop and implement new activities and systems at our sites to further improve energy efficiency.

In fiscal 2012, SGL Group, for example, introduced an energy management system (EnMS) in Germany in accordance with DIN ISO 50001 aimed at continuously improving energy-related performance. The EnMS is regularly audited based on both the DIN and internal standards. Other examples of our energy efficiency activities include heat recovery systems at our facilities in Muir of Ord (Great Britain) and Steeg (Austria), the air conditioning system in administrative buildings using our low-energy ECOPHIT climate control ceilings, which are used, for example, in our Group research center in Meitingen and in our new headquarters in Wiesbaden-Schierstein.

Moreover, SGL Group is also engaged in the development of new forward-looking energy management models for industrial companies. For example, we are a partner of the FOREnergy initiative of the Bavarian Research Foundation, which was founded in September 2012. The goal of the initiative, which currently includes 28 partners from science and business, is to research concepts and solutions for energy flexible factories. Energy efficiency also plays an important role in how we collaborate with our customers. For example, in September 2012 SGL Group negotiated to a technical cooperation with Hydro – a Norwegian aluminum manufacturer – to develop solutions to increase energy efficiency in the primary aluminum production process.

#### DEALING RESPONSIBLY WITH EMISSIONS AND CHEMICAL SUBSTANCES

Handling emissions and chemical substances responsibly is a key aspect of environmental protection at SGL Group. In this context, SGL Group has invested more than €50 million in the past seven years in equipment with Best Available Techniques (BAT) for environmental protection. These investments focus on regenerative thermal oxidation facilities and methods for treating production emissions. A further example of achieving top-level environmental standards is the plant operated by SGL Automotive Carbon Fibers (SGL ACF), a joint venture between SGL Group and BMW Group for the manufacture of carbon fiber in Moses Lake, Washington (USA), which runs completely on hydropower generated electricity.

When handling chemicals, SGL Group provides support and assistance in the step-by-step introduction of protection targets in European chemicals policy and in the European legislation on the Registration, Evaluation and Authorization of

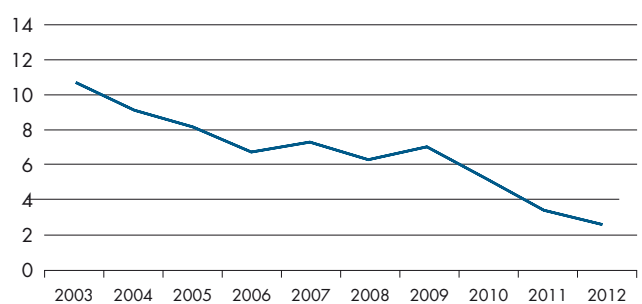
Chemicals (REACH). As part of our consistent implementation of this legislation, which for example requires registration of substances that we produce or import in quantities of between 100 and 1,000 mt per year, we made, as planned, the necessary preparations to ensure registration takes place on time until May 2013.

Furthermore, exchanging information about the use of substances is an integral part of our collaboration with suppliers and customers. This includes exchanging detailed risk and exposure assessments with customers and suppliers as part of the legally required chemical safety inspections. In addition, we provide our customers with relevant product information such as safety data sheets for all substances and products produced by SGL Group in a standardized global system (see also page 92 in the management report).

#### Health and safety at work

The safety of our employees, the security of our work flows and active, long-term risk management are top priorities for SGL Group.

##### Frequency of accident-related work absences<sup>1)</sup>



<sup>1)</sup> Number of accident-related work absences per 1 million hours worked

#### ACCIDENT PREVENTION

We use our high standards, permanent safety precaution improvements and a large number of target-oriented training sessions and activities to prevent workplace accidents. As a



The safety of our employees is a top priority for SGL Group. One success factor is the strong safety culture within our company. To continuously reinforce this awareness, we issue an SGL Safety Award once a year. In 2012, the employees of our facility in Banting in Malaysia (see picture) received this award along with 13 other sites worldwide.

result of our activities, we continue to see a positive development in the frequency rate of accident related work absences compared to the number of hours worked. Based on 1 million hours worked, the index has fallen from 11.91 in 2002 to 2.59 in 2012. This is a decline of more than 75% (see also page 91 in the management report). The strong safety culture within our company, which was established through our own efforts, has played a significant role in this success.

We ensure the sustainability of our efforts by setting ambitious targets and through continuous preventive safety management. Incoming data on all accidents and near misses are systematically analyzed, recommendations are formulated and preventive actions and training sessions are initiated. All sites are required to use our standardized reporting system,

via which specific, top-level actions can be initiated. A central database also enables us to provide examples of best practices. Additionally, in order to further reinforce awareness of occupational health and safety at our sites, we issue the SGL Safety Award once a year to honor sites that have remained accident-free over a pre-defined period. In 2012, a total of 14 locations were accident-free and received the Safety Award.

Our preventative measures are complemented by emergency management systems specific to each site. To maintain and optimize our standards, routine training takes place at all production facilities. In addition, occupational safety and the minimization of risks are anchored in the target agreements of our divisions and sites.

### MINIMIZING RISKS

On the whole, SGL Group uses a variety of tools to minimize risk. The Group established a company-wide approach to recording, analyzing and evaluating risk back in 2002, which is being expanded regularly. Included are also financial effects of crises such as environmental damages or fires, and in such cases, avoiding production downtime by shifting to other plants. In addition, we regularly conduct centrally organized audits in cooperation with our insurance company FM Global. Our facilities can obtain a special certificate as part of these audits which certifies their status as being a Highly Protected Risk (HPR). The audit results are discussed with the plant management and, if necessary, an action catalog to minimize risk is prepared. In the year 2012, 27 locations were audited. A total of 18 plants now have HPR status.

Furthermore, SGL Group begins the risk assessment and management already when new production facilities or expansions of existing plants are in the planning phase. In these cases the EHSA team also employs the support of external partners to complement our own expertise, ensures a uniform approach and offers support. This practice enables us to monitor investments and process modifications centrally, thereby reducing risks early in the modification or construction phases of a project.

### Corporate citizenship

Corporate citizenship is a fundamental facet of our corporate social responsibility. This is reflected both in our close ties with the communities in which we operate as well as the diverse alliances and initiatives in science, research and industry.

### LOCAL COMMUNITY INVOLVEMENT AND SUPPORT

The circumstances and challenges of communities vary greatly between the regions in which SGL Group has facilities. Therefore, we support the regions through our facilities with many different programs and activities, which are often accompanied by the strong local commitment and initiatives of our own employees. In 2012, the activities again ranged from community involvement and supporting the local economy to fostering sports and cultural institutions. The following section briefly outlines a few examples of our activities.

At the Polish facilities in Racibórz and Nowy Sącz, for the first time SGL Group supported vacation camps for children from local disadvantaged families. The two-week programs were rounded off with a visit of the children and young people to the SGL Group plant in their area. Following the camps, employees donated school supplies. A total of 1,200 items were collected, from pens and backpacks to calculators.

Many other sites around the world participated in similar activities. At our site in Charlotte, North Carolina (USA), for example, SGL Group supported the initiative “A Child’s Place” during the Christmas season providing gifts to homeless children. In Xincun in the Chinese province of Shanxi, SGL Group donated new school uniforms to the kindergarten and elementary school as part of “Children’s Day.” Apprentices at our Bonn facility continued the tradition of helping young cancer patients. In fiscal 2012, they collected a total of €1,100 by selling tools that were no longer needed. The sum was donated to the children’s cancer clinic in Bonn.



In fiscal 2012, apprentices at our Bonn (Germany) facility collected a total of €1,100 by selling tools that were no longer needed. The sum was donated to the children’s cancer clinic in Bonn.

Our involvement in promoting the local economy is reflected in the active participation of representatives from many of our various sites in the local Chambers of Commerce and business associations. Promoting local sports and preserving cultural traditions are also focal areas for us. We have extensive sports programs at our sites in Narni (Italy), Hickman (USA) and La Coruña (Spain), among others. An example of our involvement in cultural affairs is the support of many music and culture clubs that our employees around the world have initiated, such as the brass band “Plania” in Racibórz (Poland) or the “SGL Kapelle” in Meitingen.

In addition to local involvement in the form of scheduled programs and initiatives, SGL Group also provides concrete unbureaucratic aid in the event of a crisis. For example, our Italian sites were involved in the efforts to help the victims of the earthquake in the Italian region of Emilia Romagna in May 2012. In addition to financial support, some SGL Group employees also volunteered on the ground.

#### **PROMOTING SCIENCE – SHAPING THE FUTURE TOGETHER**

Promoting science continues to be particularly important to SGL Group. We proactively support the joint development of advanced research surrounding carbon materials and the business activities of SGL Group. Our long-term and diverse alliances are closely linked to our own research activities and are supported and driven primarily by our global group research department, Technology and Innovation (T&I) (also see pages 60–62 in the management report).

In 2012, we expanded our range of activities yet again. For example, we expanded the existing research and development alliance for synthetic graphite with the AGH Krakow Technical University in Poland. In addition to the ongoing support of dissertations and master theses and our lecture series on carbon materials, we plan to set up a carbon laboratory and a lecture hall.

By supporting the professorship of Carbon Composites (LCC) at the Technical University of Munich (TUM), SGL Group is continuing to drive research about carbon-fiber based materials. Founded in the year 2009 under Prof. Klaus Drechsler, the professorship had over 60 employees at the end of 2012. The institute is increasingly developing into a key hub for multilateral development projects and is continuing to facilitate the creation of networks not only at the national level but also with universities and research institutes in the USA, China, Korea and Singapore. Prof. Drechsler also heads the Fraunhofer project group for lightweight construction in Augsburg, which he is successively bringing closer to the Fraunhofer Institute.

Our work with the European Business School (EBS) close to Wiesbaden, Germany, which SGL Group announced jointly with the EBS in December 2012, represents a cooperation with a different focus. The establishment of a professorship in the area of Supply Chain Management is planned, which will research integrated logistics chains over the entire value chain. It is scheduled to begin in the 2013 summer semester. Prof. Dr. Hans Sebastian Heese will hold the professorship. Another example is our involvement in the University of Augsburg, where in 2012 we supported vocational training in the field of modeling by sponsoring the software.

SGL Group also encourages top performance in science and in new application fields by awarding a number of prizes and holding idea competitions. For example, every two years we grant the Utz-Hellmuth Felcht award, which carries a €20,000 prize. The award goes to outstanding technical contributions to science in the fields of carbon and ceramic materials. The next award will be given in 2013. We also foster young, up-and-coming scientists through science prizes. Once again in 2012, we granted the SGL Group Award for the best dissertation in the engineering department at the Technical University of Munich in the field of lightweight construction with carbon, ceramic or hybrid materials as well as the “Schwäbische Wissenschaftspreis” (Swabian Prize for Science).

With our idea competition “What could you make out of carbon concrete?”, we tried something new by engaging the public to find the best application ideas for carbon fiber reinforced concrete. Over 300 ideas were contributed to the Open Innovation Platform [www.innovationskraftwerk.de](http://www.innovationskraftwerk.de) of the “Germany – Land of Ideas” initiative. Prizes totaling €15,000 were awarded. We donated a portion of the prize money to the Montessori Kinderhaus in Meitingen, which has established its own research room for children.

SGL Group is a co-founder of the “Initiative Junge Forscherinnen und Forscher e.V.” (IJF – Initiative for young researchers). The motto is “Mach die Zukunft zu Deiner Idee!” (Turn the future into your idea!), and it aims to allow children and young people to get a grasp on future technologies and foster the joy of discovery and independent thinking in order to train enthusiastic young people for scientific and technical professions. The initiative is jointly financed by the European Social Fund, among others. SGL Group not only participates in IJF events through sponsorship and assistance in the jury for the annual Nano school competition but it also introduces its own activities. One of the initiatives of SGL Group employees included a technology rally that was held in cooperation with IJF at the Herbertshofen elementary school in Meitingen for the first time in May 2012.

SGL Forum has been in place since 2010 at our facility in Meitingen, which has created a meeting place for people to discuss scientific topics surrounding carbon materials. Covering a space of 1,700 m<sup>2</sup>, the forum is primarily a communications center, which demonstrates our technological expertise, our broad product base and our innovative abilities. It also serves as an international conference location. As an example, SGL Group hosted the 3rd International Flow Battery Forum (IFBF) in September 2012, an annual conference aimed at advancing redox flow batteries as energy storage solutions. Additionally in November 2012, the “M-A-I Green” project of the leading-edge cluster M-A-I Carbon started in the Forum – a project in which SGL Group is actively involved. The goal of the initiative is joint research of alternative raw materials and processes in carbon fiber composites to improve the carbon footprint.



SGL Group is a co-founder of the “Initiative Junge Forscherinnen und Forscher e.V.” (IJF). One of the activities of SGL Group employees included a technology rally that was held in cooperation with IJF at the Herbertshofen elementary school in Meitingen (Germany) in May 2012.

Since 2008 we have regularly held our quarterly “Innovation Panel”. This lecture series features well-known guest speakers who discuss future trends and developments in science and research and promote dialogue between business and research experts.

## THE SHARE AND INVESTOR RELATIONS

THE **SGL SHARES** WERE UNABLE TO KEEP PACE WITH THE POSITIVE DEVELOPMENTS IN THE DAX AND MDAX IN 2012 AND CLOSED THE YEAR AT €30.05, DOWN BY APPROXIMATELY 21% COMPARED TO THE END OF 2011.

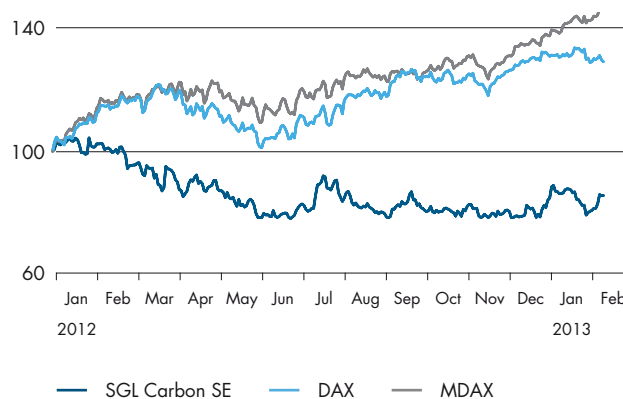
Despite the escalation of the European sovereign debt crisis in the spring, the stock markets – especially those in Europe – performed better than expected in 2012. While Germany's leading index, the DAX, had climbed by around 20% by the end of March, the mood became increasingly gloomy in the capital markets owing to the sovereign debt crisis in Europe and the slowdown in the global economy. As a result, by the beginning of June, the DAX had fallen back to where it had been at the start of the year. The MDAX index, which includes the SGL shares, also exhibited a slight downward trend, having performed positively from the start of the year until early summer. At the 19th EU summit, which began in late June, the heads of governments delivered results that exceeded investors' pessimistic expectations. In July stock markets – especially those in Europe – received a further boost when the ECB President Mario Draghi pledged to buy all the bonds of crisis-hit countries in the euro zone and to do whatever it takes to save the euro. A looming fiscal cliff in the United States dominated the financial markets at the end of the year, while issues such as the euro crisis and government debt faded into the background.

The DAX gained 30% over 2012 as a whole. By the end of the year, the index had risen to 7,612 points, substantially higher than the previous year's close at 5,898 points. The MDAX performed even better, increasing by 34% from 8,897 points at the end of 2011 to 11,914 points at the end of 2012. On December 21, 2012 it reached a record high of 11,994 points.

### Key figures for SGL shares

	2012	2011
Number of shares at year-end	70,636,538	70,063,564
High (€)	39.73	47.27
Low (€)	29.87	25.10
Closing price at year-end (€)	30.05	38.09
Market capitalization at year-end (€m)	2,122.6	2,668.7
Average daily turnover in Xetra trading (number of shares)	117,160	406,131
Free float (%)	approx. 40	approx. 40
Earnings per share (€) (basic)	0.10	1.09
Dividend per share (€)	0.20	0.20

### Share performance relative to the DAX/MDAX





### SGL Shares Unable to Replicate Positive Stock Market Developments

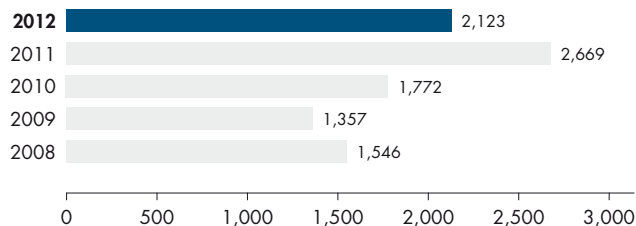
The SGL share price in 2011 was driven by the changes in our shareholder structure and the resulting speculations. Consequently, the shares were unable to defend this level in 2012. Despite our Company's sound growth and the encouraging performance of the stock markets, SGL shares fell by 21% year on year and closed at €30.05 on December 28, 2012.

SGL shares reached their highest closing price of 2012 on January 26 when they peaked at €39.73. Along with the general stock markets, they fell to their lowest price on June 26 when they closed at €29.87.

### Declining Market Capitalization and Trading Volume

Market capitalization decreased on the back of the lower share price in 2012. Having stood at €2,668.7 million at the end of 2011, market capitalization amounted to €2,122.6 million at the end of 2012. Free-float market capitalization – the figure used by Deutsche Börse AG to calculate its MDAX rankings – stood at €861,718 on December 28, 2012. This took SGL Carbon SE to 36th place in the rankings, down from 23rd place in the previous year. Deutsche Börse calculates this figure using the average volume-weighted share price over the 20 days preceding the respective cut-off date. The number of shares outstanding increased to 70,636,538 as at December 31, 2012, up approx. 570 thousand shares compared to year-end 2011.

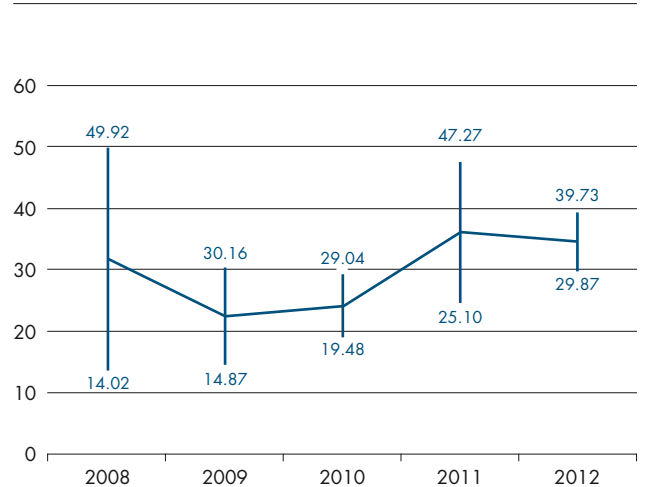
Market capitalization in €m



Share performance in €



Highest and lowest share price in €



The average volume of our shares in Xetra trading fell significantly from 406,131 shares to 117,160 shares per day.

### Stable Shareholder Base

With shareholdings of around 28%, our largest shareholder continues to be SKion GmbH, the investment company of Ms. Susanne Klatten.

To our knowledge, the following companies own shareholdings that are subject to disclosure requirements:

Volkswagen AG	8.18%
Voith AG	9.14%
BMW AG	15.72%
SKion GmbH	Approximately 28%

According to a shareholder identification exercise dated April 2012, the geographical distribution of institutional investors is as follows: About 27% of the shares are held by German investors, 34% by investors in the rest of Europe, 22% in the Asia-Pacific/Middle East region, and 17% by investors in the US.

**Share performance** in €



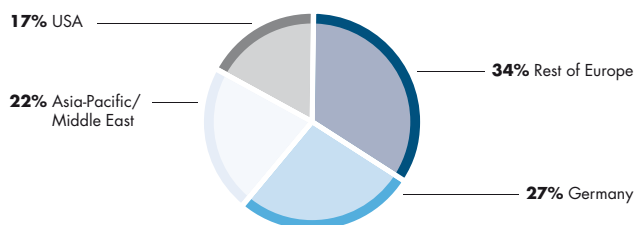
**Striving for sustainable dividend payments**

In 2012 we distributed a dividend for fiscal 2011, for the first time since 1998. Subject to approval by the Annual General Meeting on April 30, 2013, we will again distribute a dividend of €0.20 for each dividend entitled share in 2012. We are committed to paying our shareholders sustainable, earnings-driven dividends. In addition to the expected achievement of medium-term targets, this also takes into account future levels of gearing, the return on capital employed and free cash flow.

**2012 Annual General Meeting**

At the Annual General Meeting of SGL Carbon SE on May 10, 2012, 71.88 % (2011: 58.14%) of the voting capital was represented. This equated to 50,649,012 shares and the same number of votes. A total of around 830 shareholders, shareholder representatives, and guests participated in our Annual General Meeting. All of the agenda items were approved with a large majority. We broadcasted the speech by the Chairman of the Management Board, Robert J. Koehler, via the internet for the first time. His speech and the results of all votes are available to our shareholders and other interested parties in the investor relations section of our website under the menu item ‘Annual General Meeting’. SGL Carbon SE’s next Annual General Meeting takes place on April 30, 2013.

**Geographical distribution of institutional investors<sup>1)</sup>**



<sup>1)</sup> Status: April 2012

## Intensive Communication with Capital Markets

A total of 17 German and international financial analysts observed, analyzed, and rated SGL Group (2011: 16 financial analysts) at the end of January 2013. Dialog with analysts focuses on growth and profitability in the current economic environment and SGL Group's medium-term development. At the end of January 2013, analysts rated our shares as follows: five analysts issued a hold or neutral recommendation for our shares, and twelve analysts issued a sell, underperform or underweight recommendation. These recommendations resulted from the analysts' price targets, the majority of which were lower than the current share price. Whereas the closing price of our share was €31.46 on January 31, 2013, the analysts' price targets were between €12.50 and €33.50.

We have provided a summary of the analysts' ratings on our investor relations website under the menu item "Share".

### Analyst coverage<sup>1)</sup>

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Baader Bank

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Bank of America Merrill Lynch

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Bankhaus Lampe

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Bankhaus Metzler

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Berenberg Bank

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Cheuvreux

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Commerzbank

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Credit Suisse

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Deutsche Bank

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DZ Bank

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Goldman Sachs

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HSBC

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J.P. Morgan Cazenove

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Kepler

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Landesbank Baden-Württemberg

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MainFirst Bank

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UBS

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<sup>1)</sup> Status: January 2013

We aim to provide all participants in the capital markets with transparent, timely, and comprehensive information on SGL Group's current business position and its future prospects. With this objective in mind, we continued to vigorously pursue our investor relations activities in 2012. In more than 250 one-on-one meetings with analysts and investors in Germany and abroad, we presented SGL Group and its growth strategy in detail.

Roadshows and capital market conferences were the main forums for intensive personal dialog with institutional investors. We participated in 16 roadshows and 13 investor conferences in 15 countries in 2012.

One of the other main ways in which we provide participants in the capital markets with timely and comprehensive information is by holding conference calls, in which SGL Group's Board of Management explains the financial results on the day of their publication. These conference calls are broadcasted live through our investor relations website and are available as a recording afterwards.

Our investor relations website offers a wealth of information aimed, above all, at retail investors and interested third parties. In addition to annual and interim reports, further material such as presentations, press releases, and ad-hoc notifications can be found on our investor relations website. All notifications of directors' dealings and voting rights notifications are also available online. Anyone who wishes to automatically receive our annual reports, interim reports, and investor relations press releases can ask to be included on our mailing list.

**Key data SGL Carbon SE shares**

Trading locations	XETRA; Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Securities Identification Number (WKN)	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

**New Convertible Bond Issued**

On April 18, 2012 SGL Carbon SE issued an unsecured convertible bond with a principal amount of €240.0 million that matures in January 2018. The convertible bond is based on a volume of 5.4 million shares and a coupon of 2.75% p. a.

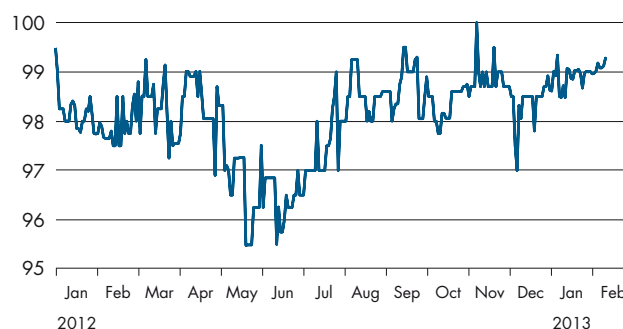
If required, part of the proceeds from placing the convertible bond will be used to repay the 2007/2013 convertible bond. As at December 31, 2012, the outstanding volume was €145.5 million, compared with the original volume issued of €200 million. The convertible bond will mature in May 2013, provided it has not been converted into shares. The issue proceeds were also put toward funding the acquisition of Fibras Sintéticas de Portugal S.A. (Fisipe). We also plan to use the issue proceeds to expand local production capacity for the Chinese graphite electrodes market, which SGL Group believes will become the largest market for graphite electrodes worldwide over the next five to ten years. In addition, we will use the issue proceeds for potential strategic options for vertical integration in the Performance Products Business Area and for general corporate purposes.

**OVERVIEW OF SGL BONDS****Corporate bond**

WKN	ISIN	Coupon	Maturity date
A0N307	XS0299888544	3-month EURIBOR plus a margin of 1.25%	May 15, 2015

**Convertible bonds**

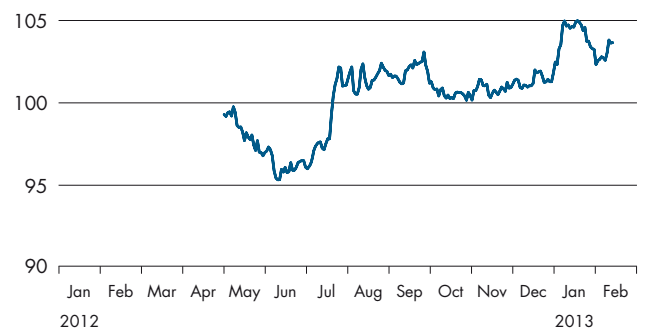
WKN	ISIN	Coupon	Maturity date
A0N30U	DE000A0N30U8	0.75%	May 16, 2013
A0Z2BL	DE000A0Z2BL6	3.5%	June 30, 2016
A1ML4A	DE000A1ML4A7	2.75%	January 25, 2018

**Corporate bond performance in €**  
(matures: May 15, 2015)

**Convertible bond performance in €**  
(matures: May 16, 2013)



**Convertible bond performance in €**  
(matures: January 25, 2018)



**Convertible bond performance in €**  
(matures: June 30, 2016)



**Further information on SGL Group and its shares**

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We look forward to hearing from you.

# COMBINED MANAGEMENT REPORT

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The Business Units of SGL Group showed a varied performance in fiscal year 2012. Whereas PP and GMS continued to maintain a strong position in their markets, the CFC business was characterized by project and development delays which led, among other things, to a write-off from project adjustments. The following Group management report is combined with the management report of SGL Carbon SE and provides detailed information on business performance and our expectations for the future of SGL Group.

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# BUSINESS AND ECONOMIC CONDITIONS

## Global Presence

12 Production Sites in North America • 26 Production Sites in Europe • 9 Production Sites in Asia



## Organizational Structure and Business Activity

### LEGAL STRUCTURE OF THE COMPANY

SGL Carbon SE (the “Company”), headquartered in Wiesbaden (Germany), is quoted on the Frankfurt stock exchange and is included in Deutsche Börse’s 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 **Note 37**).

### BUSINESS AREAS AND ORGANIZATIONAL STRUCTURE

SGL Group has a global workforce of approximately 6,700 employees (as of December 31, 2012). We operate a total of 47 production facilities either directly or in cooperation with our joint venture partners, of which 26 are located in Europe, twelve in North America and nine in Asia. With a service network in more than 100 countries, we 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 new carbon and graphite plant in Malaysia.

SGL Group’s business activities 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 on the market. 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 composite materials.

As a manufacturer of carbon products, SGL Group supplies a broad range of industries. Carbon is characterized by excellent electrical and thermal conductivity, resistance to heat and corrosion, self-lubricating qualities and 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 and chemical industries, to newly created high-growth areas, such as the solar, lithium ion battery and LED industries. The Company also supplies manufacturers in the wind energy, aerospace and defense sectors.

**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 & Innovation (T&I)		
Six Sigma (SGL Excellence)		

Business activities concentrate on our three established Business Areas: **Performance Products (PP)**, **Graphite Materials & Systems (GMS)** and **Carbon Fibers & Composites (CFC)** which are also our reporting segments. Resource allocation is decided at this level and this is reviewed and approved by the Board of Management at its annual objectives meetings. Below the Business Areas, eight global Business Units have comprehensive responsibility for the businesses, which also includes direct responsibility for the results of their operations. We also distinguish between two Material Segments – Base Materials and Advanced Materials – which reflect the Group's strategic orientation. In addition, the profitable growth of our Business Units is supported by our research activities in the central R&D organization, Technology & Innovation (T&I), and our Six-Sigma-based SGL Excellence activities.

**KEY ADDITIONS TO THE BUSINESS AREAS' PORTFOLIOS**

For strategic reasons, SGL Group holds interests in companies together with other shareholders. Some of these companies (e. g., SGL Quanghai Carbon, SGL Kumpers) are fully consolidated and included in the results of their respective segments (GMS, CFC).

In addition, SGL Group also holds interests in companies accounted for using the equity method. These equity-accounted investments primarily include our interests of 51% in SGL Automotive Carbon Fibers, Germany, and SGL Automotive Carbon Fibers, USA (joint ventures with BMW Group for the production of carbon fibers and carbon fiber based fabrics for the automotive industry, respectively), our interest of 50% in Benteler-SGL, Germany (development of carbon fiber-based components for the automotive industry), our interest of approximately 33% in MRC-SGL Precursor, Japan (raw material supply of polyacrylonitrile precursor), our 50% interest in Brembo SGL Carbon Ceramic Brakes, Italy (carbon ceramic brake disc business), and our interest of 49% in Fisigen, Portugal (electricity and steam generation for Fisipe, our Portuguese acrylic fiber plant). These companies' activities fall under the Business Area CFC from an organizational and operational perspective. The joint venture SGL TOKAI Carbon Ltd. in Shanghai (China), which markets graphite electrodes in China, falls under the Business Area PP from an organizational and operational perspective. However, these joint ventures' results are not reported in the operating income of CFC or PP, but, rather, as income from equity-accounted investments. (For further information please refer to page 70).



The equity-accounted investments relate to the following operating companies:

	Interest	Customer industry	Business Area
Benteler-SGL GmbH & Co. KG, Germany	50.0%	Automotive	CFC
SGL Automotive Carbon Fibers GmbH & Co. KG, Germany	51.0%	Automotive	CFC
SGL Automotive Carbon Fibers LLC, USA	51.0%	Automotive	CFC
Brembo SGL Carbon Ceramic Brakes S.p.A., Italy	50.0%	Automotive	CFC
MRC-SGL Precursor Co. Ltd., Japan	33.3%	Own raw materials supply	CFC
Fisigen S.A., Portugal	49.0%	Own energy supply	CFC
SGL TOKAI Carbon Ltd., China	51.0%	Steel	PP

### MANAGEMENT AND CONTROL

SGL Group is structured and regulated according to our management principles: The Board of Management determines the Group's strategic orientation. Fundamental business decisions are taken at only two management levels: the Board of Management and Business Unit management. Eight global Business Units are responsible for operating the business. These Business Units each obtain the necessary infrastructure and services from respective legal entities and production facilities. In addition, corporate functions support the Board of Management and perform services for all Business Areas, Business Units and legal entities.

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. This culture is based on the principles of leadership and management by objectives. The Board of Management, the Business Units and the centralized functions agree on objectives for the Group, the Business Units and the individual executives based on a defined set of key performance indicators. 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 remuneration components of the Company's remuneration system were restructured accordingly to meet the new legal 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 approved by over 97% of the attending shareholders. 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 with the average return on capital employed. The share-based remuneration plans have been continued (Stock Appreciation Rights/SAR Plan and Matching Share Plan). 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. 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 **Notes 32** and **33** in the notes to the consolidated financial statements for further information on the stock participation 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 base 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 33** 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 used 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. Graphite electrodes are consumable goods, which are consumed within six to eight hours of use and have to be constantly replaced during the ongoing production process. Together with carbon electrodes, which are used in other metallurgical smelting applications (e.g., silicon, phosphorus), these products comprise the Business Unit Graphite and Carbon Electrodes (GCE).

In addition to graphite electrodes, high quality cathodes also play a key role in the development of the Business Area PP. These cathodes are used to produce aluminum. In contrast to

the electrodes, cathodes used in aluminum smelters have a life of up to approximately seven years, and are, therefore, considered capital goods. Together with furnace linings for the production of primary steel, these form the Business Unit Cathodes & Furnace Linings (CFL).

The Business Area PP has a global production network at its disposal with seven production sites in Europe, three in North America and two in Asia.

The Business Area **Graphite Materials & Systems (GMS)** comprises a broad range of customized graphite-based products. In the Business Unit Graphite Specialties (GS), graphite components are manufactured, purified and, in some cases, refined by adding a special coating – all according to customer requirements. Sales revenue in the Business Unit GS is generated, first and foremost, from customers in the solar, semiconductor and LED industries, the chemical 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. 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, as well as chemical and automotive applications.

The Business Unit Process Technology (PT) offers high quality products and solutions for the chemical and pharmaceutical industries and the environmental sector, particularly with graphite heat exchangers, columns, pumps and systems.

The Business Unit New Markets (NM) combines the future growth drivers for our Business Area GMS in an effort to develop new sales channels and markets and to accelerate market penetration together with prospective partners. Examples include anode materials for the high-growth market of lithium ion batteries and forward looking solutions for heat distribution and heat storage. In order to further drive the

production and marketing of our high-performance cooling ceilings, this business was spun off into a newly formed joint venture with Lindner Group in January 2013. We hold a 51% interest in this joint venture, and it is carried at equity from 2013.

The Business Area **Carbon Fibers & Composites (CFC)** covers the entire, integrated value chain, from raw materials to carbon fibers and composite materials to finished components. Carbon fibers and carbon fiber composites will benefit sustainably from the substitution process for base materials. They are increasingly in demand as substitute materials for traditional materials because of their unique properties, such as the combination of lightweight and high stiffness. The Business Area CFC focuses, in particular, on customers from the aerospace, automotive and wind power industries.

The Business Unit Carbon Fibers & Composite Materials (CF/CM) includes materials based on carbon fibers. The Business Unit Aerostructures (AS) is represented by our subsidiary HITCO in the US state of California, which manufactures components for the aerospace and defense industry. The Business Unit Rotor Blades (RB) includes SGL Rotec, which manufactures long rotor blades (> 40m) for use in onshore and offshore wind parks.

The principle raw materials used by the Business Areas 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 in the Business Area CFC is polyacrylonitrile (PAN) for the production of acrylic fibers, which, as a so called PAN precursor can then be further processed to carbon fibers. We secured our supply of the raw material PAN precursor in 2012 with the acquisition of the Portuguese acrylic fiber manufacturer Fisipe, and thus completed the entire carbon fiber value chain. In addition, we supply our joint venture with the BMW Group with PAN precursor from our joint venture with Mitsubishi Rayon, Japan. 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.

## PRODUCTS AND SERVICES FOR EQUITY-ACCOUNTED COMPANIES

### Brembo SGL

The joint venture with Brembo S.p.A. (Italy) develops and produces carbon ceramic brake discs, particularly in the market for luxury class vehicles and sports cars.

### Benteler-SGL

In our joint venture with Benteler, we primarily develop carbon fiber reinforced plastic (CFRP) components for the automotive industry with the aim of promoting the use of CFRP components in the automotive industry.

### SGL Automotive Carbon Fibers (joint ventures with BMW Group)

In 2011, the joint venture SGL Automotive Carbon Fibers LLC, in Moses Lake (Washington), USA opened a new, state-of-the-art carbon fiber production plant. This plant is of key importance for the production of carbon fiber reinforced plastics (CFRP). CFRP will be used in "BMW i" vehicles, which BMW Group intends to introduce to the market at the end of 2013. In order to ensure the smooth market launch of the BMW i3, carbon fiber production was already started last fiscal year. The BMW i3 will be the first vehicle to be built using the carbon fibers produced in Moses Lake.

The second joint venture, SGL Automotive Carbon Fibers GmbH & Co. KG, Germany has been producing composite materials at the new production facility in Wackersdorf since the middle of 2010. In the future, composite materials will be manufactured at this site using the carbon fibers produced in Moses Lake. The composite materials will then be sold to the BMW Group, who will use them to manufacture automobile parts for assembly of the BMW i3 in Landshut and Leipzig.

### EPG and MRC-SGL Precursor

MRC-SGL Precursor Co. Ltd. (Japan), an associated company of the Mitsubishi Rayon Corporation, is used to ensure an independent supply of the raw material PAN (polyacrylonitrile) precursor for our carbon fiber production. As a result of structural cost disadvantages, both of the shareholders of European Precursor GmbH (EPG) in Kelheim, Germany, SGL Group and Lenzing AG, Austria, have decided to discontinue business operations.

**Fisigen**

The new joint venture with the Portuguese energy supplier EDP comprises the production of energy and steam and secures a low-cost supply for our Portuguese acrylic fiber plant (Fisipe).

**SGL TOKAI Carbon (STS)**

Our joint venture, SGL TOKAI Carbon Ltd., in Shanghai (China), covers the sale and distribution of graphite electrodes on the Chinese market for its two shareholders, SGL Group in Germany and Tokai in Japan.

**Major Sales Markets**

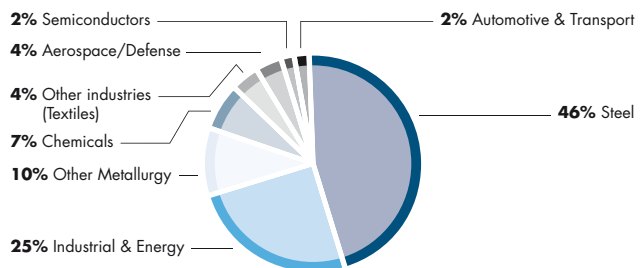
SGL Group’s major customer industry is still the steel industry, accounting for an unchanged 46% of Group sales in the past fiscal year. The reduction in the proportion of revenues with customers from the aerospace and defense industry is mostly due to the non-cash write-off of non-current PoC receivables (percentage of completion method) in the Business Unit Aerostructures (HITCO) in the Business Area CFC, which we had to book and recognize in revenues and earnings in the third quarter of 2012 under IFRS. The new customer industry “Other Industries (Textiles)” is due to the acquisition of our Portuguese acrylic fiber manufacturer Fisipe. The share of total annual sales revenues remained mostly unchanged year on year in all other customer industries.

**Management, Objectives and Strategy**

**INTERNAL MANAGEMENT SYSTEM**

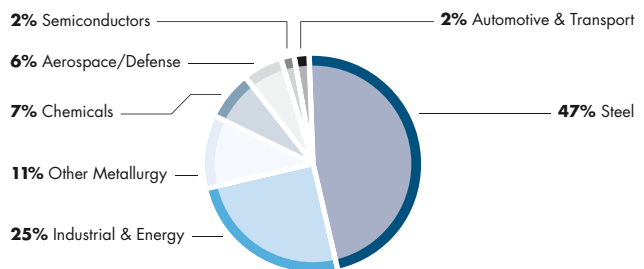
SGL Group’s management structures and principles are based on our Guiding Principles, which set the responsibility levels for both strategic and day-to-day operations. Above all, our goal is to sustainably increase SGL Group’s enterprise value. The Company’s internal management system seeks to fulfill this goal. The system comprises regular meetings of appointed committees, a monthly management information system, rolling 12-month planning and reports, as well as 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.

**Sales revenue by customer industry in 2012<sup>1)</sup>**



<sup>1)</sup> Adjusted for project write-offs

**Sales revenue by customer industry in 2011**



Key leading indicators for the anticipated development of operations in our Business Areas and Business Units include the actual or forecasted growth in important customer markets, incoming orders and corresponding capacity utilization in the Company. In the Business Area **Performance Products**, these indicators 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 and the sovereign debt crisis, which has intensified since mid-2011, particularly in Europe, customer order patterns have shown a much shorter term tendency than in previous years. New orders from Europe and Asia in particular were delayed again at both the end of 2011 for the past fiscal year, and also at the end of 2012 for the

current fiscal year 2013. In both the Business Areas **Graphite Materials & Systems** and **Carbon Fibers & Composites**, we can extrapolate medium to long-term market and demand indicators only for a few areas (such as Process Technology for the chemical industry and components for the aircraft industry), for which we already have medium to long-term contracts. Other areas are still extremely project-dependent due to the early life cycle stage of the products. As a result, the course of business for these activities is often affected by delays that are typical for development projects. In spite of this, however, we believe that there is an increasing trend in substituting traditional materials with carbon fibers and carbon fiber composite materials in a range of industrial applications.

#### **CORPORATE STRATEGY**

Our corporate 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 achieving this goal. We have the largest portfolio of carbon products worldwide and already hold leading global market positions in most of our areas. But leading means for us more than just that: We want to play the leading role in our core businesses, with 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 47 production sites in Europe, North America, and Asia. We are, for instance, the only European company that covers the entire value chain from PAN precursor raw materials to carbon fibers and through 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 sustainable profitability. However, in relation to the sales volume, 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**

On this basis we offer our customers Best Solutions. 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.

In many cases, our Best Solutions contribute to the development of solutions which lead 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 energy sources and higher energy efficiency. As a result, we already generate roughly 70% of Group sales revenue from environmentally friendly, resource saving applications.

We employ our SGL Excellence philosophy, 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 and lean management 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 key levers for the implementation of Best Solutions.

#### FINANCIAL TARGETS

The following financial key performance indicators are key management indicators in reporting:

- Return on sales (ROS), based on EBIT (earnings before interest and taxes)
- Return on capital employed (ROCE), also based on EBIT (CE = average capital employed, defined as the sum total of goodwill, other intangible assets, property, plant and equipment and working capital)
- 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)

#### TARGETS FOR 2012 REACHED IN TRADITIONAL BUSINESS AREAS

At our year-end press conference in March 2012, we presented the following targets for the year:

- If the general economy recovers in the second half of the year, group sales revenue and EBIT will grow further
- Gearing to remain at approximately 0.5
- Capital expenditure for intangible assets and property, plant and equipment of up to €150 million
- Free cash flow of approximately minus €60 million (before acquisitions)

#### GROUP SALES REVENUE UP

Although the economic recovery that had been hoped for failed to materialize in the second half of the year, and there were even signs of an economic decline in the fourth quarter, we have reached our sales revenue target with group sales revenue growth of around 8% in 2012 (after adjusting for the Fisipte acquisition and project write-offs).

#### GROUP EBIT TARGET IMPACTED BY PROJECT SHIFTS IN THE BUSINESS AREA CFC

Within the framework of our reporting for the first six months of 2012, CFC had to report plant closures of a key customer in the wind industry. This was to be reflected in revenues and earnings in the second half of the year. As a result, we adjusted our Group EBIT target for 2012 to the previous year's level of approximately €160 million. We nearly reached this target at €154 million (adjusted for project write-offs). We must highlight the fact that our traditional Business Areas PP and GMS have at least met – and in some cases, exceeded – their targets. However, this development was not sufficient to compensate for the higher than expected loss at CFC.

#### GEARING CONTINUES TO BE WITHIN TARGET

Gearing at December 31, 2012 was at 0.43 once again within our target of +/-0.5. As a result of the extensive partial conversions of our 2007 and 2009 convertible bonds in the second half of 2011, gearing at the end of the previous year (December 31, 2011) was substantially lower at 0.33.

**CAPITAL EXPENDITURE BELOW BUDGET**

Capital expenditure on intangible assets and property, plant and equipment totaled approximately €134 million. It was thus approximately €15 million lower than originally planned, as some of the planned spending was deferred to the following year.

**FREE CASH FLOW SUBSTANTIALLY HIGHER THAN FORECAST**

As part of our reporting on the first six months of 2012 in August, we adjusted our forecast for the 2012 free cash flow to €-115 million as a result of the acquisition of Fisipe announced in March. This corresponds to our original forecast of €-60 million (before acquisitions). Resulting from consistent control of our expenses, both in working capital and capital expenditure, it was possible to limit the negative free cash flow to €-49 million before acquisitions and €-80 million including Fisipe, and thus substantially better than forecast.

**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. Assuming that the global economy continues to develop favorably, and due to the various activities and initiatives we have put in place, we are confident that we will be able to achieve the objectives presented below over the medium to long term. We presented these objectives for the first time in

our 2010 annual report in March 2011 and mostly achieved these in 2011 and 2012. The sole exception in this regard is the Business Area CFC, where we had aimed to generate a lower loss in 2012 than in the previous year. In particular due to project shifts in the wind and aerospace industries, a higher loss had to be recorded in this area.

Due to the sharp decline in business activity during the 2009 crisis, the Business Area **Performance Products** may not be able to return to the pre-crisis level of sales and profit margin for some time. This relates in particular to the cathode business with the aluminum industry. Nevertheless, we anticipate a steady improvement in earnings here. In contrast, the solar, LED, and lithium ion battery sectors are growing and there is a rising trend towards substituting materials with carbon fibers in sectors such as the automotive industry. As a consequence, the Business Areas **Graphite Materials & Systems** and **Carbon Fibers & Composites** anticipate further organic sales growth during the next few years.

We remain confident in our achievement of these medium-term targets, despite the prevailing economic uncertainties, particularly as a result of the European sovereign debt crisis, the uncertain further development of China as an economic power and the continuing budget dispute in the USA. However, from today's perspective, we cannot rule out the possibility that the current crisis may have a negative impact on our business development in 2013.

**Strategic outlook**

SGL Group	Performance Products (PP)	Graphite Materials & Systems (GMS)	Carbon Fibers & Composites (CFC)
Organic sales growth more than 10% CAGR	Structural volume growth of approx. 2-3% p. a.	Medium term sales growth of at least 10% CAGR	Long term sales growth of at least 20% CAGR
Medium term ROS target at least 12%	Return on sales of 15-20 %	ROS of at least 10%	Long term ROS target of at least 10%
Long term return on capital employed (ROCE) target at least 17%	Long-term ROS target at least 20%		

## Technology & Innovation

### OUR CENTRAL RESEARCH AND DEVELOPMENT

Technology & Innovation (T&I) is SGL Group's research and development headquartered at our largest site in Meitingen (Germany), where we have been establishing state-of-the-art research infrastructure. Additional locations are in Poland and the USA. With product and process developments for synthetic graphites, energy systems, carbon fibers and composites as well as ceramic fibers and composites, T&I makes a sustainable and successful contribution to reaching the Company's targets and exploits new market and development potential.

Our research expenditure totaled €46.9 million in the past fiscal year (2011: €40.0 million), which means that research costs account for 2.7% of consolidated sales revenues (2011: 2.6%). At the end of 2012, there were 153 T&I employees (2011: 147).

The completion of our research infrastructure was successful in 2011 when we established a standard-setting development center for carbon fiber and composites. Investments in equipment in 2012 totaled €1.4 million. It was possible to use the new infrastructure to its full extent for the first time in 2012 for developments.

### HIGHLIGHTS FROM OUR CORE DEVELOPMENT AREAS

Our developments in the field of **Synthetic Graphite** aim to optimize energy, material and cost efficiency in processes. Additionally, alternative and improved materials are being developed for the Business Area Performance Products.

In the past fiscal year, the expansion and successful application of modeling expertise further improved cost efficiency in the graphite production processes. In addition, modeling for our graphite electrode and cathode products in applications provided us with key findings on further optimizing performance during customer use. New solutions were worked out for lining of blast furnaces in a prototype scale, in order to prolong the lifetime of the furnace linings. In the raw materials area, additional sources for raw materials were tested and we improved the security of our supply of raw materials for fine and coarse grain graphite.

T&I develops components for forward looking **energy systems** such as redox flow batteries, which can store electrical energy in chemical compounds, lithium ion batteries and for fuel cells. In so doing, we are making a major contribution to the development of forward-looking electrical storage solutions and energy converters.

In 2012, developments for energy systems continued to focus on graphite anode material as a component for lithium ion batteries. We have expanded our long-standing strategic alliance with Hitachi Chemical, the global market leader for anode materials. In addition to anode material solutions for lithium ion batteries for the so-called 3C market (mobile telephones, laptops and cameras) we also address the automotive and industrial sectors.

In order to be prepared for the next generation of lithium ion batteries with increased energy density we are participating in the national funded project Alpha-Laion as an active partner. Our project partners include well-known companies such as Bosch, BASF, Wacker, BMW and Daimler.

As a co-founder of the competence network for lithium ion batteries (KLiB), we are working on the development and market launch of lithium ion batteries for vehicle motors and stationary energy storage. Together with companies such as BASF, Bosch, Evonik and BMW we are pursuing the target of establishing an integrated cell and battery industry in Germany. The pilot production line is the key element required to rapidly take the new cell production process out of the laboratory and put it into industrial scale production in a targeted manner. In this regard a new pilot plant will be set up at the ZSW (Zentrum für Sonnenenergie- und Wasserstoffforschung Baden-Württemberg) in Ulm by 2014. The BMBF (Bundesministerium für Bildung und Forschung) reinforced the public subsidies for the plant in mid-2012 by handing over the official notice of the grant. The subsidy is supplemented with support from the state of Baden-Württemberg for the building extension.



In addition to the developments for the battery industry, we have launched a new carbon fiber reinforced carbon material into the market based on our own 50k carbon fibers with the brand name “Sigrabond Performance”. The new material offers improved mechanical characteristics and uses the full in-house value chain from carbon fibers through to the component.

In the **carbon fibers and composites** area, we made major progress in 2012 in optimizing materials and processes for the manufacture of carbon fibers. We succeeded in substantially improving the key fiber characteristics for our customers. This is based on the carbon fiber pilot plant taken into operations last year in Meitingen. The publicly funded development project “AirCarbon” with partners in the European aerospace industry is being extended through to the end of 2013 with additional funding.

A comprehensive development program for thermoplastic carbon-fiber composites was initiated in 2012. This group of materials offers advantages compared to duroplastic matrix systems, such as shorter cycle times, damage tolerance and recycling. Thermoplastic carbon fiber composite materials are particularly interesting for use in automotive construction.

In a joint project with BASF, we have been working on adjusting material systems to faster production methods in the automotive industry since the fall of 2012. Our approach is to develop a surface finishing that is suitable for thermoplastics. In this regard, we use the ultra-modern laboratory equipment to modify the surfaces of carbon fibers. This equipment was also used in 2012 to develop a carbon fiber yarn for use in the automotive segment. This is currently in a test phase with customers.

Our networks and industry associations are a key element of our R&D strategy. In 2007 SGL Group was among the ten founding members of Carbon Composites e.V. (CCeV), which now has 177 members. CCeV bundles industrial companies and research institutions along the entire lightweight construction value chain. SGL Group actively drove the development of this association from a regional to a national network in 2012.

2012 started with a success: Cluster M-A-I Carbon, a CCeV initiative is one of the winners in the top cluster competition by the Bundesministerium für Bildung und Forschung (BMBF) and is being supported over the next five years with funding of up to €40 million. As part of M-A-I Carbon (Munich-Augsburg-Ingolstadt), the production of components made of carbon fiber composite materials is to be developed through to serial production. The focus is on the user industries of automotive construction, aerospace as well as engineering and plant construction. SGL Group is a founding partner of M-A-I Carbon and is working on several fundamental projects.

In the **ceramic fibers and composites** area, we are consistently further developing the technology expertise for carbon ceramics that we have built up over the past few years by transferring our experience with carbon ceramic brake disks with their flat geometry to three dimensional components with sizes in excess of one meter. The aim is to produce this material with its unique material characteristics and low weight in complex structures. In this regard, we have developed a new joining technology. In 2012 for the first time we transferred a project from T&I to the Business Unit Graphite Specialties that T&I had developed from research through to its commercial launch. At the same time, we were able to generate several new customer projects in plant engineering, the steel industry and aerospace.

In the ceramic fibers segment, we combine our expertise in producing carbon fibers and ceramic materials, in order to penetrate the next category of materials: High-performance ceramics based on silicon carbide fibers. These have an excellent high temperature strength and oxidation resistance, with the result that far higher operating temperatures are possible in aircraft or steam turbines, thus allowing substantial improvements to energy efficiency.

Together with partners from industry and research, including the Fraunhofer Institut für Silicatforschung ISC Würzburg, MTU Aero Engines and Wacker Chemicals, we are working on developing silicon carbide fibers with a unique cost/benefits profile in the SicTec2 project. This project is funded by the state of Bavaria with more than €3 million.

In order to drive the development of lower cost processing technologies for ceramic components, together with partners from research and the industry as well as the Fraunhofer project group and the University of Augsburg, SGL Group is aiming to establish a ceramic processing center in the Augsburg innovation park.

The **New Business Development** area within T&I was expanded and restructured in 2012. In order to coordinate the T&I product developments even better to SGL Group's strategic objectives, the focus has been placed on technology portfolio management. The aim is to be able to give preferential treatment to equipping the projects with resources that have the greatest market potential in future.

For the first time in 2012 we held our Open Innovation competition, in order to develop ideas for applications for our new composite CARBOCRETE, which combines light, corrosion-resistant carbon fibers with concrete. This light construction material inspired architects and designers in particular, as it can be draped and offers a wide range of possible forms, and we received more than 300 proposals. The winner was honored as part of a specialist symposium for construction reinforcement in April 2012.

#### **T&I IS SGL GROUP'S TALENT POOL**

T&I's task is also to acquire and advance new talent for the Company, thus training up-and-coming specialists and managers. 18 new employees were recruited last fiscal year and seven employees left T&I in 2012 in order to take on new positions within the Business Areas. In order to also secure this success for the future we invested a great deal in advancing and supporting up-and-coming talent, particularly in the engineering and materials science segments. T&I supported a total of 69 undergraduates, interns and students in 2012, 15 more than in the previous year. At the same time, the quality of the support has been improved significantly once again via a program developed by Human Resources. In addition, T&I employees routinely attend the leading recruitment fairs, and they also attended several European trade fairs in 2012.

SGL Group supports the "Initiative junge Forscher" (Initiative for Young Researchers). The active role of SGL Group in

this project underscores the serious approach behind and sustainability of comprehensive support for scientific education – from nursery schools through to universities.

T&I competes for talent with many other companies in the Munich/Augsburg area. Our employee branding initiative and our sponsorship activities at SGL arena in Augsburg are among the measures we implement to increase the attractiveness of SGL Group as an employer.

#### **EFFICIENT RESEARCH NETWORKS SUPPORT OUR COMPETENCE**

The quality and efficiency of its external networks and strategic alliances play a critical role in determining the strengths of an R&D organization. In addition to its work as part of large industry and research associations, SGL Group also reinforced and expanded its own research networks in 2012.

The professorship of Carbon Composites (LCC) endowed by SGL Group at the Technical University of Munich (TUM) already has more than 68 employees and is a sustained success in teaching and research and is also a key project partner in the top cluster M-A-I Carbon.

In order to further secure the scientific development of traditional graphite, in the fall of last year we expanded our strategic alliance agreement with the Technical University AGH in Krakow (Poland). This work focuses on long-term issues for the development of raw materials and processes, as well as training young scientists.

SGL Group is active in the management bodies of international scientific carbon institutes. The Arbeitskreis Kohlenstoff (AKK) is managed by one of our T&I scientists. As part of the well-known annual Carbon Conference, in 2012 several young T&I scientists also had the opportunity to present the results of their research.

#### **EXTENSIVE PATENTS PROTECT OUR EXPERTISE**

We registered 70 new patents in 2012, surpassing the previous year's figure (64 new registrations). Protecting our expertise lays the foundations for innovative applications in current and new markets.

## Business Overview

### ECONOMIC CONDITIONS

In 2012, the global economy was impacted by the sovereign debt crisis in Europe and, at the end of the year, the budget problems in the USA (fiscal cliff). This development was supported by perceptible uncertainty on the financial markets and high prices for commodities. The International Monetary Fund (IMF) put global economic growth at 3.2% in 2012 compared to 3.9% in the previous year in its updated global economic outlook dated January 2013.

### Global economic growth slows substantially over the course of the year

The year 2012 started with hopes of economic recovery, however, key early indicators deteriorated, as did the sentiment on the capital markets and at the corporate level. The global economy already started to slow in the spring, and in the second half of the year the slowdown in the real economy became more pronounced. In 2012 growth remained low in the USA, in China it weakened substantially, and the economic slump in Southern Europe dragged the Eurozone into recession. Here, the activities required to reduce government debt and the deterioration of the economic climate culminated in, among other things, reserved investment behavior and increased unemployment. At the end of the year, the economy in Germany also exhibited a perceptible weakening. According to information from the IMF, global trade only grew by 2.8% in 2012 (2011: 5.9%). In established economies, GDP growth slowed to 1.3% after 1.6% in the previous year. The high-growth emerging and developing nations recorded real GDP growth of just 5.1% after 6.3% in the previous year.

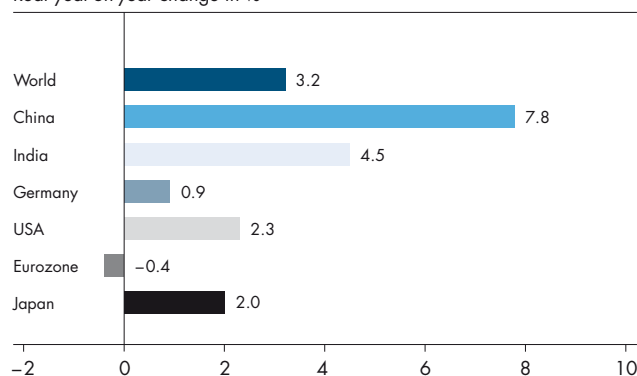
### GROWTH IN KEY CUSTOMER INDUSTRIES

#### Steel industry with falling capacity utilization

In 2012 according to information from the World Steel Association (WSA) crude steel production totaled 1,548 million tons (up 1.2%), a new record level. In the EU production fell by 4.7% to slightly more than 169 million tons. The EU thus accounted for 10.9% of global steel output in 2012, down from 11.6% in the previous year. Crude steel production in Eastern Europe and Latin America also fell. In the USA 2.5% more crude steel was produced (around 89 million tons), and the percentage of the global market increased slightly to 5.7%. China is by far the largest region to produce crude steel, and in this region production increased moderately by 3.1% to

### 2012 Gross Domestic Product – an Overview

Real year-on-year change in %



Source: IMF, World Economic Outlook dated January 2013

around 717 million tons, thus taking its share of the global market to 46.3% (2011: 45.4%). In view of the graphite electrode business, however, we must note that in China the proportion of electric steel to total steel produced is still comparatively low, and that China is thus a relatively small market for graphite electrodes. Global capacity utilization totaled 78.8% on average compared to 80.7% in the previous year. The trend to lower steel prices on the global market is continuing. Simultaneously, raw material prices declined for the steel industry (iron ore, scrap, coal, non-ferrous metals).

### Production of primary aluminum falls slightly

Aluminum is benefiting from the mega-trend to reduce weight and CO<sub>2</sub> emissions. In addition, industrialization is driving demand for aluminum in emerging nations. Global demand has grown by almost 6% per year. This growth is driven by China, with growth rates of 9%. In the rest of the world, demand has grown by around 3% annually. The International Aluminum Institute (IAI) has put global primary aluminum production for 2012 at 43.4 million tons (minus 1.3% year-on-year). The excess supply was thus lower than in previous years and the supply/demand situation is becoming more balanced. Global capacity utilization was around 80% and thus still significantly lower than the high levels of more than 90% in 2007 and 2008. Aluminum prices continue to be under pressure. Given this background, the aluminum industry has held back on making investments in new smelters in 2012.

### Production down in European chemicals industry

In its December 2012 estimate, Cefic (European Chemical Industry Council) believes that European chemical production fell by 2.0% in 2012. In particular the weakness of automotive manufacturers and construction companies whose business is strongly geared to southern Europe had a negative impact. In contrast to the weak domestic demand in Europe, exports of chemical products from the EU increased. The German Chemicals Industry Association believes that production for the German chemicals industry in 2012 fell by 3.0% with stagnating revenues. However, investments increased by 5.0% to €6.6 billion and the number of employees was up 2.0% to 437,000.

### Solar markets shifting from Europe to China, the USA and Japan

The underlying conditions for the solar industry have intensified dramatically. This segment was depressed by the weak economy, the Euro financial crisis, significant and premature subsidy cuts, massive overcapacity, the significant downturn in prices and the accelerated consolidation among producers. The market research institute NPD Solarbuzz, which specializes in the solar industry, estimates that investments in equipment by photovoltaic producers around the world have slumped by almost three quarters to USD 3.6 billion. The market research institute IHS iSuppli states that the increase in photovoltaic systems was a good 31 GW around the world in 2012. However, the growth of 11% significantly lags the previous pace of growth. The German market grew moderately to 7.9 GW (2011: 7.5 GW), and is thus the largest market in 2012. Italy fell by more than half from 7.7 GW in the previous year to 3.5 GW. China is expected to have newly installed 4.8 GW (2011: 2.1 GW). The markets in the USA (3.4 GW) and Japan (2.5 GW) have almost doubled year-on-year.

### Semiconductor industry with lower revenues, equipment companies with substantially lower results

The market research institutes Gartner and IHS iSuppli as well as the industry association World Semiconductor Trade Statistics (WSTS) put the downturn in revenues in the semiconductor industry around the world at more than 2% to a good 3%. Gartner estimates industry revenues in 2012 to be USD 298 billion (down 3.0%). In regional terms, the markets in Europe, Japan and North and South America have declined above average according to information from IHS iSuppli. In 2012 the shift in market segments accelerated towards

smartphones and tablets. According to calculations from the global industry association SEMI, capacity utilization in the semiconductor industry fell to around 80% to 85%, compared to 90% to 95% in previous years. The market for equipment companies in the semiconductor industry slumped by 16% to USD 28 billion in 2012 in the USA, Europe and Japan according to SEMI.

### Aerospace industry with slower growth, record shipments for manufacturers

The aerospace sector continued to grow in 2012, albeit at a slower pace. The international aviation association IATA puts global revenues for all airlines at USD 637 billion, thus up by just 6.7% (up 8.8% in the previous year). The contrasting trends for volume in passenger transport (up 5.3%) and freight (down 2.0%) continued. As a result of higher fuel costs, airline income has deteriorated despite the slight increase in utilization. The largest aircraft manufacturers Airbus and Boeing achieved new records in 2012, and together they shipped 1,189 aircraft (Airbus 588, Boeing 601). This corresponds to growth of 17.6%. Airbus generated net orders for 833 civilian aircraft, and it also received 32 orders for military aircraft. 29 aircraft were delivered. Boeing recorded net orders for 1,203 aircraft (2011: 805).

### Wind industry with slower pace of growth

According to information from the World Wind Energy Association (WWEA), in the first six months of 2012 a good 16.5 GW of wind capacity was newly installed (10% lower than in the first six months of 2011). The total capacity of all of the installed wind parks totaled 254.0 GW at mid-2012, and according to estimates from the WWEA this is to increase to 273.0 GW for the whole year. The largest producers of wind power are China, the USA, Germany, Spain and India, which together account for 74% of the capacity installed worldwide. According to the Bundesverband WindEnergie (German Wind Power Association) and VDMA, German manufacturers of wind parks recorded a production volume of around €6 billion in the year 2011 and rank among the market leaders, accounting for 16% of the global market. Exports account for approximately 66% in 2011.

### SHARE PRICE PERFORMANCE IN 2012

You can find a description of our share price performance as well as key indicators and other information for all aspects of our shares in the section The Share and Investor Relations on pages 44–49.

## Key Events for the Development of the Business

### NEW CONVERTIBLE BOND ISSUED

On April 18, 2012, SGL Carbon SE issued a convertible bond with a principal amount of €240.0 million. The bond has a term of five years and nine months and matures in January 2018. The convertible bond is unsubordinated and unsecured and can be converted to shares. Upon issuance of the bond, the fair value of the conversion rights in the amount of €25 million was transferred to capital reserves and concurrently deducted from the bond liability. The convertible bond is based on a volume of 5.4 million shares and carries a coupon of 2.75% p.a. The initial conversion price is €44.10, which corresponds to a premium of 30%.

In particular, SGL Group plans to use the proceeds from the issuance of the convertible bond for repayment of the 2007 convertible bond to the extent that the bondholders have not converted their bonds to shares by the time the bond matures in May 2013. We have also used the proceeds to finance the acquisition of Fibras Sintéticas de Portugal S.A. (Fisipe), and we intend to use the proceeds to expand local production capacity for the Chinese graphite electrode market, for potential strategic options on vertical integration in the Business Area Performance Products, and for general corporate purposes.

### PROJECT WRITE-OFFS DUE TO SIGNIFICANT CHANGES IN ESTIMATES

Major project postponements and a significant reduction in production volumes for the Boeing 787 (Dreamliner) project compared with original expectations have led to a change in our projected results from the long-term supply agreements of our US subsidiary (HITCO). HITCO has long-term supply agreements for Boeing 787-8 components with one of its customers, an important Tier 1 supplier for the aerospace industry. For such customer-specific construction contracts, revenues are recognized under the percentage-of-completion (PoC) method based on having reached certain stages of completion.

The change in expectations and other project write-offs have led to both realized and expected losses in the third quarter hereafter 2012 totaling €54.2 million for SGL Group (referred to as “project write-offs”), mainly due to the write-off of receivables from long-term construction contracts. The equivalent amounts have been deducted from gross profit accordingly. The Business Unit Aerostructures (AS) of the Business Area CFC is accountable for the project write-offs, which is presented separately in the Management Report in the description of the performance of our CFC business.

### SGL GROUP ACQUIRES 100% STAKE IN PORTUGUESE COMPANY FISIFE

In fiscal year 2012, SGL Group completed the acquisition of a 100% stake in Fibras Sintéticas de Portugal S.A. in Portugal (Fisipe). Fisipe is an acrylic fiber manufacturer domiciled in Lavradio (Portugal) and was integrated into the Business Area CFC. Initial consolidation of Fisipe in April 2012 resulted in an increase of €87 million in SGL Group’s total assets. In fiscal year 2012, Fisipe contributed a total of €81 million to Group sales revenue and had a negative impact of €1 million on consolidated net profit. The acquisition of Fisipe gives SGL Group an additional source of raw materials for the production of precursor.

### EUROPEAN PRECURSOR GMBH (EPG) JOINT VENTURE DISCONTINUES OPERATION

The EPG joint venture in Kelheim, operated together with Lenzing AG in Austria, ceased operations at the start of fiscal year 2013 due to structural cost disadvantages. EPG served to supply our carbon fiber production with polyacrylonitrile (PAN) precursor, a raw material. Discontinuation of the operation led to non-recurring impairment costs of €23 million, which was charged to SGL Group’s net financing costs for 2012. SGL Group’s supply of precursor is ensured through Mitsubishi Rayon, our associated company in Japan, as well as (in the future) from Fisipe, our 100% subsidiary.

# FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

## Financial Performance of the Group

### Income Statement

€m	2012	2011	Change
Sales revenue	1,709.1	1,540.2	11.0%
Gross profit <sup>1)</sup>	443.3	419.0	5.8%
Operating Profit (EBIT) before special effects	154.2	160.4	-3.9%
Project write-offs in 2012/reversal of impairment losses and impairment losses in 2011	-54.2	5.1	-
<b>Operating profit (EBIT)</b>	<b>100.0</b>	<b>165.5</b>	<b>-39.6%</b>
Results from At-Equity-accounted investments	-32.6	-32.6	0.0%
Net financing cost	-57.7	-49.2	-17.3%
<b>Profit before tax</b>	<b>9.7</b>	<b>83.7</b>	<b>-88.4%</b>
Income tax expense	-2.2	-22.8	-90.4%
Non-controlling interests	-0.3	12.3	> -100%
<b>Consolidated net profit (attributable to the shareholders of the parent company)</b>	<b>7.2</b>	<b>73.2</b>	<b>-90.2%</b>
Earnings per share, basic (in €)	0.10	1.09	-90.8%
Earnings per share, diluted (in €)	0.10	1.08	-90.7%

<sup>1)</sup> Before project write-offs of €54.2 million in 2012

### SALES REVENUE INCREASES BY 11% TO €1.7 BILLION

Driven by all business areas, Group sales revenue rose by 11% (currency adjusted: 8%) from €1,540 million to €1,709 million. The initial consolidation of Fisipe contributed €81 million to sales revenue, corresponding to 5% of reported sales growth. Apart from the effect of initial consolidation of Fisipe, growth in fiscal year 2012 was driven primarily by a robust business climate in our customer industries in the Business Areas PP and GMS. The Business Area PP registered double-digit growth again in 2012. The rise in sales revenue in the Business Area GMS was attributable to the Business Units Process Technology and New Markets. Adjusted for the reduction in sales revenue based on project write-offs in the Business Area CFC and the initial consolidation of Fisipe, sales revenue grew by 8%.

Higher prices, particularly in the Business Area PP, had a positive impact of €64 million on sales revenue, whereas declining volumes – again primarily in the Business Area PP – negatively impacted sales revenue by €25 million. Currency gains increased sales revenue by €51 million compared with the prior year.

The Business Area Performance Products (PP) generated a year over year sales revenue increase of 11% (currency adjusted: 8%) in 2012, thus recording the highest organic sales revenue increase in the Group. The share of the Business Area PP in total Group sales revenue was thus unchanged at approximately 55%.

After a strong prior year, the Business Area Graphite Materials & Systems (GMS) recorded an additional increase in sales revenue of 4% (currency adjusted: 0%), which is due to

**Distribution of sales revenue**

€m	2012	% of total	2011	% of total	Change
PP	940.7	55.0%	845.7	54.9%	11.2%
GMS	486.2	28.5%	468.7	30.4%	3.7%
CFC	277.2	16.2%	220.2	14.3%	25.9%
Other	5.0	0.3%	5.6	0.4%	-10.7%
<b>Total</b>	<b>1,709.1</b>	<b>100%</b>	<b>1,540.2</b>	<b>100%</b>	<b>11.0%</b>

**Sales revenue by destination**

€m	2012	% of total	2011	% of total	Change
Germany	305.5	17.9%	286.4	18.6%	6.7%
Europe excluding Germany	396.6	23.2%	385.8	25.1%	2.8%
North America	400.2	23.4%	347.0	22.5%	15.3%
Asia	471.2	27.6%	404.9	26.3%	16.4%
Rest of world <sup>1)</sup>	135.6	7.9%	116.1	7.5%	16.8%
<b>Total</b>	<b>1,709.1</b>	<b>100.0%</b>	<b>1,540.2</b>	<b>100.0%</b>	<b>11.0%</b>

<sup>1)</sup> Latin America, Africa, Australia

higher sales volumes and sales prices. The share of the Business Area GMS in Group sales revenue declined from 30% to 28%.

In the Business Area Carbon Fibers & Composites (CFC), sales revenue increased approximately 4% from that of the prior year after adjustments for the initial consolidation of Fisipe and the project write-offs. Taking Fisipe into account, the rise in sales revenue of the Business Area CFC of 26% (currency adjusted: 23%) exceeded that of the two other business areas. The Business Area CFC's share in Group sales revenue increased accordingly, rising from 14% in 2011 to 16% in 2012.

Please see pages 74–78 for details on the financial performance of our Business Areas.

**SALES REVENUE BY REGION:  
EUROPE IS THE LARGEST SALES MARKET**

SGL Group generates the largest portion of its sales revenue outside of Germany. Foreign sales made up €1,403.6 million, or 82.1%, of Group sales revenue in fiscal year 2012, up from

€1,253.8 million and 81.4%, respectively, in 2011. Although Europe is SGL Group's largest sales market by a wide margin, accounting for more than 41% of sales revenue in 2012, the Asia region registered the highest nominal increase in sales revenue versus the prior year, resulting in a rise in 2012 of €66.3 million in absolute terms.

In terms of regional sales trends, North America and Asia saw significant increases in 2012. The increase in Asia was due in particular to the strength of the markets in the Middle and Near East, although business in Far East markets such as China and Malaysia was also well above the previous year. Sales revenue in Europe outside of Germany remained stable, with business in Germany rising due to higher demand for rotor blades in the Business Area CFC and thus more than compensating for the decrease in activity in our Business Areas GMS and PP. The increase in North America was impacted by currency gains of €37.5 million, as the US dollar was, on average, stronger in 2012 than in fiscal year 2011. The increase in sales revenue in the rest of the world was primarily attributable to Fisipe, which was initially consolidated in 2012.

**Sales revenue by geographical origin**

€m	2012	% of total	2011	% of total	Change
Germany	628.7	36.8%	557.1	36.2%	12.9%
Europe excluding Germany	689.1	40.3%	585.0	38.0%	17.8%
North America	309.0	18.1%	339.5	22.0%	-9.0%
Asia	82.3	4.8%	58.6	3.8%	40.4%
<b>Total</b>	<b>1,709.1</b>	<b>100.0%</b>	<b>1,540.2</b>	<b>100.0%</b>	<b>11.0%</b>

In terms of sales origin, we continued to manufacture mostly in Germany (37%; 2011: 36%), the rest of Europe (40%; 2011: 38%) and North America (18%; 2011: 22%). The strong sales revenue growth in the rest of Europe resulted in particular from the initial consolidation of Fisipe. The share of sales in North America decreased as a result of the project write-offs. The share of Asian sales revenue has been rising gradually as a result of expansion of our production capacities in China and Malaysia and has reached 5% (2011: 4%).

**MIXED TREND IN NEW ORDERS**

The order intake situation differed in the various Business Areas over the course of 2012. All in all, the combined value of the order backlog over all Business Units at year-end 2012 was slightly under that of the prior year.

In the Business Area **Performance Products**, the order backlog for graphite electrodes was impacted by the continued cautious and short-term ordering pattern of our customers. At year-end 2012, the order backlog was slightly under the level of the prior year. The slight revival in demand for cathodes from the aluminum industry observable since mid-2011 is still occurring at a low price level. The decrease in aluminum prices in 2012 compared with the average price for 2011 has resulted in aluminum manufacturers generating losses, leading to cost pressures. This could negatively impact cathode demand over the remainder of 2013. Therefore, on the whole, the Business Area PP will not be operating at full capacity in 2013, as was also the case in 2012.

In the Business Area **Graphite Materials & Systems**, we recorded a higher order backlog on the whole at year-end 2012 than in the previous year. In Graphite Specialties, new orders remained at a low level, primarily due to weak demand from the solar sector. By contrast, new orders in the Business Unit Process Technology were up in the second half of 2012, which translates to a considerably higher order backlog at year-end than in the previous year. The Business Unit New Markets ended fiscal year 2012 with a record number of new orders due to rising demand for lithium ion battery materials.

Performance in the Business Area **Carbon Fibers & Composites** continued to be unsatisfactory in the individual Business Units. With respect to demand and order levels for Carbon Fibers & Composite Materials, we recorded a significant decline compared with the end of 2011 due to the overall weak carbon fiber markets. By contrast, demand in our Aerostructures business (components for the civilian and military aviation industries) is stable and little influenced by cyclical trends. This is due to the long-term nature of these customer industries. However, our Aerostructures business will be impacted by project delays/postponements related to the production of the Boeing 787 variants. On the whole, sales from new business in 2013 based on new long-term contracts will improve in Aerostructures compared with 2012. In our rotor blade business for the wind energy sector, we recorded additional orders from existing customers and thus anticipate significantly higher delivery levels in fiscal year 2013 than in the past fiscal year.



### COST OF SALES INCREASES BY 18%, GROSS MARGIN DECREASES SLIGHTLY

€m	2012	2011	Change
Sales revenue	1,709.1	1,540.2	11.0%
Cost of sales	-1,320.0	-1,121.2	17.7%
<b>Gross profit</b>	<b>389.1</b>	<b>419.0</b>	<b>-7.1%</b>
<b>Gross profit <sup>1)</sup></b>	<b>443.3</b>	<b>419.0</b>	<b>5.8%</b>
Gross margin <sup>1)</sup>	25.9%	27.2%	-

<sup>1)</sup> Before project write-offs of €54.2 million in 2012

Sales revenue increased by €168.9 million, or 11.0%, compared with the prior year. The initial consolidation of Fisipe, our Portuguese subsidiary acquired in 2012, contributed €81.1 million to sales revenue in the reporting period, corresponding to 5%-points of reported sales growth. The reduction in sales revenue due to the project write-offs in the Business Area CFC was mostly compensated by the final settlement of a long-term supply contract in the low double-digit million range in the Business Area PP. Cost of sales increased by €198.8 million, or 17.7%, which was more than the increase in sales revenue. As in previous years, the higher costs in the 2012 reporting year were mainly due to the continued increase in raw material and energy prices. Personnel expenses rose due to the adjustments necessary under collective bargaining agreements. The expense from share-based incentive plans increased by €3.4 million year-on-year. Depreciation on property, plant and equipment, most of which is included in cost of sales, also increased to €85.5 million, rising by €14.2 million year over year.

Gross profit declined by 7.1% to €389.1 million in fiscal 2012 (2011: €419.0 million), mainly due to the non-recurring project write-offs. Adjusted for the project write-offs, gross profit rose by 5.8%. However, the increase was still less than the increase in sales revenue. The adjusted gross margin was 25.9% in 2012, down slightly from the prior-year figure of 27.2%. The decrease was due to reduced capacity utilization in the Business Unit Graphite Specialties compared with the previous year and to lower margin effects from the initial inclusion of Fisipe's acrylic fiber business. Low capacity utili-

zation in Rotor Blades and Carbon Fibers & Composite Materials had a similar impact on margins. However, we achieved cost savings of approximately €26 million from our SGL Excellence Initiative. The majority of the savings related to cost of sales, although the functional costs described below were also reduced.

### OTHER OPERATING COSTS INCREASE BY 11%

€m	2012	2011	Change
Gross profit <sup>1)</sup>	443.3	419.0	5.8%
Selling expenses	-171.8	-153.0	12.3%
Research and development costs	-46.9	-40.0	17.3%
General and administrative expenses	-88.5	-83.0	6.6%
Other operating expenses/income	18.1	17.4	4.0%
<b>Operating profit (EBIT) <sup>1)</sup> before special effects</b>	<b>154.2</b>	<b>160.4</b>	<b>-3.9%</b>
<b>Operating profit (EBIT)</b>	<b>100.0</b>	<b>165.5</b>	<b>-39.6%</b>

<sup>1)</sup> Before project write-offs of €54.2 million in 2012 and before reversal of impairment losses and impairment losses of net €5.1 million in 2011

Other functional costs (selling expenses, research and development costs, and general and administrative expenses) increased by a total of €307.2 million, or 11.3%, compared with the prior year (2011: €276.0 million). Adjusted for the initial consolidation of Fisipe, the increase was 7.9% year over year. The net amount of income and expenses not allocated to functional costs was €18.1 million in fiscal year 2012 (2011: €17.4 million).

### SELLING EXPENSES RISE DUE TO HIGHER VOLUMES AND INCREASED FREIGHT COSTS

Selling expenses rose by 12.3% to €171.8 million in 2012 (2011: €153.0 million). The increase in selling expenses was, therefore, somewhat greater than the rise in sales revenue. Apart from the impact of consolidating Fisipe, the increase was primarily due to higher unit sales and an additional rise in freight costs in the reporting year.

**RESEARCH AND DEVELOPMENT ACTIVITIES INTENSIFIED**

Research and development costs increased to €46.9 million in fiscal year 2012, or 2.7% of sales revenue, compared to €40.0 million, or 2.6% of sales revenue, in the prior year. R&D activities in fiscal year 2012 focused on developing new products, applications and processes as part of our innovation initiatives for electrical energy storage systems, as well as process optimization in the production of carbon fibers at the pilot plant for carbon fibers and composites that went into operation at our Meitingen site in the previous year.

**GENERAL AND ADMINISTRATIVE EXPENSES  
RISE LESS THAN PROPORTIONATELY TO SALES REVENUE**

General and administrative expenses increased from €83.0 million in 2011 to €88.5 million in 2012. The additional expense was primarily a result of project costs for acquisitions, non-recurring costs relating to the relocation of our Wiesbaden offices to the new head office in Wiesbaden-Schierstein and the implementation of a project to improve the internal reporting system. The increase in expenses was, however, less than the rise in sales revenue.

**OTHER OPERATING INCOME  
AND EXPENSES SLIGHTLY INCREASE**

The net amount of other operating income and expenses was €18.1 million in fiscal year 2012 (2011: €17.4 million). In the reporting year, other operating income was impacted by non-recurring income of €5.1 million from an insurance claim (2011: €0.8 million). In 2012, other operating income included income from government grants for projects in the amount of €3.8 million (2011: €3.7 million) and income from the sale of fixed assets in the amount of €1.4 million (2011: €0.6 million). Other income and expenses also related to currency gains and losses, with a loss of €2.3 million being incurred from hedging foreign currency positions in fiscal year 2012. In 2011, currency gains and losses resulted in a gain of €4.6 million.

**OPERATING PROFIT (EBIT)  
DECREASED BY 4% TO €154 MILLION**

Operating profit (EBIT) before project write-offs in 2012 and before impairment losses and reversal of impairment losses in the prior year decreased slightly by approximately 4% to

€154.2 million (2011: €160.4 million). The corresponding EBIT margin decreased from 10.4% in 2011 to 9.0% in 2012 due to the increase in sales revenue. After taking into account the project write-offs of €54.2 million in 2012 and the net gain of €5.1 million recognized in 2011 from offsetting an impairment loss reversal against an impairment loss, the operating profit for fiscal year 2012 amounted to €100.0 million, down from €165.5 million in 2011.

€m	2012	2011	Change
<b>Operating profit (EBIT)</b>	<b>100.0</b>	<b>165.5</b>	<b>-39.6%</b>
Loss from At-Equity-accounted investments	-32.6	-32.6	0.0%
Net financing costs	-57.7	-49.2	-17.3%
<b>Profit before tax</b>	<b>9.7</b>	<b>83.7</b>	<b>-88.4%</b>
Income tax expense	-2.2	-22.8	-90.4%
Non-controlling interests	-0.3	12.3	> -100%
<b>Net profit after non-controlling interests (attributable to shareholders of SGL Carbon SE)</b>	<b>7.2</b>	<b>73.2</b>	<b>-90.2%</b>
Earnings per share, basic (in €)	0.10	1.09	-90.8%
Earnings per share, diluted (in €)	0.10	1.08	-90.7%

**RESULT FROM EQUITY-ACCOUNTED  
INVESTMENTS AT PREVIOUS YEAR'S LEVEL**

As in the previous year, the result from investments accounted for using the equity method amounted to a loss of €32.6 million in the reporting period. The continued high loss from equity-accounted investments was primarily attributable to the non-recurring impairment resulting from the discontinuation of operations at EPG, which burdened the loss from equity-accounted investments by €23.2 million in fiscal 2012. This figure contains expenses for impairment on the equity investment in and loans to EPG as well as expected restructuring costs resulting from the planned discontinuation of the

company's operations. We sold our 49% share in PowerBlades to REpower as of year-end 2011. The operating losses related to our equity investments in Benteler-SGL, STS, and Brembo SGL decreased slightly to a total of €5.4 million, down from losses of €7.6 million in the prior-year period. As in the previous year, start-up costs were incurred for carbon fiber and carbon fiber fabrics production in our joint ventures with BMW Group. Additional start-up costs are expected until the planned start of serial production in the second half of 2013.

€m	2012	2011	Change
Sales revenue <sup>1)</sup>	154.4	131.9	17.1%

<sup>1)</sup> Aggregated, unconsolidated full values of all equity-accounted investments, in 2011 adjusted for the sale of PowerBlades

The Business Area Carbon Fibers & Composites accounted for the majority, or €149.5 million, of the aggregated, non-consolidated sales revenue of our investments accounted for using the equity method in fiscal year 2012 (2011: €119.0 million, adjusted for the sale of PowerBlades and 100% aggregated, non-consolidated values of each of the companies). These revenues are not included in the sales revenue of SGL Group.

#### **BREMBO SGL: CAPACITIES INCREASING GRADUALLY**

Brembo SGL recorded sales on the prior-year level in fiscal 2012. However, new orders improved by the end of the fiscal year. As a result, production facilities in Meitingen and Stezzano (Italy) continue to operate at nearly full capacity. Capacities will be gradually expanded to meet rising demand for brake discs for new vehicle models. In 2012, the earnings trend was very satisfactory compared with the prior year, with earnings for fiscal year 2012 reaching the break-even level.

#### **BENTELER-SGL: INCREASED PROJECT ACTIVITIES AND EXPANSION OF PRODUCTION CAPACITIES**

Sales revenue was up slightly year over year in our joint venture with Benteler Automobiltechnik GmbH. However, start-up losses were incurred in the reporting year as a result

of promising activities involving the start of serial production for new vehicle projects. In fiscal year 2012, a new production plant was built in Ort (Austria) for the manufacture of automotive components from composite materials by Benteler-SGL. The new plant is located in the direct vicinity of our existing plant in Ried (Austria). With this step, Benteler-SGL is making steps to increase production capacities and create new jobs. Serial production is expected to start as early as mid-2013.

#### **SGL AUTOMOTIVE CARBON FIBERS (JOINT VENTURES WITH BMW GROUP): PROCEEDING AS PLANNED**

Established at the end of 2009, these joint ventures with BMW Group were formed for the purpose of producing carbon fibers in the US and carbon-fiber fabrics in Wackersdorf (Germany) for the automotive industry. The joint ventures began operations in 2010. Our factory for the manufacture of carbon fibers was completed on schedule in Moses Lake, Washington (USA). Since the summer of 2011, the joint venture has been supplying carbon fibers to the joint facility in Wackersdorf in preparation for serial production. In Wackersdorf, the carbon fibers are processed to form lightweight carbon fiber fabrics. The carbon fiber reinforced plastic (CFRP) parts and components are made from these fabrics at a BMW plant in Landshut (Germany). Start-up costs have been incurred in the initial years and will continue to be incurred in the first half of 2013 until the planned start of serial production. The qualification activities for the i3 project at BMW Group have been completed and serial production is expected to start when the BMW i3 goes into production at the end of 2013.

#### **EUROPEAN PRECURSOR GMBH (EPG) DISCONTINUES OPERATIONS AT THE BEGINNING OF 2013**

Pursuant to the joint venture agreement, our EPG joint venture discontinued operations at the start of fiscal year 2013 after the EPG shareholders decided to discontinue operations of the company. At present, we are aiming to conclude an agreement (Sozialplan) between management and the works council regarding the remaining employees, and negotiations on financing requirements have been undertaken. In fiscal 2012, SGL Group recorded an impairment loss totaling €23.2 million under results from equity-accounted investments due to EPG.

**FISIGEN**

The joint venture Fisigen S.A., acquired on a pro-rata basis with Fisipe, produces steam and electricity for both shareholders. During the period since its initial consolidation, the company has shown a slightly negative result.

**SGL TOKAI CARBON SHANGHAI (STS):  
DECLINING UNIT SALES**

The sales volumes of our joint venture for graphite electrodes in China had to be reduced again in the reporting year due to sustained low price levels. Extensive impairment losses had already been recognized in previous years. In light of this development, it is planned to reposition STS as a distribution company in the future. In addition, strategic cooperation options in graphite electrodes are being evaluated in China.

**NET FINANCING COSTS: INCREASE IN OTHER  
FINANCING COSTS DUE TO IMPAIRMENT CHARGE  
ON FINANCIAL INSTRUMENTS****Net financing costs**

€m	2012	2011	Change
Interest income	2.4	3.1	-22.6%
Interest expense	-18.3	-16.9	-8.3%
Interest cost component on convertible bond (non-cash)	-13.9	-13.9	0.0%
Interest cost component on finance leases (non-cash)	-1.2	-1.2	0.0%
Interest expense on pensions	-17.8	-16.8	-6.0%
<b>Interest expense, net</b>	<b>-48.8</b>	<b>-45.7</b>	<b>-6.8%</b>
Amortization of refinancing costs (non-cash)	-2.6	-2.6	0.0%
Foreign currency valuation of Group loans (non-cash)	-2.6	1.6	> -100%
Other financial income and expenses	-3.7	-2.5	-48.0%
<b>Other financing costs</b>	<b>-8.9</b>	<b>-3.5</b>	<b>&gt; -100%</b>
<b>Net financing costs</b>	<b>-57.7</b>	<b>-49.2</b>	<b>-17.3%</b>

Despite the higher average liquidity level in fiscal 2012, interest income decreased by €0.7 million to €2.4 million in the reporting year (2011: €3.1 million) as a result of sustained low interest rate levels.

Interest expense increased by €1.4 million, from €16.9 million in 2011 to €18.3 million in 2012, mainly due to the issuance of the convertible bond in 2012 and the resulting increase in the average level of financial liabilities. The issuance of the new convertible bond in April 2012 in the amount of €240 million led to an additional interest expense of €4.5 million. On the other side, interest payments were lower in the 2012 reporting period than in the previous year due to the partial conversion of our convertible bonds from 2007 and 2009, which occurred prior to maturity on July 1, 2011 and in the fourth quarter of 2011. As a result of these prior year conversions, total interest expense, net, changed by 4.4 million. In addition, interest for investment projects to be capitalized pursuant to IFRS reduced the interest expense by €2.6 million (2011: €1.6 million). The average cash interest rate was 2.4% p.a. in 2012 (2011: 2.3% p.a.).

Non-cash expense from the imputed interest cost on the convertible bonds amounted to €13.9 million, as in the previous year. The total amount of the imputed interest component is equal to the hidden premium recognized in equity upon recognition of the two convertible bonds and increases the interest expense of the cash coupons of 0.75%, 3.5%, and 2.75% to a total of 5.8%, 8.4%, and 4.9%, respectively. The reduction in net financing costs for 2012 due to the partial conversions occurring in 2012 was fully offset by the non-cash interest cost component of the new convertible bond issued in fiscal year 2012. The newly issued convertible bond will increase the non-cash imputed interest component as well as the cash interest component starting in fiscal year 2013.

The imputed interest cost for a heritable building right agreement also resulted in non-cash interest expenses, which we have reported separately under net financing costs, at an unchanged level of €1.2 million, as in the prior year. Due to an increase in the present value of defined benefit obligations, interest expense on pensions was above the prior-year level in the year under review at €17.8 million (2011: expense of €16.8 million), despite a slight decrease in the discount rate. All in all, net interest expense increased by 6.8% to €48.8 million compared with the prior-year figure of €45.7 million.

The other financing costs of €8.9 million in 2012 (2011: costs of €3.5 million) include – in addition to the non-cash expense for amortization of the refinancing costs from 2007, 2009, and 2012 – the effects of mark-to-market valuation of interest rate and currency hedges, currency translation gains and losses arising from intercompany and external local loans, and other financial income and expenses.

Foreign exchange gains and losses from financing our subsidiaries resulted in a non-cash expense of €2.6 million versus income of €1.6 million in 2011. The other financial income and expenses of €3.7 million in 2012 (2011: expense of €2.5 million) resulted from currency gains of €1.4 million on our bank loans in Malaysia denominated in foreign currency (2011: losses of €1.3 million) and an impairment charge of minus €5.5 million on financial instruments held for sale based on a permanent reduction in their fair value. The net financing cost (excluding the result from equity-accounted investments) thus increased by 17% in the reporting period to €57.7 million (2011: cost of €49.2 million).

#### **GROUP TAX EXPENSE AT €2.2 MILLION**

The income tax expense amounted to €2.2 million in the reporting period, down significantly from the tax expense for the prior year of €22.8 million. This figure includes capitalization on deferred taxes previously not recognized. Certain losses from investments accounted for using the equity method cannot be deducted by the Group for tax purposes. In addition, a number of expenses cannot be claimed for tax purposes. Adjusted for these factors, the normalized tax rate for 2012 was 29% (2011: 31%). In the year under review, cash taxes increased to €21.5 million (2011: €12.5 million).

For more information, please refer to **Note 11** of the notes to the consolidated financial statements.

#### **SIGNIFICANT DECREASE IN NON-CONTROLLING INTERESTS**

Non-controlling interests (minority interests) also contain the share in the operating result (including impairment) of our minority interests in partnerships. Within our Group, minority interests in partnerships relate to SGL Kumpers and, until June 2012, SGL Rotec, which together contain minority interests equaling a loss of €2.0 million. This figure was more than compensated for by the share of minority interests in other Group companies equal to a profit of €2.3 million. Together, these figures account for the reported amount of €0.3 million. Further information can be found in **Note 26** of the notes to the consolidated financial statements.

**Five-Year Overview of Results of Operations**

€m	2012	2011	2010	2009	2008
Sales revenue	1,709.1	1,540.2	1,381.8	1,225.8	1,611.5
Operating profit (EBIT) <sup>1)</sup>	154.2	160.4	128.4	111.0	306.4
in % of sales revenue	9.0%	10.4%	9.3%	9.1%	19.0%
Consolidated net profit/loss for the period	7.2	73.2	52.2	-60.8	189.3
in % of sales revenue	0.4%	4.8%	3.8%	-5.0%	11.7%
Earnings per share, basic (in €)	0.10	1.09	0.80	-0.93	2.95

<sup>1)</sup> Before project write-offs of €54.2 million in 2012, reversal of impairment losses and impairment losses of €5.1 million in 2011, and an impairment loss expense of €74.0 million in 2009

**CONSOLIDATED NET PROFIT DROPS TO €7.2 MILLION**

Including non-controlling interests, the consolidated net profit for the year amounted to €7.2 million, a decrease of 90% on the 2011 figure of €73.2 million.

Based on an average number of shares of 70.4 million, basic earnings per share decreased to €0.10 (2011: €1.09). In calculating diluted earnings per share, the shares that may potentially be issued under the 2007, 2009, and 2012 convertible bonds as well as under the Stock Option Plan and the Stock Appreciation Rights Plan are also taken into account. The average number of shares for 2012 thus increased to 70.6 million, leading to diluted earnings per share also amounting to €0.10. In 2011, diluted earnings per share were €1.08 per share.

**Financial performance of the Business Areas****PERFORMANCE PRODUCTS (PP): DOUBLE-DIGIT INCREASE IN SALES REVENUE AND EARNINGS****Performance Products (PP)**

€m	2012	2011	Change
Sales revenue	940.7	845.7	11.2%
EBITDA	222.8	179.9	23.8%
Operating profit (EBIT)	181.7	143.3	26.8%
Return on sales	19.3%	16.9%	-
Capital expenditure for intangible assets and property, plant and equipment	46.4	61.0	-23.9%
Cash generation <sup>1)</sup>	129.9	118.2	9.9%
Depreciation and amortization	41.1	36.6	12.3%
Number of employees (at year-end)	2,081	2,094	-0.6%

<sup>1)</sup> EBITDA less capital expenditure and change in working capital

Sales revenue in the Business Area PP rose by 11% to €940.7 million in fiscal year 2012 (2011: €845.7 million). The currency-adjusted increase in sales revenue was 8%. As anticipated, business operations benefited from higher graphite electrodes shipments in the second half of the year versus the first half of 2012 as well as higher overall prices compared with the prior year. The slight recovery of cathode volumes that began in mid-2011 continued in fiscal year 2012, although at the anticipated lower sales prices. Moreover, the rise in sales revenue was supported by the final settlement of a long-term supply contract in the third quarter of 2012 in the amount of a low double-digit € million figure.

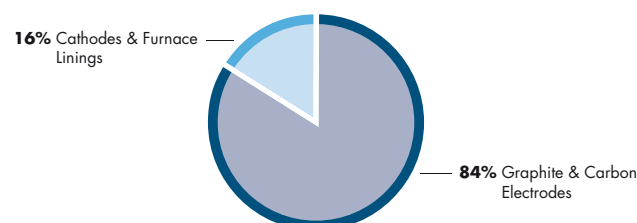
EBIT increased by 27% to €181.7 million compared with €143.3 million in the previous year. The greater increase in EBIT compared with sales revenue was mainly due to higher prices for graphite electrodes, improved cathode sales volumes and the above-mentioned final settlement of a long-term supply contract. Cost savings from our SGL Excellence Initiative reached the prior-year level at approximately €10 million. The start-up costs for the gradual commissioning of our new production facility in Banting (Malaysia) again weighed on earnings of the Business Area PP in fiscal year 2012. Nevertheless, the return on sales improved to 19.3% for full-year 2012 (2011: 16.9%).

Capital expenditures declined by 24% compared with the previous year to €46.4 million, primarily due to lower spending related to the construction of the plant in Malaysia, which still represented the focus of investments. Necessary replacement and environmental protection investments were also made, particularly at our locations in La Coruña (Spain) and Ratibor (Poland).

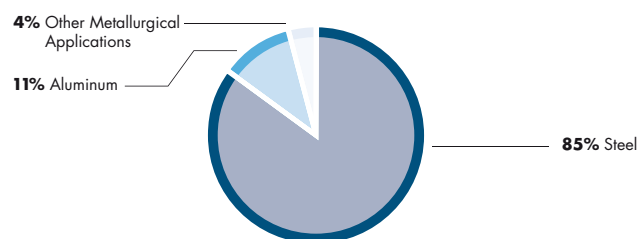
On September 13, 2012, we officially opened our fully integrated plant for graphite electrodes and cathodes in Banting (Malaysia). The plant in Banting is the first greenfield project

in our industry outside of China in more than 25 years; it will have a capacity of 60,000 tons for the production of graphite electrodes and cathodes. The plant has the ability to flexibly adapt to market demand as a result of the technical conditions existing for the production of both electrodes and cathodes (swing capacity). We have used the best practices of our global production infrastructure to combine our longstanding expertise with the available technological competence. The modern plant will therefore set a new standard in cost efficiency and quality in the graphite industry. The investment amounts to more than €200 million.

#### Sales revenue by Business Unit, 2012 (PP)



#### Sales revenue by customer industry, 2012 (PP)



## GRAPHITE MATERIALS & SYSTEMS (GMS): BROAD MATERIALS BASE SUPPORTS BUSINESSES

### Graphite Materials & Systems (GMS)

€m	2012	2011	Change
Sales revenue	486.2	468.7	3.7%
EBITDA	88.4	101.6	-13.0%
Operating profit (EBIT)	69.3	84.0	-17.5%
Return on sales	14.3%	17.9%	-
Capital expenditure for intangible assets and property, plant and equipment	50.1	35.1	42.7%
Cash generation <sup>1)</sup>	43.9	43.5	0.9%
Depreciation and amortization	19.1	17.6	8.5%
Number of employees (at year-end)	2,802	2,811	-0.3%

<sup>1)</sup> EBITDA less capital expenditure and change in working capital

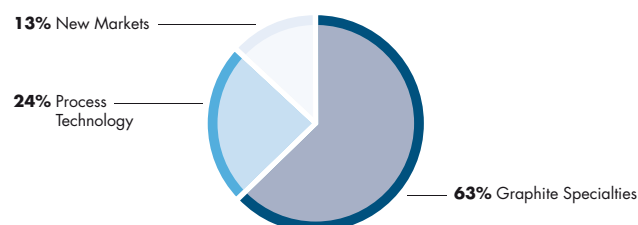
Sales revenue in the Business Area GMS rose by 4% to €486.2 million in the past fiscal year, up from €468.7 million in 2011. On a currency-adjusted basis, sales revenue was approximately the same as that of the prior-year. The rise in sales revenue was driven by the positive trend in the Business Units Process Technology and New Markets, while the Business Unit Graphite Specialties declined slightly. The stable revenue trend at GMS underlines the fact that our broad materials base has been able to compensate for the cyclical downturn in the solar and LED industries.

As expected, EBIT declined by 18% to €69.3 million (2011: €84.0 million), which resulted in a return on sales of 14.3% (2011: 17.9%). The anticipated deterioration in the return on sales was primarily attributable to lower fixed cost absorption. Capacity utilization in fiscal year 2012 was below the very high level of the prior year, as we adapted our production to the lower order intake level since the beginning of the second quarter 2012. Cost savings of approximately €9 million were realized under the SGL Excellence Initiative in full-year 2012 (2011: approximately €8 million).

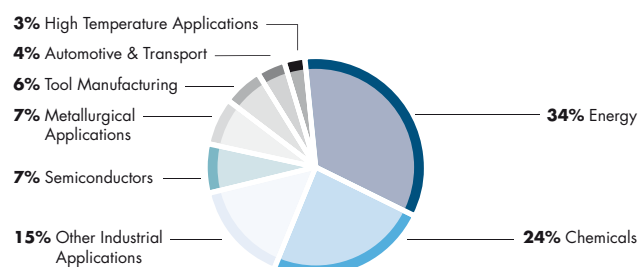
Capital expenditures increased from €35.1 million in 2011 to €50.1 million in 2012. Key projects involved the expansion of isostatic graphite capacities at the Bonn site and capacity expansions in Shanghai and in Yangquan (Shanxi, China). We also made a number of environmental protection investments in Chedde (France) and Morganton, North Carolina (USA) as well as for reconstructing the Sigriflex facility in Meitingen (Germany), which was damaged by fire in 2011.

The new production center for isostatic graphite in Bonn is expected to go into operation in 2013. This will gradually increase the global capacity of SGL Group for producing isostatic graphite from 5,000 tons to 15,000 tons p.a. over the next few years. A new, large press in Bonn will enable SGL Group to meet growing demand for large molded parts made of isostatic graphite.

### Sales revenue by Business Unit, 2012 (GMS)



### Sales revenue by customer industry, 2012 (GMS)





### CARBON FIBERS & COMPOSITES (CFC): PROJECT WRITE-OFFS IMPACT REVENUE AND EARNINGS TREND

#### Carbon Fibers & Composites (CFC)

€m	2012	2011	Change
Sales revenue	277.2	220.2	25.9%
EBITDA before special effects <sup>1)</sup>	-20.6	-5.3	> -100%
Operating profit (EBIT) before special effects <sup>1)</sup>	-39.2	-16.9	> -100%
Operating profit (EBIT)	-93.4	-11.8	> -100%
Return on sales before special effects	-14.1%	-7.7%	-
Capital expenditure for intangible assets and property, plant and equipment	23.6	28.8	-18.1%
Cash Generation <sup>2)</sup>	-70.9	-80.2	11.6%
Depreciation and amortization	18.6	11.7	59.0%
Number of employees (at year-end)	1,725	1,469	17.4%

<sup>1)</sup> Before project write-offs of €54.2 million in 2012 and before reversal of impairment losses and impairment losses of €5.1 million in 2011

<sup>2)</sup> EBITDA less capital expenditure and change in working capital

Earnings in the Business Area CFC were significantly impacted in fiscal year 2012 by non-cash project write-offs in the Business Unit Aerostructures (HITCO), which resulted in a €32.5 million reduction in sales revenue and a €54.2 million decline in EBIT. HITCO produces components for the Boeing B787 (Dreamliner) on a large scale, and our direct customers are Boeing's Tier 1 suppliers. The project write-offs were necessary primarily due to repeated postponements of production and delivery of the Boeing 787, as well as a shift in production volumes from the B787-8 model and its components to the longer B787-9 model. Therefore, the losses had to be recognized on contracts for the construction of B787-8 components.

As provided for in our contract and as is customary in the aviation sector, we have asserted a claim for compensation from our direct customer, a Tier 1 supplier of Boeing. Possible

compensation payments would reduce our losses under the contract, but they cannot be recorded unless and until any such payments are confirmed.

Boeing has announced higher production volumes for the B787-9 model to compensate for reduced production of the B787-8 model. Against this backdrop, we expect partial compensation from higher production volumes for B787-9 components. This, however, will only impact future income.

Sales revenue in the Business Area CFC amounted to €277.2 million in fiscal year 2012 (2011: €220.2 million). This figure includes the initial revenue contribution from Fisipe, the Portuguese acrylic fiber producer acquired in 2012, in the amount of €81.1 million and the project write-offs in the Business Unit Aerostructures (HITCO), which reduced sales revenue by a total of €32.5 million in fiscal year 2012. The comparable growth in sales revenue (excluding Fisipe and the project write-offs) of approximately 4% is attributable to higher sales revenue in the Business Unit Rotor Blades versus the weak previous year, and was offset in part by lower revenues in our Business Unit Carbon Fibers & Composite Materials.

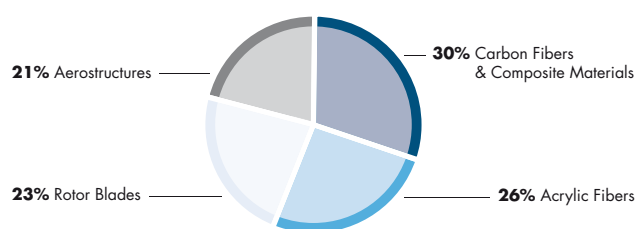
Before adjustment for the project write-offs, EBIT in the Business Area CFC amounted to a loss of €39.2 million (2011: loss of €16.9 million before reversals of impairment losses and impairment losses). The reduction in operating earnings is attributable to the continued negative earnings situation in our wind energy/rotor blade business and lower capacity utilization in the carbon fiber business due to additional project postponements, which resulted in lower demand for materials from the wind energy sector. In addition, postponements of contracted deliveries for the Boeing 787 and the Joint Strike Fighter resulted in unsatisfactory capacity utilization in the Business Unit Aerostructures. Cost savings from our SGL Excellence Initiative amounted to approximately €7 million.

In the second quarter of 2011, IFRS rules required that we partially reverse the impairment losses on intangible assets and property, plant and equipment recognized in previous years in the amount of €29.2 million, as described in our 2011 annual report.

We were also required to recognize an impairment loss of €24.1 million on intangible assets and property, plant and equipment in the Business Unit Rotor Blades in 2011 due to the difficulties of our rotor blade customers and sluggish investment activity in the wind energy sector. The impact of the impairment losses and reversals of impairment losses resulted in a net gain of €5.1 million in fiscal year 2011.

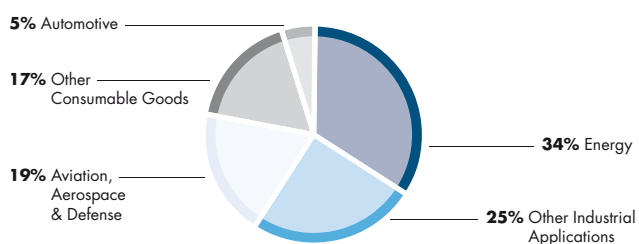
Capital expenditures decreased from €28.8 million in 2011 to €23.6 million in 2012. Investment activity focused on further expansion of automation technologies and two new production buildings at HITCO in Gardena, California (USA). At our rotor blade production facility in Lemwerder (Germany), a number of investments were made in connection with improvements in infrastructure and in production installations. In addition, investments were made in expanding automation technologies at SGL Kämpers in Lathen (Germany), and investments in environmental protection were made at our carbon fiber plants in Muir of Ord (Scotland).

#### Sales revenue by Business Unit, 2012 (CFC) <sup>1)</sup>



<sup>1)</sup> Adjusted for project write-offs

#### Sales revenue by customer industry, 2012 (CFC) <sup>1)</sup>



<sup>1)</sup> Adjusted for project write-offs

#### CENTRAL T&I COSTS AND CORPORATE COSTS

€m	2012	2011	Change
Sales revenue/other revenue	5.0	5.6	-10.7%
<b>Operating profit (EBIT)</b>			
Central T&I costs	-11.5	-12.9	10.9%
Corporate costs	-46.1	-37.1	-24.3%
Number of employees (T&I) <sup>1)</sup>	153	147	4.1%
Number of employees (corporate) <sup>1)</sup>	78	73	6.8%

<sup>1)</sup> At year-end

Central T&I spending was below the level of the previous year at €11.5 million in 2012 (2011: €12.9 million). The decline resulted from a research expense grant received in fiscal year 2012 that was not required to be repaid. Central T&I costs relate to those research and development initiatives that are not allocated to the Business Areas and Business Units due to their long-term, fundamental nature.

Corporate costs increased to €46.1 million in 2012 from €37.1 million in the previous year. The additional expense primarily resulted from costs for acquisition projects, costs relating to the relocation of the new head office to Wiesbaden-Schierstein, and costs from the implementation of a project to improve the internal reporting systems.

## Financial Position

### PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The primary 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 placed great importance on our internal financing in fiscal year 2012.

SGL Group's financial management continues to be conducted centrally in order to hedge interest rate and currency risks in the best possible way, ensure compliance with lending provisions, optimize 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, financing activities and money supply for Group companies, 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 world-wide financial management activities and is supported in its activities by regional financial centers in Charlotte, North Carolina (USA) and Shanghai (China), as well as by employees at our local subsidiaries.

### LIQUIDITY MANAGEMENT

Operational liquidity management is centrally coordinated and undertaken in cooperation with our subsidiaries on a global basis. Insofar as permitted by legal and economic constraints, the major portion of cash in readily convertible currencies is concentrated at SGL Carbon SE, the Group holding company, by means of global cash pooling structures and is used to balance intercompany liquidity needs. The majority of internal trading and clearing transactions is automated and settled via a central in-house cash center without the need for external bank accounts. SGL Carbon SE acts as a clearing center for the legal entities participating in this process. In fiscal year 2012, 19 Group companies took part in the central in-house cash center. To the extent permissible, the weekly settlement of supplier invoices is also handled through the global in-house cash center, thus allowing central management of a

large portion of the Group's global cash outflows. In fiscal year 2012, on average over 80% of global supplier payments were handled centrally. In addition, SGL Group constantly endeavors to increase the efficiency and transparency of payment transactions by maintaining a high degree of standardization and implementing continuous improvement processes. In order to secure on a permanent basis the standards we have attained, we work with monthly KPIs (key performance indicators), which allow us to constantly measure the degree of payment transaction standardization we have achieved and the related average costs, as well as to continuously improve our system further.

In addition to annual finance planning, which generally covers a period of five years, current 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 credit lines, SGL Group ensures that it has adequate liquidity reserves at all times. These reserves allow SGL Group to respond to cash flow fluctuations during the year in a flexible manner and to meet all payment obligations on time at all times. In fiscal year 2012, fluctuations in working capital were managed accordingly in this manner.

Our financing agreements include stipulations made by lenders regarding the investment of available cash funds. These stipulations form the foundation of our conservative investment strategy. Another area we focus on with regard to the investment of cash funds is ensuring sufficient liquidity to cover cash flow fluctuations during the fiscal year as well as the financial stability and systemic importance of our business partners. In addition, when investing funds we take into account the performance and success of collaboration with our business partners in recent years (core bank concept).

### GROUP FINANCING

Group financing is geared to the strategic business plans of the operating Business Units as well as central Group planning. Since the start of the global financial crisis, SGL Group has been paying even closer attention to the financing opportunities presenting themselves on the financial markets and to trends in the availability of funds and the cost of procuring them. For this reason, various sources of financing and financing options are examined on a regular basis to ensure that the Group's financing requirements are covered at all times with due consideration to the Group's financing objectives. As a result, in fiscal year 2012 we decided to raise new liquidity under attractive conditions in the capital market in anticipation of future market developments. By issuing an additional convertible bond, in combination with committed credit facilities and the resulting liquidity reserve, we are covering our anticipated operational financing requirements for fiscal year 2013, including the repayment of our convertible bond from 2007. The convertible bond that was issued in 2007 and valued at €145.5 million as of the balance sheet date in 2012, will be repaid in May 2013 provided that the bond holders do not make use of their right to convert the bond into shares of SGL Carbon SE.

In past years, selected properties, IT equipment and vehicles have been financed, in part, via operating leases. Further details can be found in **Note 28** 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, as well as on currency

risks that result from the internal financing of local subsidiaries in foreign currencies. In doing so, we consider the following major risk positions:

- US dollar – Euro
- US dollar – Canadian dollar
- US dollar – Japanese yen
- US dollar – British pound
- Japanese yen – Euro
- Euro – Polish zloty
- British pound – Euro

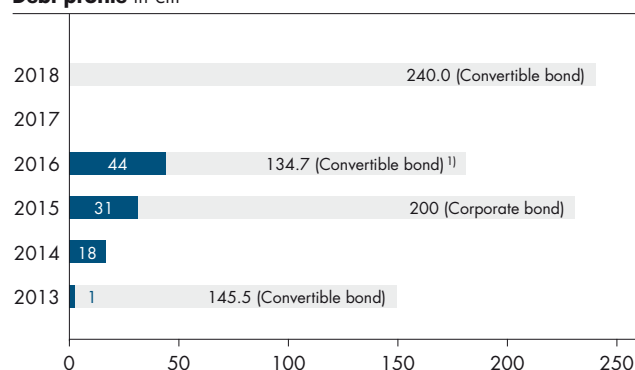
Currency forwards are the primary instrument used by the Group to hedge currency risk. To manage interest rates, SGL Group generally uses interest-rate cap transactions as hedging instruments. No new interest rate hedges were taken out in fiscal year 2012. The anticipated risk from currency fluctuations and interest rate changes has already been adequately covered for fiscal year 2013. Internal guidelines specify the conditions, responsibilities and controls required for the use of derivatives. Further details on hedging instruments and the effects of hedging can be found in **Note 30** of the notes to the consolidated financial statements.

### FINANCING ANALYSIS

SGL Group's financing is primarily composed of a corporate bond in the amount of €200 million (coupon = 3-month EURIBOR +1.25%, maturing in 2015), a convertible bond in the initial amount of €200 million (€145.5 million after conversion; coupon of 0.75%, maturing in 2013), a convertible bond in the initial amount of €190 million (€134.7 million after conversion; coupon of 3.5%, maturing in 2016, bondholder put option in 2014), and a convertible bond issued in fiscal year 2012 in the amount of €240 million (coupon of 2.75%, maturing in 2018). In addition, the Company also has at its disposal a €200 million syndicated credit line that was unutilized as of the balance sheet date to compensate for fluctuations in working capital during the year as well as for general corporate financing purposes. If necessary, this credit line can also be used as a bridge when financing instruments fall due.

In addition, to finance our investments in Malaysia, local credit lines have been taken out in US dollars and Malaysian ringgits, which were fully utilized as of the balance sheet date. All in all, undrawn credit facilities amounting to €207.8 million were available to SGL Group to cover working capital and investments as of December 31, 2012 (2011: €215.4 million). Cash funds amounted to €355.9 million as of December 31, 2012 (2011: €241.7 million).

**Debt profile** in €m



— Capital market instruments    ■ Bilateral credit lines

<sup>1)</sup> Convertible bond put option in 2014

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 in evaluating the Group's credit standing. At present, SGL Group has ratings of Ba2 (Moody's) and BB (Standard & Poor's), both with a stable outlook.

In general, rating agencies differentiate between investment grade and non-investment grade companies, with these categories being sub-divided into further classes known as rating categories. The classification is based on two factors: the business risk profile and the financial risk profile of a company. Business risk and financial risk are determined individually as part of the rating process. As such, a company's rating (issuer rating) is a combination of business risk and financial risk. The classification of SGL Group at the higher end of the non-

investment grade category reflects our appropriate financial risk profile as well as our business risk profile, which the rating agencies view as cyclical and to some extent volatile.

The corporate bond issued by SGL Group was awarded an investment grade rating of BBB- by S&P due to its top-ranking security structure. S&P gave a BB rating to the unsecured convertible bonds that are subordinate to the corporate bond. Moody's has issued a Ba1 rating for the corporate bond, which is the highest non-investment grade rating, and a Ba3 rating for the convertible bonds.

Rating agencies have awarded the following corporate ratings to SGL Group (unchanged from the prior year):

Rating agency	Rating	Date of rating
Moody's	<b>Ba2</b> (Outlook: stable)	May 2012
Standard & Poor's	<b>BB</b> (Outlook: stable)	January 2013

The rating agencies have published the following ratings for the corporate bond and the convertible bonds:

#### Corporate bond

Rating agency	Rating	Date of rating
Moody's	<b>Ba1</b>	May 2012
Standard & Poor's	<b>BBB-</b>	January 2013

#### Convertible bond

Rating agency	Rating	Date of rating
Moody's	<b>Ba3</b>	May 2012
Standard & Poor's	<b>BB</b>	January 2013

Thanks to the credit ratings issued by the rating agencies, SGL Group continues to have stable access to the capital markets should it decide to issue any further bonds.

### FREE CASH FLOW REMAINS NEGATIVE DUE TO ONGOING GROWTH PROJECTS

Capital expenditures for isostatic graphite capacity expansion at our sites in Bonn and China, for the construction of our new graphite electrode and cathode plant in Banting (Malaysia) and for targeted replacement and expansion investments was again well in excess of the depreciation and amortization charge in 2012. In doing so, we were able to finance the majority of capital spending on property, plant and equipment with operating cash flow in order to counteract an increase in net financial debt. In comparison to the previous year, free cash flow decreased from €–33.1 million to €–80.0 million, which, when adjusted for payments made in connection with the acquisition of Fisipe, resulted in negative free cash flow of €49.3 million. However, this was still better than the projected figure of €–60 million, and primarily attributable to the consistent pursuit of the strategic growth objectives of SGL Group. Cash used for the acquisition of companies less acquired cash increased from €4.2 million in the previous year to €30.7 million. The amount for 2012 represents the purchase price for Fisipe. The past fiscal year also comprised cash used in connection with investments accounted for using the equity method in the amount of €28.9 million (2011: €14.2 million).

#### Liquidity and capital resources

€m	2012	2011	Change
<b>Cash flow from operating activities</b>			
Profit before tax	9.7	83.7	–88.4%
Depreciation/amortization expense	85.5	71.3	19.9%
Changes in working capital	–14.3	–61.0	76.6%
Miscellaneous items	34.1	42.2	–19.2%
<b>Net cash provided by operating activities</b>	<b>115.0</b>	<b>136.2</b>	<b>–15.6%</b>
<b>Cash flow from investing activities</b>			
Payments to purchase intangible assets and property, plant and equipment	–133.5	–138.8	3.8%

#### Liquidity and capital resources

€m	2012	2011	Change
Capital injections concerning At-Equity-accounted investments and other financial assets	–33.0	–32.0	–3.1%
Payments for the acquisition of companies, net of cash acquired	–30.7	–4.2	> –100%
Proceeds from sale of intangible assets and property, plant and equipment	2.2	5.7	–61.4%
<b>Net cash used in investing activities</b>	<b>–195.0</b>	<b>–169.3</b>	<b>–15.2%</b>
<b>Free cash flow<sup>1)</sup></b>	<b>–80.0</b>	<b>–33.1</b>	<b>&gt; –100%</b>
Net cash used in/provided by time deposits	–50.0	120.0	> –100%
Net cash provided by/used in financing activities	195.0	–10.7	> 100%
Effect of foreign exchange rate changes	–0.8	0.8	> –100%
Cash and cash equivalents at beginning of year	161.7	84.7	90.9%
<b>Cash and cash equivalents at end of year</b>	<b>225.9</b>	<b>161.7</b>	<b>39.7%</b>
Time deposits at end of year	130.0	80.0	62.5%
<b>Total liquidity</b>	<b>355.9</b>	<b>241.7</b>	<b>47.2%</b>
<b>Net change in liquidity</b>	<b>114.2</b>	<b>–43.0</b>	<b>&gt; 100%</b>

<sup>1)</sup> Defined as cash provided by operating activities less 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 and is composed of net cash provided by operating activities, net cash used for 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. Cash funds further include short-term time deposits with original terms of up to six months (€130.0 million; 2011: €80.0 million).

### NET CASH PROVIDED BY OPERATING ACTIVITIES DECREASED BY 16%

Net cash provided by operating activities totaled €115.0 million in 2012 (2011: €136.2 million). The decrease from the prior year was primarily due to the decrease in the operating result, as well as an €9.0 million increase in tax payments to €21.5 million for 2012 (2011: €12.5 million). At €13.6 million, interest payments were slightly under the level of the previous year (2011: €14.8 million). Depreciation and amortization of €85.5 million (2011: €71.3 million) was also included. An increase in operational working capital reduced net cash provided by operating activities in spite of increased business activity by only €14.3 million (2011: €-61.0 million), primarily due to the increase in payments received for uncompleted contracts.

Overall, working capital increased by 4% to €701.1 million as of December 31, 2012, (December 31, 2011: €673.9 million), primarily due to a 5% increase in inventories. In addition to

the initial consolidation of Fisipe, higher input costs in our primary raw materials, as well as the expected high revenue in the first quarter of 2013, particularly in the Business Area Performance Products, led to the increase in inventories. The project write-offs had an opposing effect on working capital, leading to a decrease in receivables from long-term construction contracts of 73%, or €52.6 million. The operational increase in working capital (without the project write-offs and before Fisipe) amounted to 8%.

### NET CASH USED IN INVESTING ACTIVITIES UP FROM 2011

Net cash used in investing activities increased by €25.7 million year over year to €195.0 million. This item contains payments for intangible assets and property, plant and equipment, investments accounted for using the equity method and for the acquisition of Fisipe. We limited payments for capital expenditures on intangible assets and property, plant and equipment to €133.5 million in the reporting year (2011: €138.8 million).

### CAPITAL EXPENDITURE REMAINS HIGHER THAN DEPRECIATION/AMORTIZATION

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

€m	2012	2011	2010	2009	2008
Capital expenditure	133	139	137	154	239
Depreciation and amortization	86	71	66	61	54

Capital expenditures on intangible assets and property, plant and equipment in fiscal year 2012 was distributed as follows: 35% for PP (€46.4 million; 2011: €61.0 million), 37% for GMS (€50.1 million; 2011: €35.1 million), 18% for CFC (€23.6 million; 2011: €28.8 million), and 10% for central projects (€13.4 million; 2011: €13.9 million). The comparative figures for the previous year were 44% for PP, 25% for GMS, 21% for CFC, and 10% for central projects.

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

In the Business Area GMS, capital expenditures in the reporting year primarily related to expanding our isostatic graphite capacities at our site in Bonn (Germany), and investments in expanding capacities in Strongsville (USA), in Shanghai and Yangquan (China). We also made a number of environmental protection investments in Chedde (France) and Morganton (USA) and repaired the Sigraflex facility in Meitingen (Germany) which was damaged by fire in the previous year.

In the Business Area CFC, investment activities in 2012 focused on further expansion of automation technologies and two new production buildings at HITCO in Gardena, California (USA). In Lemwerder (Germany), a number of investments were made in connection with infrastructure improvements and manufacturing devices. At SGL Kämpfers in Lathen (Germany), investments were made in expanding automation technologies. Finally, investments were made for environmental protection at our carbon fiber plants in Scotland.

Group capital expenditures in the reporting year primarily focused on improvements to the newly occupied Head Office in Wiesbaden (Germany), as well as projects to improve IT systems.

Intangible assets and property, plant and equipment, therefore, increased to €960.3 million as of December 31, 2012 (December 31, 2011: €886.6 million). Other than the capital expenditures mentioned above, the increase was mainly attributable to the initial consolidation of the acquired property, plant and equipment of Fisipe in Lavradio (Portugal) in the amount of €28 million.

**Investments in our companies accounted for using the equity method and in other financial assets** increased to €33.0 million (2011: €32.0 million). In the year under review, this figure related to the scheduled capital increase of €7.8 million (2011: €7.6 million) at our joint ventures with BMW Group, as well as to payments to support the joint ventures with Lenzing (EPG) and Benteler (Benteler-SGL), totaling

€21.1 million (2011: €6.5 million). Investments in other financial assets comprise the acquisition of securities for €4.1 million (2011: €12.3 million), which are classified as financial instruments available for sale.

**Payments for business combinations** included payment of the purchase price for the acquisition of the initial 86.2% of the shares in Fisipe Fibras Sintéticas de Portugal S.A., in Lavradio (Portugal), totaling €30.7 million. Under IAS 7, payments for Group companies already consolidated – in this case for acquisition of the remaining 13.8% in Fisipe – are reported as cash used for financing activities. In 2011, net cash used in investing activities contained the last installment of €4.2 million on the purchase price for the acquisition of ASL Aircraft Services GmbH, which indirectly owns the land and buildings at the Lemwerder site through its shareholding in a property company.

**Proceeds from the sale of intangible assets and property, plant and equipment** in the reporting year primarily included proceeds of €1.2 million from the sale of a piece of land and a building in Lemwerder. In 2011, this item included proceeds of €5.7 million from the sale of technical equipment to our joint venture with BMW Group in Moses Lake (USA), which SGL Group had purchased in advance for development purposes.

#### **NET CASH USED IN/PROVIDED BY FINANCING ACTIVITIES**

In the year under review, net cash provided by financing activities amounted to €195.0 million, while net cash used in financing activities amounted to €10.7 million in 2011. The change was predominantly due to the net liquidity of €237.0 million provided by the convertible bond issued in April 2012 (after taking into account financing costs), cash of €16.1 million used in the reduction of Fisipe's debt and the payment of dividends in the amount of €14.1 million. Payments for the acquisition of shares in subsidiaries that are already consolidated are also shown under this item. These include a final installment of €7.2 million paid in the year



under review for an additional 23.9% of shares in SGL Rotec GmbH & Co. KG in connection with an acquisition that took place in the previous year as well as the purchase price for the acquisition of the remaining 13.8% of shares in Fisipe in the amount of €4.3 million. The net cash outflow in the prior year was primarily the result of an initial partial payment for the acquisition of shares in SGL Rotec GmbH & Co. KG.

#### **CASH FUNDS INCREASED TO €356 MILLION**

Available cash funds increased from €241.7 million in 2011 to €355.9 million at the end of the fiscal year 2012, mainly due to the net cash provided by the new convertible bond, as well as the negative free cash flow of €-80.0 million. At the end of the fiscal year, cash funds included short-term time deposits of €130.0 million (2011: €80.0 million).

#### **CONTRACTUAL PAYMENT OBLIGATIONS**

The most significant contractual payment obligations comprise the repayment of debt, purchasing obligations and obligations under operating leases. The total principal amount of debt repayment obligations was €815.2 million (2011: €585.0 million). The credit lines drawn upon locally in Malaysia are to be repaid in installments. Of the convertible bond issued in 2007 with an original principal value of €200 million, a total of €0.35 million was converted in the year 2012, and €54.15 million was converted in the year 2011. The outstanding bonds in the amount of €145.5 million are due for repayment in cash in 2013 unless holders exercise their conversion rights before maturity, in which case up to 4.0 million new bearer shares may be created (2011: 4.0 million shares). Of the convertible bond issued in 2009 with an original principal value of €190 million, a total volume of €2.05 million was converted in fiscal year 2012, and €53.25 million was converted in the year 2011. The outstanding principal amount of €134.7 million is due for repayment in cash in 2016 unless the bondholders exercise their conversion rights before maturity, in which case up to 4.6 million new bearer shares will be created (2011: 4.7 million). The bondholders may also return their bonds prior to maturity in 2014 (put option). The

convertible bond issued in fiscal year 2012 with a principal value of €240 million is due for repayment in cash in 2018 unless the bondholders exercise their conversion rights before maturity, in which case up to 5.4 million new bearer shares will be created. The corporate bond in the amount of €200 million is due in 2015.

As of December 31, 2012, trade payables, derivative financial instruments and other financial liabilities totaled €207.6 million (December 31, 2011: €240.2 million). Of this total, liabilities of €33.0 million were due after one year (December 31, 2011: €34.6 million). Income tax liabilities and other liabilities amounted to an additional €49.1 million at the end of 2012 (December 31, 2011: €48.0 million), the vast majority of which were current. Further details can be found in **Note 26** of the notes to the consolidated financial statements.

#### **(PROPOSED) DIVIDENDS FOR 2012 UNCHANGED AT €0.20**

The dividend distribution is calculated in accordance with the net retained profits reported by SGL Carbon SE in its annual financial statements prepared pursuant to the provisions of the German Commercial Code. In May 2012, SGL Carbon SE distributed dividends of €14.1 million, or €0.20 per share, for fiscal year 2011.

After deducting taxes, the net profit of SGL Carbon SE for fiscal year 2012 was €39.7 million. After transferring €19.8 million to other revenue reserves and adding the profit brought forward of €5.9 million, the total balance sheet profit amounted to €25.8 million at year end 2012. With the consent of the Supervisory Board, the Board of Management will propose that the balance sheet profit from the past fiscal year 2012 be used to distribute a dividend of €0.20 for each eligible share in fiscal year 2012 with the remaining amount carried forward.

This corresponds to an anticipated total payment of €14.2 million. A decision regarding the payment of a dividend will be made at the Annual General Meeting on April 30, 2013.

## Net Assets

### Five-Year Overview of Net Assets

€m	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Total assets	2,560.0	2,271.3	2,113.3	1,891.0	1,791.1
Equity attributable to the shareholders of the parent company	1,066.1	1,041.1	864.4	749.4	762.7
Equity ratio	41.6%	45.8%	40.9%	39.6%	42.6%
Working capital <sup>1)</sup>	701.1	673.9	605.6	545.3	578.0
Capital employed <sup>2)</sup>	1,791.5	1,677.9	1,516.4	1,338.5	1,356.2
Return on capital employed (ROCE) <sup>3)</sup>	8.9%	10.0%	9.0%	8.2%	25.4%
Net debt	459.3	343.3	410.5	367.9	332.6
Gearing <sup>4)</sup>	0.43	0.33	0.47	0.49	0.44

<sup>1)</sup> Defined as the sum of inventories, receivables from long-term construction contracts, and trade receivables less trade payables

<sup>2)</sup> Defined as the sum of goodwill, other intangible assets, property, plant and equipment, and working capital

<sup>3)</sup> Ratio of operating profit/loss (EBIT) special effects to average capital employed before project write-offs of €-54.2 million in 2012 and before reversal of impairment losses and impairment losses of €5.1 million in 2011 and impairment loss expense of 74.0 million 2009

<sup>4)</sup> Net debt to equity attributable to the shareholders

### EQUITY STRENGTHENED FURTHER, DESPITE LIABILITIES FOR PENSION COMMITMENTS

As of December 31, 2012, total assets had increased by €288.7 million, or 12.7%, to €2,560.0 million (2011: €2,271.3 million). Currency gains of €3 million did not significantly influence total assets (2011: €16.4 million). Of the total assets of €2,560.0 million, as of December 31, 2012 €87.9 million related to the initial consolidation of Fisipe. Equity attributable to the shareholders of the parent company was burdened by the recognition of increased pension commitments in equity of €41.1 million as a result of lower actuarial interest (actuarial losses), the dividend payment of €14.1 million and the lower net profit for the year of €7.2 million (2011: €73.2 million). This was, in part, offset by the IFRS equity component of the new convertible bond at €24.6 million. In

total, these effects led to a decreased equity ratio of 41.6% year over year (2011: 45.8%). The issuance of the new convertible bond also contributed to the increase in non-current liabilities.

Accordingly, gearing – the ratio of net debt to shareholders' equity – increased to 0.43 in 2012 (2011: 0.33). As a manufacturing company, SGL Group has a high proportion of non-current assets due to its production equipment, which is largely financed by equity (83%; 2011: 86%). The return on capital employed (ROCE) – defined as the ratio of operating profit to average capital employed – decreased, before the project write-offs, in the year under review to 8.9% (the previous year's value was 10.0% before reversal of impairment losses and impairment losses).

**Balance sheet structure**

€m	Dec. 31, 2012	Dec. 31, 2011	Change
<b>ASSETS</b>			
Non-current assets	1,292.8	1,212.7	6.6%
Current assets	1,259.5	1,058.3	19.0%
Assets held for sale	7.7	0.3	> 100%
<b>Total assets</b>	<b>2,560.0</b>	<b>2,271.3</b>	<b>12.7%</b>
<b>EQUITY and LIABILITIES</b>			
Equity attributable to the shareholders of the parent company	1,066.1	1,041.1	2.4%
Non-controlling interests	15.3	14.0	9.3%
Non-current liabilities	1,017.5	881.0	15.5%
Current liabilities	460.0	335.2	37.2%
Liabilities held for sale	1.1	0.0	-
<b>Total equity and liabilities</b>	<b>2,560.0</b>	<b>2,271.3</b>	<b>12.7%</b>

**Assets**

**Non-current assets** rose by a total of €80.1 million to €1,292.8 million in the reporting year (December 31, 2011: €1,212.7 million). The increase was primarily the result of capital expenditures, which exceeded depreciation by €48.0 million, as well as the initial consolidation of Fisipe at €43.6 million. This was partially offset by the valuation adjustments made to receivables from long-term construction contracts, which decreased significantly year over year by €52.6 million to €19.8 million (2011: €72.4 million). Currency gains influenced property, plant and equipment by €5.3 million (2011: gains of €10.1 million).

**Current assets** rose by €201.2 million to €1,259.5 million (December 31, 2011: €1,058.3 million). In addition to the increase in inventories and trade receivables, this increase can be primarily attributed to the €114.2 million increase in cash funds which resulted from the cash provided by the issuance of the new convertible bond. Despite double-digit growth in sales revenue, inventories only increased by 5% to €532.1 million. The €43.5 million increase in trade receivables is directly related to the growth in sales revenue, particularly in the fourth quarter in our Business Area PP.

**Assets held for sale** increased from €0.3 million in 2011 to €7.7 million in 2012. This item comprises the assets of NINGBO SSG Co. Ltd., Ningbo (China), as well as a parcel of land in Germany.

**Equity and liabilities**

Total **equity** increased by €26.3 million to €1,081.4 million (December 31, 2011: €1,055.1 million). The equity ratio (excluding non-controlling interests) decreased from 45.8% at the end of 2011 to 41.6% at the end of 2012, primarily due to the change in pension commitments recognized in equity of €41.1 million, as well as the lower net profit for the year of €7.2 million.

The issue of the new convertible bond and the adjustment to the provisions for pensions due to lower discount rates were also the cause for the increase in **non-current liabilities** by €136.5 million to €1,017.5 million (December 31, 2011: €881.0 million). This effect was partially offset by the fact that the convertible bond from 2007 will mature in 2013, meaning that its full amount of €145.5 million is now shown under current liabilities.

As of December 31, 2012, **current liabilities** were €124.8 million above the value reported in the previous year. The primary reasons for the increase were the reclassification of €145.5 million related to the convertible bond from 2007 which will mature in May 2013 and the €18.7 million increase in other provisions, in particular for taxes, anticipated settlement costs for EPG and project costs. Trade payables were reduced by €12.0 million year over year to €169.6 million.

#### Net debt

€m	Dec. 31, 2012	Dec. 31, 2011	Change
Current and non-current financial liabilities	776.0	556.6	39.4%
Remaining interest component for the convertible bonds	32.5	21.8	49.1%
Refinancing costs included	6.7	6.6	1.5%
<b>Total debt</b>	<b>815.2</b>	<b>585.0</b>	<b>39.4%</b>
Time deposits	130.0	80.0	62.5%
Cash and cash equivalents	225.9	161.7	39.7%
<b>Total liquidity</b>	<b>355.9</b>	<b>241.7</b>	<b>47.2%</b>
<b>Net debt</b>	<b>459.3</b>	<b>343.3</b>	<b>33.8%</b>

Financial liabilities are composed of our corporate bond and convertible bonds (2007/2013, 2009/2016, and 2012/2018), liabilities to local banks and other financial liabilities, as well as the remaining net interest cost component for the convertible bonds still outstanding and refinancing costs. Financial liabilities are recorded in the consolidated balance sheet under 'interest-bearing loans' and 'current portion of interest-bearing loans.' Cash funds comprise 'cash and cash equivalents' as well as 'time deposits' (with a residual term of less than 12 months), as stated in the consolidated balance sheet.

As of December 31, 2012, cash funds increased to €355.9 million, compared to €241.7 million at the end of the previous year, primarily as a result of the issuance of the convertible bond in April 2012. This increase was partially offset by the increase in inventories, payments in connection with the acquisition of Fisipe and the financing of investments accounted for using the equity method. Net debt of SGL Group amounted to €459.3 million at year end (December 31, 2011: €343.3 million). This figure included cash and time deposits in the amount of €355.9 million (December 31, 2011: €241.7 million), current and non-current financial debt of €776.0 million (December 31, 2011: €556.6 million), the remaining interest cost components of the convertible bonds in the amount of €32.5 million (December 31, 2011: €21.8 million) and the remaining refinancing costs of €6.7 million (December 31, 2011: €6.6 million). Net debt has thus increased by €116.0 million from that as of December 31, 2011. The decrease in net debt in the previous year was primarily the result of the partial conversion of our convertible bonds.

#### Consolidated Statement of Changes in Equity

€m	Equity	Non-controlling interest	Total equity
Balance as of December 31, 2012	1,041.1	14.0	1,055.1
Net profit/loss for the period	7.2	0.3	7.5
Other comprehensive income	-21.1	-0.5	-21.6
<b>Total comprehensive income</b>	<b>-13.9</b>	<b>-0.2</b>	<b>-14.1</b>
Capital increases from share-based payment programs and partial conversion of convertible bonds	26.7	-	26.7
Equity component of the convertible bond	24.6	-	24.6
Dividends	-14.1	-0.4	-14.5
Other changes in equity	1.7	1.9	3.6
<b>Balance as of Dec. 31, 2012</b>	<b>1,066.1</b>	<b>15.3</b>	<b>1,081.4</b>

Equity attributable to the shareholders increased to a total of €1,066.1 million as of December 31, 2012 (December 31, 2011: €1,041.1 million). The equity ratio thus decreased to 41.6% year over year, from 45.8%. In fiscal year 2012, the primary factors that influenced the change in equity attributable to the shareholders were actuarial losses from pensions due to decreased discount rates of €-41.1 million (2011: € -19.1 million) and dividend payments of €14.1 million (for fiscal year 2011). These effects were more than compensated by the positive equity effect of the convertible bond issued in 2012 of €24.6 million, capital increases and additions to the capital reserve from share-based remuneration programs of €24.5 million (2011: €26.5 million), as well as the gains from cash flow hedges recognized in equity of €8.4 million (2011: losses of €4.9 million), gains from translation differences of €10.7 million (2011: €-3.0 million) and the net profit for the year of €7.2 million.

Bondholders may exercise their conversion rights related to the convertible bond issued in 2007, which would result in the issue of up to 4.0 million new shares in SGL Carbon SE. Up to 4.6 million new shares in SGL Carbon SE can be issued from the convertible bond issued in 2009, and up to 5.4 million new shares in SGL Carbon SE can be issued from the convertible bond issued in 2012.

## Non-financial Performance Indicators

### ASSETS NOT RECOGNIZED AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

The total value of these off-balance sheet items and financing instruments has had no major effect on the presentation of the financial position, financial performance and cash flows of the Group. Further details can be found in **Note 28** of the notes to the consolidated financial statements.

The “SGL Group – The Carbon Company” brand is among the intangible assets not recognized in the balance sheet. In addition, our long-term relationships with suppliers and customers also have considerable value. On the one hand, these relationships stabilize the course of our business and shield us from short-term market fluctuations. Often spanning many years, this trusting cooperation with our partners provides us with a tangible competitive advantage. On the other hand, the close cooperation also facilitates joint research and development projects in which the expertise and development capacities of the companies involved can be pooled.

## Employees

As of December 31, 2012, SGL Group had a total of 6,686 employees, up 239 or 3.7% compared with the end of the previous year. The increase was almost exclusively a result of the acquisition of Fisipec and its 255 employees. Another 696 employees work at our equity-accounted investments (2011: 609). This increase was mainly attributable to additions at the Benteler-SGL joint venture, and at the German joint venture with BMW Group.

Broken down by Business Area, the workforce in the Business Areas PP and GMS declined by 13 and 9 employees, respectively, while it increased in the Business Area CFC by a total of 256 employees, primarily due to the acquisition of Fisipec. Regionally, we continued to see strong growth in our workforce in Asia, particularly in Malaysia, a moderate increase at our German facilities in Meitingen and Lemwerder and a significant reduction in our personnel in North America as a result of measures taken to automate steps in our production process.

At 69%, our European workforce again accounted for the largest share. More than half of our European employees are in Germany, making it the most important region. The share of the Group’s workforce in Asia remained constant at 11%, despite the additions from Fisipec, and the share in North America declined to 20%.

**Employees by Business Area**

	<b>Dec. 31, 2012</b>	<b>%</b>	Dec. 31, 2011	<b>%</b>	<b>Change</b>
PP	2,081	31.1%	2,094	32.5%	-0.6%
GMS	2,802	41.9%	2,811	43.6%	-0.3%
CFC	1,725	25.8%	1,469	22.8%	17.4%
Corporate	78	1.2%	73	1.1%	6.8%
<b>Total</b>	<b>6,686</b>	<b>100.0%</b>	<b>6,447</b>	<b>100.0%</b>	<b>3.7%</b>

**Employees by region**

	<b>Dec. 31, 2012</b>	<b>%</b>	Dec. 31, 2011	<b>%</b>	<b>Change</b>
Germany	2,585	38.7%	2,535	39.3%	2.0%
Europe excluding Germany	2,056	30.7%	1,815	28.1%	13.3%
North America	1,318	19.7%	1,410	21.9%	-6.5%
Asia	727	10.9%	687	10.7%	5.8%
<b>Total</b>	<b>6,686</b>	<b>100.0%</b>	<b>6,447</b>	<b>100.0%</b>	<b>3.7%</b>

In recent years, the share of women in our workforce has risen. At year end, women accounted for 15% of our workforce (2011: 15%), which reflects the industry average. The share of women in executive positions at 16% was 2 percentage points higher than in the previous year.

SGL Group continued to attach great importance to training young people during the economic crisis. The Group had a total of 142 apprentices at seven sites in Germany in 2012 (2011: 151), the majority of which were at our plants in Meitingen: 75 (2011: 81) and Bonn: 39 (2011: 41).

**Environmental Protection and Occupational and Process Safety**

Behavior that is socially responsible, environmentally conscious and conserves resources as well as a commitment to our employees and our communities are significant components of SGL Group's corporate culture and objectives. They are key to the success of our business. The organizational foundations for monitoring and the continuous development of all environmental protection and occupational health and safety activities at SGL Group are formed by the central unit Corporate EHSA (Environment, Health, Safety, Audits), which coordinates all of the activities Group-wide, sets uniform standards and audits developments. All of the plants in the various countries around the world are linked in via regional EHSA managers and local representatives. In addition, we provide select executives with incentives by tying part of their annual bonus to reaching the EHSA targets.

**ETHICAL PRINCIPLES**

Acting responsibly and in accordance with the law is anchored in SGL Group's corporate philosophy. Our Code of Business Conduct and Ethics sets binding standards for how we behave in our day-to-day business. The Code outlines how we, as a company, meet our legal and ethical responsibilities while taking the respective societal, social and cultural standards into account, and reflects our common values. We act fairly and honestly vis-à-vis our customers and business partners, shareholders, the authorities and the general public; our employees treat each other with courtesy and respect, and we deal responsibly with the environment – these are all key aspects of our principles.

**HEALTH AND SAFETY AT WORK ARE A TOP PRIORITY**

The safety of our employees and the security of our work flows as well as active, long-term risk management are top priorities for SGL Group. We use our high standards, continuous improvements to safety precautions and a large number of target-oriented training sessions and activities to prevent workplace accidents.

We ensure the sustainability of our efforts by setting ambitious targets and through continuous, preventive safety management. Incoming data on all accidents and near misses is systematically analyzed, recommendations are formulated and preventive actions and training sessions are initiated. All locations are required to use our standardized reporting system, via which specific, top-level actions can be initiated.

The frequency rate of accident-related work absences based on one million hours worked has dropped from 11.91 in 2002 to 2.59 in the reporting year (2011: 3.41) – a decline of more than 75%. Targeted initiatives and information campaigns at our facilities have made it possible to quickly and effectively prevent critical developments.

**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.

**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 PROTECTION**

In addition, SGL Group's products also make an indirect contribution to protecting the environment and climate as they allow customers to implement global trends and produce their goods while conserving resources and reducing CO<sub>2</sub> emissions. Carbon materials exhibit extraordinary properties, making them uniquely suitable for a wide variety of applications and solutions.

The best known example is lightweight construction, which plays an increasingly important role in both the aerospace and automotive sectors. In order to save weight and, thus, to cut fuel consumption and CO<sub>2</sub> emissions, many manufacturers are increasingly using components made of carbon fiber reinforced plastics (CFRP). Carbon is also the first choice for many applications in which energy storage and efficiency are critical factors, for example, as an anode material in lithium ion batteries or as heat conductors in cooling systems. Graphite in the form of electrodes is used to recycle scrap steel in the steel producers' arc furnaces.

### IMPLEMENTATION OF REACH

When dealing with chemicals, SGL Group continuously supports and assists the ongoing step-by-step implementation of safety targets in European chemicals policy and in the European legislation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). After successfully concluding the first phase of registration of chemical substances according to European chemicals law at the end of 2010, in 2012 we made preparations for the registration of substances that we produce or import in quantities of between 100 and 1000 tons per year. We will be able to register these substances with the European Chemicals Agency (ECHA) on time by no later May 2013 as required by legislation. Our activities to implement the REACH regulation focused on the intensive exchange of information with our clients and suppliers for chemicals safety and the use of the substances throughout their life cycle. The organizational measures and the operational IT support we have established to ensure REACH compliance in the operational units were successfully implemented and have proven effective in practice.

### General Statement on the Current Financial Situation

#### ASSESSMENT OF THE FINANCIAL SITUATION BY COMPANY MANAGEMENT

From a Group perspective, SGL Group has largely met the objectives we had set for 2012. Notable events in 2012 were the resumption of dividend payments, the acquisition of the Portuguese company Fisipe and the moderately reduced capital expenditure for the continued development of our businesses. Nevertheless, net debt increased from €343.3 million to only €459.3 million at the end of 2012. At below 0.5 and at 42%, gearing and the equity ratio were at a sound level. Our Business Areas contributed to this to varying degrees. Although PP exceeded its targets and GMS developed as anticipated, we had to accept an unexpected substantial loss with CFC – triggered by the continuing weakness of the wind energy market and further delays in the aviation industry.

The businesses of SGL Group started the fiscal year 2013 at varied paces. Sales invoiced in the first weeks of 2012 were comparable with the prior year. Although the level of graphite electrode deliveries in Business Area PP in the first quarter of 2013 was higher than in the same quarter of the previous year, our cathode business remained on the same level as the previous year. In Business Area GMS, our business with graphite specialties continues to suffer as a result of the low order intake from 2012. By contrast, Process Technology is benefiting from the strong order backlog at the end of 2012. The activities of the Business Unit New Markets will continue to move at a high level as in the previous year. In Business Area CFC, our business with components for the aviation industry began slightly above the level of the previous year. Our Business Unit Carbon Fibers & Composite Materials recovered moderately from the low of the past months. Billing in our rotor blade business should pick up again over the course of the year, even though it is still at a low level due to the ongoing difficult situation in the wind energy market.

#### ACCOUNTING PRINCIPLES USED AND SIGNIFICANT ESTIMATES MADE

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 position, financial performance and cash flows. Under IFRS, it is necessary to make estimates in certain cases. Such estimates involve subjective evaluations and expectations that are based on uncertainty and are subject to change. As a result, assessments may change over time and thus impact the presentation of SGL Group's financial position, financial performance and cash flows. The Board of Management therefore wishes to point out that estimates are routinely adjusted, given that unforeseeable events may alter expectations.

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 REPORTING PERIOD

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Due to problems with the Boeing B787's (Dreamliner) lithium-ion battery systems, the US aviation authority, FAA, temporarily grounded the aircraft in mid-January 2013. Additional authorities followed suit. Boeing then suspended the delivery of aircrafts that had been ordered, but production of the Dreamliner continues. We currently anticipate that the production of aircrafts will not be significantly affected in fiscal year 2013. However, if Boeing or one of our customers should reduce or postpone on-call orders for the delivery of components, it could have a negative impact on the Business Unit Aerostructures.

## RISK REPORT

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The Board of Management of SGL Carbon SE is responsible for establishing and maintaining an appropriate and suitable risk management and internal control system. In addition, it has overall responsibility for the scope and design of the systems that have been implemented. At present we consider any risks to be 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 shareholder value, systematically and continuously increasing it and 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 made 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 SGL Group's risk policy. This is achieved through the early identification, analysis and assessment of risks and the immediate introduction and tracking of response measures. The RMS comprises a number of networked functions and control mechanisms, with which earnings, asset and liquidity risks are recorded and aggregated from the bottom up and reported to the Board of Management no less than on a quarterly basis. This includes the recording, monitoring and control of company processes and business risks as well as the integration of RMS into our strategy and planning process. The RMS covers all areas of the Company and is continually modified in line with changing circumstances. The corporate functions support the Board of Management with the organization of the system. Group Controlling coordinates the risk management process at the Group level and stipulates the structure and the tools to be used.

In recent years, SGL Group's RMS has been continuously enhanced in accordance with international standards. In 2010, apart from a revision of our Group-wide risk management

guidelines, we produced a manual for all organizational units that includes the principles, definitions of terms, 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 response measures are defined. This allows us to identify potential risks early, particularly any that may jeopardize the Company's existence as a going concern, and implement response measures. Furthermore, any potential new risks or the occurrence of existing risks are reported immediately to the Board of Management, independent of the normal reporting intervals.

Our corporate function, Internal Audit, is responsible for monitoring the functionality of the RMS. The Supervisory Board carries out its control function routinely at all meetings, receiving a risk report from the Board of Management in which the risk situation and response measures are compiled. This risk report covers the current year and includes a summary for the complete 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, the reliability of both internal and external accounting, and compliance with the legal regulations that are applicable to the Company. The ICS is based on standardized Group-wide documentation of the risks and controls for existing process structures. More than 400 business processes worldwide are covered by approximately 1,400 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 basic prerequisite for a functional ICS.

The management controls are assessed annually by conducting structured, written surveys of the management of all material and a select number of smaller companies, our Business Areas and Business Units as well as the heads 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 our companies is assessed annually on the basis of quantitative factors (company's contribution to net sales, total assets or net gains/losses) as well as qualitative risk indicators. Our ICS is geared toward internationally applicable standards.

Our Group 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 the process and control documentation is accurate and up to date. Control owners perform the controls, ensure controls are documented and update the control documentation. Our Group IT serves as the point of contact for all IT-related issues and designs the IT controls.

Internal Audit continually reviews and ensures the effectiveness of the ICS at the process level through random sampling on an annual basis. The Supervisory Board is informed of the risk situation as well as of any fundamental weaknesses in SGL Group's ICS at its regular Audit Committee meetings.

No matter how thoroughly we have developed the RMS and ICS, both systems still have their limitations. 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 judgments, erroneous controls or other circumstances can limit the effectiveness and reliability of our RMS and ICS, meaning that applying these systems Group-wide may also only provide reasonable assurance with regard to the correct, complete and timely recognition of issues within Group Accounting.

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

Risks that could influence the preparation of financial statements in accordance with applicable accounting standards and regulations are to be identified and evaluated with respect to their influence on the financial statements. 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 cover 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 and Treasury departments as well as Group Accounting) are established and clearly separated. Together with a consistent dual control procedure, this contributes to the early detection of errors and the prevention of potential misconduct.

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

SAP-based consolidation software is used for the preparation of the consolidated financial statements. Technical responsibility for the software falls under the corporate function of Group Accounting. Binding content and deadline requirements minimize the discretion of decentralized units when recording, measuring and presenting assets and liabilities. For the consolidated financial statements, data is recorded at company level, automatically uploaded into the Group-wide consolidation software and validated. A Group-wide, standardized model chart of accounts has been established for recording of business transactions.

The identified risks and any implemented response measures are updated in the quarterly reporting and reported to the Board of Management. Internal Audit assesses the effectiveness of our internal accounting controls on an annual basis. Moreover, the Supervisory Board is also involved in the control system, in particular through the Audit Committee. The Audit Committee primarily monitors the accounting process, the effectiveness of the internal control system, the risk management system, the internal auditing system and the audit of the financial statements.

#### **RISK TRANSFER VIA INSURANCE PROTECTION**

SGL Group has global insurance coverage for 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 insurer. We address the risk of defaulting insurers by routinely distributing our risk among several insurance companies. 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 an insurer falling below this rating, as set forth in the mandate agreement concluded with the broker. To protect our employees and the environment, as well as our buildings, plants and machinery, we continuously make improvements to our preventive measures and routinely train the employees responsible for carrying out these measures. Coordinated visits to our facilities around the world ensure that the identified preventive and security measures designed to reduce risk are implemented. SGL Group allocates appropriate capital expenditures to minimize risk at all sites.

#### **RISK AREAS**

The risk factors that impact our Group activities are reflected in the risk areas outlined below. The order in which the risks appear represents our current estimate with regard to the relative risk potential for SGL Group. Additional 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, the economic trend in our customer markets has a significant influence on the financial position, financial performance and cash flows. The risk factors here are, in particular, the sovereign debt crisis in Europe and the USA and the resulting consolidation efforts caused by increases in taxes and decreases in public spending. Uncertainties in the political environment in North Africa and the Middle East could also have a significant impact on business in these countries. The economic and political developments in China could significantly influence the success of our business. By closely observing the market and economy, we are able to take the necessary steps in the short term and minimize – at least temporarily – the factors that could potentially have an impact on our business. When necessary we respond in a timely manner by adjusting our production accordingly. This also comprises all possible workforce management measures (including 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. However, drops in demand or sluggish growth in individual customer industries 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 lead to a weakening in our market position.

Our Business Area Performance Products is dependent on the steel industry, in particular electric arc furnace steel production, and on the aluminum industry. In the medium term, both the World Steel Association and the aluminum industry expect a return to sustained positive growth. At present, however, crude steel production is still experiencing significant overcapacities all over the world. In our Business Area Graphite Materials & Systems, many of our customers in the LED, semiconductor and chemical industries – with the exception of the solar industry – have a similarly positive growth outlook, but projections are slightly lower for 2013. In our Business Area Carbon Fibers & Composites (CFC), increasing material substitution in the automotive industry will have a positive impact on demand for our carbon fiber based products in the medium term. We currently depend on a small number of customers for our rotor blade sales to the wind energy industry. The wind energy market will remain difficult in 2013. Depending on the political environment, it should be possible to achieve positive growth rates here again in the medium term. According to our forecasts, the aviation industry will grow slightly in 2013.

The profit margins estimated to be generated from long-term construction contracts could vary from the original estimates as a result of changes in estimated proceeds and costs during the terms of the contracts. Our U.S. subsidiary (HITCO) was subject to project write-offs due to ongoing project delays and significant reductions in production volumes in the Boeing 787 program (Dreamliner) compared to original expectations. Further delays with regard to the planned increases in Dreamliner deliveries by Boeing as well as politically motivated delays in the military aviation industry may lead to further project write-offs.

Continued unsatisfactory growth in the Business Area CFC could trigger further impairment risks in the future both in the individual Business Units with regard to the unit's disclosed assets as well as to the goodwill of the Business Area CFC. Corresponding impairments were already recognized for the Business Unit Carbon Fibers & Composite Materials (CF/CM) in 2009 and for the Business Unit Rotor Blades (RB) in 2011.

We address market risks by expanding our technological expertise and by continuously developing new and innovative solutions to today's problems – both in relation to our diverse product portfolio and our manufacturing processes. Our primary focus is on client-specific requirements, which we further optimize through joint projects with our customers. Our own cost position is analyzed on an ongoing basis; lasting savings are regularly identified and implemented through 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 any unforeseen price increases in our principal raw materials. Significant excess demand in the market may result in 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 important raw materials and energy resources could also impact our financial performance if we are not able to pass on these price increases through corresponding increases to our sales prices.

#### **RISKS FROM MERGERS, ACQUISITIONS AND CAPITAL EXPENDITURES**

All acquisition and capital expenditure decisions entail extensive risks due to the large amount of funds required and the long-term capital commitment. Therefore, SGL Group makes great efforts to minimize risks during the preparation and implementation of these decisions. This is carried out through due diligence as well as 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. Start-up and production problems, particularly in the case of newly installed facilities, can have a negative impact on earnings.

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

#### **RISKS FROM EQUITY-ACCOUNTED INVESTMENTS**

Our strategy includes strengthening our business through joint ventures, which are accounted for using the equity method. All factors that negatively impact the profitability of equity-accounted investments, including detrimental effects on their sales revenue, earnings and liquidity, can have an adverse impact on our net income from these equity-accounted investments or lead to write offs on such investments. In the reporting year, write offs were recognized on our shares in EPG (Business Unit Carbon Fibers & Composite Materials). In addition, our financial position, financial performance and cash flows could be adversely affected with respect to loans, guarantees or the failure to comply with covenants arising from loan agreements in connection with these equity-accounted investments.

#### **FINANCIAL RISKS**

The financing agreements of SGL Group contain contractually agreed financial covenants that regulate specific procedural obligations of SGL Group regarding compliance with certain financial performance indicators during the terms of the agreements. Compliance with the covenants of the financing agreements is centrally monitored and controlled by Group Treasury along with other financial risks. If some of the business risks described above materialize in fiscal year 2013, the ability of SGL Group to fulfill its obligations arising from the financing agreements could be limited.

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 that are provided to the Chief Financial Officer on a monthly basis.

Global economic developments in our customer industries also routinely influence the creditworthiness of our customers. This situation entails default risks that we deal with by means of effective receivables management. In this context, the credit standing and payment patterns of our customers are regularly reviewed and the credit limits are established according to credit management guidelines applied throughout the Group. Bank guarantees and credit insurance also limit any possible default risks. Other financial risks arise from changes in interest rates and exchange rates; we hedge these risks by means of derivative financial instruments. The overriding principle of all our 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 analyses and assessments in this area.

In consideration of the covenants in our financing agreements and given the market and banking environment, we predominantly allocate investments in cash and cash equivalents to institutions in our circle of core banks. In this context, our investment decisions are guided by a number of factors, in particular a balanced distribution of funds to avoid the risk of clumping and the systematic importance of the individual counterparties. Above all since the beginning of the global financial crisis, SGL Group has been monitoring counterparty risks in financial assets and derivative financial instruments very closely. This has been accomplished by regularly monitoring the credit default swaps of the core banks.

#### **TAX AND LEGAL RISKS**

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. Any corporate structuring and transfer pricing implemented is subject in part to complex tax regulations that could be interpreted differently. A potential additional tax exposure cannot be ruled out conclusively until after a final review by the tax authorities. Constantly increasing requirements regarding the documentation of internal transfer pricing entails the risk of additional tax expense. A weaker than expected trend in our tax income could negatively impact the recognition of deferred tax assets.

In the case of legal disputes, we recognize provisions when it appears probable that an obligation will result and it is possible to reasonably estimate the amount. In addition, we make assumptions about the scope of possible claims and their probability of occurrence based on our own analyses, comparable processes, and external legal opinions. However, the actual amounts may differ from our estimates and have a considerable negative impact on our financial position, financial performance and cash flows.

Our Compliance Management System reduces the risk of legal violations on all levels, in particular with regard to anti-trust and corruption-related violations. The Code of Business Conduct and Ethics we have had in place since 2005 was revised, and a new gifts and business hospitality guideline and a whistle blower guideline were adopted Group-wide in 2011. Our compliance program also includes systematic employee training.

Regulatory risks also result from potential changes to the legal environment in countries in which we do business or have customers. Examples include new or more stringent import and export restrictions, a tightening of price controls, exchange restrictions, customs regulations, and protectionist trade restrictions. In addition to sales revenue and profitability risks, we may also be subject to penalties, sanctions, and damage to our reputation. We take precautions with established export control policies and, if applicable, obtain appropriate export permits.

#### **OBLIGATIONS FOR PENSIONS AND HEALTH BENEFITS**

Changes to the present value of the defined benefit obligation in our defined benefit and defined contribution pension plans as well as the decline in plan assets in our pension obligations for our North American companies affect the funded status of our pension plans. A deviation in the actual developments with regard to the parameters used in some or all of the calculations could have a negative impact on actuarial pension obligations. In fiscal year 2012, we saw another significant increase in the pension provisions on account of a further decline in the market interest rate. Any additional reduction in the interest rate, which cannot be ruled out, would further increase our pension provisions and have a negative impact on our equity.

#### **TECHNOLOGY RISKS**

To remain competitive, our businesses must keep pace with the evolution of technology and develop new products and applications. Our Technology & Innovation Center (T&I) – the Group’s central research organization – brings together the comprehensive range of knowledge from our 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 expect to further strengthen our corporate portfolio by implementing important technology projects, 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. All in all, our results depend on our ability to keep a constant eye on market trends and make adjustments accordingly as well as regularly optimize our product manufacturing costs based on competitor benchmarking. Not achieving this goal could have a negative impact on our financial position, financial performance and cash flows.

#### **REGULATORY RISKS**

Extensive studies are sometimes necessary for substances or products affected by the registration, assessment, and licensing requirements prescribed by the EU legislation on chemicals (REACH). To date we have carried out the registrations required by law on time. Continued developments in legislation as well as the impacts of cost intensive testing and registration procedures at European production facilities cannot currently be quantified.

As a result of close contact with authorities and industry associations, our Corporate EHSA (Environment, Health and Safety Affairs) 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 is completed in a timely manner. Depending on how individual material is classified by the EU, we may incur significant additional costs to register, use, and store such materials.

Two of our sites will be subject to EU emissions trading as of 2013. In the first few years, we anticipate that additional costs will be negligible due to the allocation of corresponding CO<sub>2</sub> certificates.

Further security and environmental rules could increase our costs and lead to additional liability risks. A rise in social security contributions and other statutory ancillary payroll benefits would also lead to cost increases.

#### **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 2013, the major transaction-related net currency exposures have been hedged. We have already hedged our exposure in the Polish zloty and the Japanese yen for fiscal year 2014. Translation risks are not hedged.

#### **PERSONNEL RISKS**

Our employees and executives constitute a key pillar of SGL Group's success. The competition for highly qualified executives, scientists, and engineers is very intense. In order to achieve our strategic goals, we have to hire and retain highly qualified personnel. Not doing so would have a considerable negative impact on our business.

#### **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, replicated databases, virus protection and encryption systems, together with comprehensive access authorization structures – all based on the available 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. In order to appropriately account for the growing importance of IT security, we began to put together a Security and Response Team in 2012, which focuses exclusively on the prevention of unauthorized access. At the same time we are currently negotiating an appropriate insurance solution with several insurers to cover cyber risks.

#### **OVERALL RISK ASSESSMENT OF SGL GROUP**

An overall assessment of the above risks primarily reveals market and competition risks in connection with price and volume trends for both sales and procurement. In extreme cases, these risks could also adversely affect the value of our balance sheet assets and may require related write-offs. In contrast, internal production processes are much less subject to risk. Presently, we see no substantial financial risks that impact SGL Group as a whole. On the basis of information currently available, in our opinion no individual material risks exist – neither presently nor in the foreseeable future – that could jeopardize the business as a going concern. Even if the individual risks are viewed on an aggregate basis, they do not threaten SGL Group as a going concern.



# OUTLOOK

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## BUSINESS POLICY

Fiscal year 2012 started with a general sense of economic optimism, but in April/May quickly started to decline as the sovereign debt crisis in Europe intensified. In the remainder of the year, additional burdens included the weakening dynamics of the Chinese economy as well as the upcoming US elections and the related budget battle and fear of the fiscal cliff. These factors caused our customers to delay orders across nearly all regions and industries. The majority of economists expect a further slowdown in growth in 2013 as a result of continued uncertainties. However, we are convinced more than ever that the fundamental trends for our materials and applications will continue. One important global trend, for instance, is an acceleration of the substitution process. Traditional raw materials and energy sources are increasingly being replaced by alternative materials and energies. We can benefit from this trend by leveraging our new technologies, particularly in the Business Areas Graphite Materials & Systems (GMS) and Carbon Fibers & Composites (CFC). Additionally, mega trends such as environmental protection and mobility are creating new areas of application for our products. As a potential mega trend in material substitution, carbon will generate high demand for SGL Group in years to come.

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 page 57 in the chapter “Corporate Strategy”).

## CUSTOMER MARKETS

Our customer markets in Asia and Eastern Europe will continue to grow dynamically in 2013 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. Additionally, demand for new materials and renewable energies is rising at an increasing rate in the Western World. These factors will further drive 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 dynamic growth fields in GMS and CFC, research and development expenditures will remain high in fiscal year 2013 and in subsequent years, and they 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, Germany. In 2012, we continued to expand 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 from 2013 to 2015 will remain at the level of prior years. These measures will meet existing legal provisions and requirements, to the extent currently known.

## 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 strategy allows us to continue to grow profitably and create added value for our customers. Our T&I organization 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 also concentrate on the development of products for environmentally friendly and resource-conserving applications. These applications currently account for approximately 70% of Group sales revenue, and we expect this share to grow in the coming years.

## ECONOMIC OUTLOOK

In its January 2013 World Economic Outlook, the International Monetary Fund (IMF) projected that the pace of recovery of the world economy will remain moderate in the course of 2013 and will accelerate slightly in 2014. The IMF predicts global growth of 3.5% in 2013 and 4.1% in 2014. World trade volumes are expected to increase by 3.8% in 2013 (2014: up 5.5%). The emerging economies will benefit most of all, with growth rates projected at 5.5% (2013) and 5.9% (2014). The IMF estimates that China's GDP growth rate will return to well over 8% (2013: 8.2%, 2014: 8.5%) and that the Indian economy will pick up again as well. The economy in the developed markets will grow only moderately by 1.4% or 2.2%, respectively, in 2013 and 2014. The IMF predicts growth rates of 2.0% (2013) and 3.0% (2014) for the US. The eurozone will remain in recession in 2013 (minus 0.2%) and will see slight growth of 1.0% in 2014. In Germany, growth remains weak at 0.6% in 2013. The German economy will expand a little again in 2014, with a growth rate of 1.4%.

## INDUSTRY TREND

### Global Steel Consumption Continues to Rise

According to the World Steel Association (WSA), although the steel industry has been faced with uncertainty and high volatility since the financial and economic crisis in 2008, the global demand for steel has consistently exhibited positive growth rates. The WSA predicts that worldwide steel consumption will rise by 3.2% in 2013, reaching a new record level of 1,455 billion tons. In the emerging markets, the growth is forecasted to be as high as 3.7%, while it will increase by 1.9% in the established economies. In China, demand for steel is expected to rise by only 3.1% in 2013. The WSA anticipates stronger growth in demand in India (up 5.0%), the NAFTA region (up 3.6%), and in Central and Eastern Europe (up 3.9%). The European steel association (Eurofer) expects demand of the European construction and automotive industries to continue to decline in 2013. These two industries represent a total of 43% of steel consumption in the EU. However, in light of extremely low inventories in the value chain, Eurofer anticipates a certain degree of restocking with a successive upturn in the market in the second half of the year, translating to a 0.9% rise in steel consumption in Europe to 145 million tons in 2013.

### Conditions for Aluminum Industry Gradually Improving

After the aluminum industry had been producing more than 1 million tons above demand each year since 2008, the excess supply decreased in 2012 due to a decline in production and a consistent rise in demand. The market has approached a balance. Market players expect demand for primary aluminum to pick up in 2013, driven by the emerging markets. Demand should continue to grow moderately in the US, while it will further decline in Europe. Additionally, aluminum prices are set to rise slightly in 2013. In the medium term, it is to be expected that various investment programs that were recently suspended will be resumed as demand improves again.

### Stagnant Chemical Production in Europe in 2013

As a consequence of the weak economy in Europe, the European Chemical Industry Council (Cefic) projects that the industry will largely stagnate in 2013. Production should increase by 0.5%. Only export is expected to provide momentum for growth, especially in the BRIC countries. In addition to the economic risks associated with efforts to combat government debt in Europe and the US, Cefic says the situation is a result of volatile oil and naphtha prices as well as intense competition worldwide. However, the German Chemical Industry Association (VCI) forecasts that production will rise moderately by 1.0% (with pharmaceuticals rising 1.5%).

### Solar Industry Set to Revive, PV Equipment Still Weak in 2013

Analysts expect the photovoltaic industry to pick up in 2013 in terms of the number of new installations. The market research institute IHS projects a weak first quarter followed by an acceleration in demand in the second half of the year. In this scenario, the number of new PV installations worldwide should reach approx. 35 gigawatts in 2013 (up 10%). This means that for the year as a whole, growth would still be a little lower than the growth experienced in 2012. Considering the increasing dynamics over the course of the year, however, according to IHS, 2013 could mark a turnaround for the better. China, Japan, and the US will replace Germany and Italy as drivers of market growth. In light of high surplus capacities and the weak financial situation of many PV manufacturers, investments are likely to be cut once again. The market research institute NPD Solarbuzz predicts that the market for equipment for the PV industry will drop by just under 40% in 2012 to 2.2 billion US dollars.

### **Recovery of Semiconductor Industry, No Pickup for Investments Until 2014**

The market researchers at WSTS and IDC expect a worldwide increase in semiconductor sales volume in 2013, accompanied by an approximately 5% rise in sales revenue to more than 300 billion US dollars. The dynamic increase in demand for mobile communication equipment remains the growth driver in this sector. Since production capacity utilization is low, currently approximately 85%, growth can initially be satisfied without any investments in expansion. The research institution, Gartner, projects that capital expenditures for wafer production equipment in 2013 will drop by an additional 9.7%. However, the capacity utilization of the semiconductor industry should return to its normal level of significantly higher than 90% by the end of 2013. This means that after 2014, in particular, we will see more investment activity on the part of semiconductor manufacturers again.

### **Air Travel Grows Moderately, Record Orders for Aircraft Manufacturers**

In its main forecast for 2013, the International Aviation and Transport Association, IATA, predicts growth to slow again in 2013. Global air travel revenues should increase only moderately by 3.4% to 659 billion US dollars. Volume growth in passengers will continue to level off to 4.5%. Cargo transport will experience slight growth of 1.4%. The exceptionally high order backlog for Airbus and Boeing is creating the basis for additional production increases and higher delivery volume. Airbus, for example, has a record order backlog of 4,682 civilian aircraft. At year-end 2012, Boeing had a backlog of 4,373 orders. For 2013, Airbus is planning to deliver at least 600 aircraft, representing a new delivery record.

### **Wind Power Industry Stalls in 2013**

The wind power industry is expected to have a difficult year in 2013. According to the German Wind Energy Association (BWE) and the VDMA, the worldwide addition of new capacity may drop to only 40 gigawatts. The US is the element of uncertainty. However, since the US congress decided at the turn of the year 2012/2013 to extend the tax incentives for wind energy farms that begin construction in 2013, a total collapse of the market in the US was averted. But the BWE and VDMA predict only a stable development in new installations in Europe and China as well. Massive surplus capacities

exist in China on the supply side. In Europe, the implementation of offshore plans is still stalled since connection to the grid has not yet been resolved. According to the Federal Office for Navigation and Hydrography, 126 approval procedures are pending in the North and Baltic Sea alone; 29 offshore projects had been approved as of January 2013. Currently, only eight projects are under construction. The potential is tremendous, but additional delays will come up throughout 2013 and beyond.

Assuming that the economy revives in the course of 2013 and the upswing continues in the following year, the industry trends should be favorable in 2014.

### **SALES AND EARNINGS GROWTH**

#### **Business Area Performance Products: Previous year marked by final Settlement of Long-Term Supply Contract**

Although production output in the steel industry is expected to rise slightly in 2013, as in prior years, growth will primarily be concentrated in the emerging nations. This is why we expect sales volumes of our graphite electrodes to be stable in 2013 in comparison to the prior year. Under these conditions, prices for graphite electrodes will remain slightly lower than in 2012, at least in the first half of 2013. Raw materials prices will drop to below the prior-year level as well. Due to the inventory effect, this development will not impact costs until later this year. We expect to see slight cost increases in energy prices in particular. Since the order patterns from steel producers do not, as of yet, cover the full year, our ability to predict the second half of 2013 is limited at this time. As we do not foresee the need for any significant restocking or destocking, we expect our capacity utilization trend to be in line with that of electric arc furnace steel production.

As far as cathodes for the aluminum industry are concerned, fiscal year 2012 was characterized by the non-recurring positive effect on sales revenue and EBIT from the final settlement of a long-term supply contract in the amount of a low double-digit € million figure. Additionally, since mid-2011 we have seen a slight recovery of cathode demand in the aluminum industry, which should continue throughout 2013. For several months now, demand for aluminum has exceeded global production. A rise in maintenance investments in aluminum capacities is foreseeable. However, as with furnace linings, a

noticeable increase in demand – primarily related to new investments – will not translate into higher utilization of our capacities until later years. Therefore, we will not yet be able to pass on rising factor costs in 2013.

Due to the one-off positive effect in fiscal year 2012 referred to above, EBIT will decline in 2013. If a stronger economy leads to an increasing recovery in demand for our customers' products in the steel and aluminum markets, we think the further trend for 2014 will be positive.

**Business Area Graphite Materials & Systems:  
Revenues at Record Level of 2012 Targeted**

The business trend in Graphite Materials & Systems in 2012 was characterized by a strong first six months followed by a significant weakening in the second half of the year. Due to low new orders in the year under review, we expect the first half of 2013 to be on the weak side for the Business Unit Graphite Specialties and do not anticipate a recovery until the fourth quarter at the earliest. This projection is based on the fact that at year-end 2012 no recovery was in sight for the solar, LED, and semiconductor industries, and the prospects for Europe in particular do not make an upturn seem likely so far. In addition, strong currency fluctuations are influencing our revenue growth. Conversely, we expect stable performance at the favorable level of the prior year for the Business Units New Markets, which supplies the lithium-ion battery industry, and Process Technology, which started the new year with a record order backlog. However, sales revenue in the Business Area GMS is likely to decline again in 2012 due to the cyclical downturn and the resulting decrease in capacity utilization. Nonetheless we expect returns to be above our medium-term target of at least 10%. If the economic trend is sufficiently positive, an improvement in sales revenue and earnings can be anticipated for 2014.

**Business Area Carbon Fibers & Composites:  
Moderate Improvements Expected**

The earnings situation in the Business Area Carbon Fibers & Composites was heavily influenced by the difficult wind energy market in 2012, which also had a negative impact on our Business Unit Rotor Blades and, due to the significant reduction in demand for materials, the Business Unit Carbon Fibers & Composites. Moreover, project postponements in the civil and military aviation industry have had additional adverse effects on our Business Unit Aerostructures (HITCO). Since the wind energy market still shows no signs of a sustained recovery in the immediate future, we cannot rule out the possibility that other areas of our business will face unfavorable conditions as well. The lower capacity utilization resulting from low demand in the capital-intensive Business Unit Carbon Fibers & Composite Materials will have a particularly strong impact on the earnings situation. In Rotor Blades, we expect to be able to reduce losses thanks to the acquisition of new blade types as well as our production optimization measures. The Business Unit Aerostructures should benefit from higher production volumes, among other things, as a consequence of the noticeable rise in production rates for the B787 Dreamliner program. However, this Business Unit is still affected by development delays on the part of our customers. Demand from the military aviation industry, in particular (in connection with production rates for the F-35 Joint Strike Fighter program, for example), will be significantly influenced by political decisions concerning the US defense budget. On the whole, the Business Area CFC can only expect to see moderate improvements in revenue and EBIT in 2013.

Along with the expectation that the wind energy market should have bottomed out by 2013/14, the continuous acceleration of material substitution and its lasting influence on our target markets automotive, industrial applications, and aerospace/defense make additional and, to some extent, substantial improvements in sales revenue and earnings seem possible for 2014.

## EXPECTED FINANCIAL POSITION

### Financing Requirements Covered for 2013 and 2014

The Group's financing requirements are determined by the strategic business plans of the operational Business Units. These are reviewed annually based on new plans. The issue of our new convertible bond for €240 million in April 2012, as well as the committed credit lines and the resulting liquidity reserves, cover our anticipated operational financing requirements for fiscal years 2013 and 2014 in consideration of a convertible bond maturing in May 2013. Repayment of the convertible bond issued in 2007 (with €145.5 million outstanding as of December 31, 2012) will be made in May 2013, provided the bondholders do not exercise their right to convert the bonds to SGL Carbon SE shares. After payment of the dividend in 2012, the conversion price for the bonds amounts to €36.30 per share (2011: €36.52). We do not otherwise anticipate any significant need for refinancing in fiscal years 2013 and 2014 resulting from financing instruments falling due.

### Capital Expenditure Lower in 2013

As announced on various occasions, from 2013 investments will begin to decline from previous years since a number of long-term expansion projects in all Business Areas have largely been completed. We currently anticipate that capital expenditures on property, plant, and equipment will amount to approximately €120 million.

In the event that the economic recovery is delayed over the course of 2013, we will postpone our investment projects. Our medium-term target for gearing remains at +/-0.5.

### Liquidity Trend

A sound balance sheet structure, the available financing framework, and operating cash flows guarantee anticipated liquidity requirements are covered for 2013 and 2014. This also includes the financing of our planned growth strategy.

### Dividend Development

We owe it to our shareholders to distribute sustainable, earnings-based dividends. In addition to the degree of target attainment expected in the medium term, we also need to consider the future development of gearing, return on capital employed and free cash flow. Although we do not consider debt-financed dividends prudent, we paid out a dividend for fiscal year 2011 in 2012 despite the fact that the free cash flow situation was still negative. The dividend amounted to €0.20 per entitled share and was meant as a symbolic gesture in anticipation of the positive free cash flow situation expected as of 2013. Although free cash flow was better than predicted in the past fiscal year, it was still negative. Accordingly, the proposed dividend for 2012 will be at the level of the prior year at €0.20 per dividend-entitled share.

### Opportunity Management

SGL Group has an opportunity management system that incorporates all areas of the Company. This system allows us to identify opportunities that help us to conduct our business successfully over the long term. Moreover, variable salary components motivate our managers at all levels to identify and take advantage of potential opportunities.

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 T&I Center in Meitingen, Germany. 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. In general, 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 areas of alternative energies and 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:**

##### **New Carbon and Graphite Plant in Malaysia**

Growth in the graphite electrodes sector is driven by the uninterrupted high demand for steel products, especially in the BRIC countries (Brazil, Russia, India and China), and by the trend toward electric arc furnace technology in steel production. The graphite electrode plant in Malaysia completed in the first half of 2012 will set new cost and quality standards. In addition, we are planning to expand local production capacities in the Chinese graphite electrodes market, which in our opinion will become the world's largest market for graphite electrodes in the next five to ten years. 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:**

##### **New Production Center for Isostatic Graphite**

The Business Area Graphite Materials & Systems is well-positioned in the area of low CO<sub>2</sub> power generation and more efficient energy utilization, and we intend to take advantage of our situation to benefit from the latest market trends, exploiting our opportunities as materials specialists in the global market. SGL Group already has a broad portfolio of high quality products and solutions for the solar and nuclear industries as well as for the lithium-ion battery and LED industries. In order to take part in the growth anticipated in the growing markets of solar energy, semiconductors and LEDs, in particular, we decided in mid-2010 to triple our capacity for isostatic graphite gradually over the next few years. To do so, the individual production stages will be gradually expanded over the long term to expand capacities in line with market demand. For example, the new production center for isostatic graphite in Bonn is scheduled to start operations in 2013.

##### **Carbon Fibers & Composites:**

##### **Attractive Potential for Strong Growth**

We see strong potential for growth in the Business Area Carbon Fibers & Composites. SGL Group offers a range of products for energy generation technology in this business area as well. Our carbon fiber products, for instance, reinforce large rotor blades. The trend toward large on-shore and off-shore wind farms, in particular, offers promising opportunities in the medium term. We also see major growth potential in the automotive industry as a result of greater use of carbon fibers and composite materials. We have positioned ourselves well in this area through our joint ventures with the BMW Group and Benteler-SGL. The significant increase in the use of carbon fiber composites in the aerospace industry represents an especially important opportunity for our US subsidiary HITCO. Our carbon fiber business is nonetheless in the initial stages of its product life cycle, meaning that investment and development work is still required. 2013 will be a year of transition, with 2014 expected to bring a substantial increase in revenue and earnings.

**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 revenue 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****Slight Increase in Sales Revenue in 2013**

The expectations for the individual Business Areas described above should make it possible for us to achieve a slight increase in Group sales revenue in fiscal year 2013. However, Group EBIT is expected to decline on the whole, and the Group's EBIT-based return on sales will be accordingly lower. EBIT in the PP and GMS Business Areas will be below the prior-year levels, given that PP benefited from non-recurring final settlement of a long-term supply agreement in 2012 and GMS is affected by the ongoing lack of momentum in the solar and LED industries. Only for CFC are we expecting a moderate improvement in EBIT, although this will not suffice to compensate for the expected earnings declines in PP and GMS. Operating cash flows will be sufficient to cover capital expenditure requirements, which will be lower than in the previous year. This means that we can still reach our target of achieving positive free cash flow (prior to acquisitions) starting in the current fiscal year and keeping gearing at approx. 0.5.

**Improvements in Sales Revenue and EBIT Possible in 2014**

The longer-term economic recovery forecast and the continuing mega trends, particularly the substitution of materials, as well as the increased use of our products in energy technology are expected to enable improvements in sales revenue, earnings, and return on sales in 2014. This would in turn lead to a slight increase in capital expenditure while maintaining gearing at around 0.5.

## DISCLOSURES PURSUANT TO SECTIONS 289 (4), 315 (4), AND SECTION 289a OF THE GERMAN COMMERCIAL CODE (HGB)

The following outlines the disclosures required in accordance with sections 289 (4) and 315 (4) HGB:

289 (4) 1/315 (4) 1

### Composition of Subscribed Capital

As of December 31, 2012, the issued capital of the Company was €180,829,537.28, divided into 70,636,538 no-par-value bearer shares, each with an imputed share of the issued capital of €2.56 (see **Note 23** in the notes to the consolidated financial statements).

289 (4) 2/315 (4) 2

### Restrictions on Voting Rights or the Transfer of Shares

No restrictions exist with respect to voting rights or the transfer of shares.

289 (4) 3/315 (4) 3

### Direct or Indirect Shares in Capital

The Company was informed of the following holdings of direct or indirect shares in capital exceeding ten percent of voting rights: (i) SKion GmbH Bad Homburg last reported by voting rights notifications in accordance with sections 21 et seq. of the German Securities Trading Act (WpHG) or directors' dealings notifications a holding of approx. 27.77% at year-end 2012 and (ii) Bayerische Motorenwerke Aktiengesellschaft (BMW AG), Munich last reported a holding of 15.72% in December 2011 by voting rights notifications submitted at that time.

289 (4) 4/315 (4) 4

### Holders of Shares with Special Rights

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

289 (4) 5/315 (4) 5

### Type of Voting Rights Control in the Case of Employee Shareholders

No special rights of shareholders exist that confer control authority over the Company. There are no provisions for employees to exercise control over voting rights.

289 (4) 6/315 (4) 6

### Statutory Regulations and Provisions in the Articles of Incorporation Concerning the Appointment and Dismissal of Members of the Board of Management and Amendments to the Articles of Incorporation

The Articles of Incorporation 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 Incorporation are decided by approval of a resolu-

tion at the Annual General Meeting. Under section 17 (4) of the Articles of Incorporation, such decisions require a simple majority of the issued capital represented at the vote on the resolution, providing at least half of the issued capital is represented; the foregoing does not apply if a higher majority, including a higher capital majority, is prescribed by law.

289 (4) 7/315 (4) 7

### Authority of the Board of Management to Issue and Buy Back Shares

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 (14) 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 (8) of the German Stock Corporation Act (AktG) (see **Note 23** in the notes to the consolidated financial statements).

289 (4) 8/315 (4) 8

### Important Agreements Subject to the Condition of a Change in Control Following a Takeover Bid

In the event of a change in control, the Company may be under an obligation to repay amounts of €200 million lent to the Company by lenders or bondholders under major financing agreements (syndicated loan, corporate bond).

289 (4) 9/315 (4) 9

### Compensation Agreements with the Board of Management and Employees in the Event of a Takeover Bid

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 in control (see **Note 34** in the notes to the consolidated financial statements).

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

As required by section 289a of the HGB, we have published a corporate governance declaration on our website at [www.sglgroup.com](http://www.sglgroup.com).

### REMUNERATION REPORT

The main features of the remuneration system for members of the Board of Management are presented in the Corporate Governance Report (see pages 28), which forms part of the Management Report. We refer to the Corporate Governance Report in its entirety in this connection.



## SGL CARBON SE (PARENT COMPANY) (DISCUSSION ON BASIS OF GERMAN COMMERCIAL CODE (HGB))

The Management Report of SGL Carbon SE and the Group Management Report for fiscal year 2012 have been combined in accordance with Section 315 (3) of the HGB in conjunction with Section 298 (3) of the HGB. The annual financial statements of SGL Carbon SE pursuant to the HGB and the combined Management Report are published concurrently in the electronic Federal Gazette (Bundesanzeiger).

In contrast to the consolidated financial statements, the annual financial statements of SGL Carbon SE are not prepared according to International Financial Reporting Standards (IFRS), but rather according to the regulations of the German Commercial Code (HGB).

### BUSINESS AND GENERAL CONDITIONS

SGL Carbon SE, with registered offices in Wiesbaden, is the parent company of SGL Group. As such, SGL Carbon SE acts primarily as a holding company and undertakes cash management for the Group companies. SGL Carbon SE is responsible for the strategic orientation and management of the Group, which involves the central functions for corporate development, management cost accounting, investor relations, public affairs, Group accounting, treasury, personnel, legal affairs and compliance. The majority of the Company's assets consist of shares in and receivables from affiliated companies. Profit or loss transfer agreements and control agreements have been entered into with some of these companies. The Company's earnings are significantly impacted by such profit or loss transfer agreements, particularly the agreements with the following subsidiaries: SGL Carbon GmbH, SGL Technologies GmbH, SGL Carbon Beteiligung GmbH and SGL Technologies Beteiligung GmbH. SGL Carbon SE has both direct and indirect stakes in 73 companies, including minority shareholdings.

As of December 31, 2012, SGL Carbon SE employed a total of 78 persons, up from 73 as of December 31, 2011. The Company had an average of 74 employees in fiscal year 2012.

The economic framework of SGL Carbon SE corresponds in essence with that of the Group and has been described in detail in the section entitled "Business Areas and Organizational Structure" on page 51.

### RESULTS OF OPERATIONS

#### Income Statement

€ thousand	2012	2011
Result from long-term equity investments	90,559	19,406
Reversal of write-downs (-)/impairment losses (+) on long-term financial assets	-4,120	6,785
Interest income, net	15,298	12,055
Other operating income	55,086	40,237
Other operating expenses	-33,074	-34,549
Sonstige betriebliche Aufwendungen	-78,427	-40,121
<b>Result from ordinary activities</b>	<b>45,322</b>	<b>3,813</b>
Income tax expense	-5,672	-213
<b>Net profit for the year</b>	<b>39,650</b>	<b>3,600</b>
Profit carried forward	5,941	7,600
Transfers to (-)/withdrawals from (+) other revenue reserves	-19,825	8,800
<b>Distributable profit carried forward</b>	<b>25,766</b>	<b>20,000</b>

The results of operations of affiliated companies also impacted the results of operations of SGL Carbon SE in the year under review. The result from long-term investments in fiscal year 2012 increased to €90.6 million from €19.4 million in the previous year, and is made up of the sum of expenses from transferred losses, income from profit and loss transfer agreements, and income from other long-term equity investments. This significant improvement is primarily the result of an overall increase of about 60% in income from profit or loss transfer agreements with subsidiaries SGL Carbon GmbH and SGL Carbon Beteiligung GmbH, as well as a decrease of about 52% in expenses from losses transferred from SGL Technologies GmbH. At €2.3 million, income from other long-term equity investments remained roughly at the level of the previous year (€3.5 million), and continues to be made up primarily of the distribution of profit from subsidiary SGL Canada Inc.

In the reporting year, the Company assumed a loss of €26.5 million from SGL Technologies GmbH (2011: loss of €55.7 million), whereas SGL Carbon GmbH transferred a profit of €87.3 million (2011: profit of €57.1 million) and SGL Carbon Beteiligung GmbH a profit of €27.4 million (2011: profit of €14.5 million).

The significant decrease in expenses for loss transfer from SGL Technologies GmbH results exclusively from the €26.9 million improvement in that company's result, from a loss of €39.5 million to a loss of €12.6 million. SGL Technologies GmbH's result was particularly characterized by the existing profit or loss transfer agreement between it and SGL Technologies Zweite Beteiligung GmbH. In the previous year, the transfer of profit and loss to SGL Technologies GmbH was determined by a €29.8 million writedown to the investment in the subsidiary SGL Rotec GmbH & Co. KG; in the year under review, the result of SGL Technologies Zweite Beteiligung (a profit of €0.1 million) only contributed insignificantly to SGL Technologies GmbH's result from long-term equity investments.

Furthermore, SGL Technologies GmbH's result from long-term equity investments also includes a writedown to the investment in the joint venture EPG by an additional €6.6 million (2011: €7.7 million) due to the intended shutdown of this company, as well as a €3.8 million increase in expenses for losses transferred from SGP epo, to €5.9 million.

The €30.2 million increase in income from SGL Carbon GmbH's profit or loss transfer agreements was based on an improvement to its operating performance, which benefited from a higher number of graphite electrode deliveries during the second half of the year compared with the first half of 2012, as well as the overall higher prices compared to the previous year. The result also benefited from the final settlement of a long-term supplier agreement in the low double-digit million euro range.

The income reported from the profit or loss transfer agreement with SGL Carbon Beteiligung GmbH related primarily to dividend payments from the Polish group company (2012: €34.7 million; 2011: €29.1 million).

The earnings of SGL Carbon SE were burdened by a total **writedown to financial assets** of €4.1 million. This amount was composed of writedowns to investment securities of €7.1 million, which were offset by a reversal of €2.9 million on the impairment loss recognized for the investment in SGL Carbon Holding S.A.S to reflect the original purchase cost. The previous year's amount contained a reversal of €6.8 million on the impairment loss recognized for the investment in SGL Carbon Far East Ltd., China, to reflect the original purchase cost.

**Net interest income** increased during the year under review by €3.2 million to €15.3 million (2011: €12.0 million). The main reason for the increase is the significant rise in the liquidity requirements of subsidiaries and second-tier subsidiaries, which caused interest income to increase by €3.1 million to €37.4 million (2011: €34.3 million). In contrast, income from loans of financial assets fell by 35% to €13.1 million (2011: €20.2 million). During the year under review, long-term loans totaling €270 million (upon which the above income was based) to affiliated companies SGL Carbon Beteiligung GmbH and SGL Technologies GmbH expired at the beginning of the year. When the loans were renewed, the interest rates were adjusted to reflect the lower prevailing interest rate. Furthermore, interest and similar expenses decreased year on year by €7.2 million. The main reason for this decrease was the writedown on a discount reported under prepaid expenses in the amount of €9.1 million due to the partial conversion of both convertible bonds that occurred prior to maturity during the previous year.

**Other operating income** increased by €14.9 million in 2012, to €55.1 million. The change can be attributed to income realized from the valuation of foreign currency positions and forward exchange contracts (€24.8 million; 2011: €9.6 million). At €16.3 million, the intercompany charges that are also shown under other operating income remained roughly at the level of the previous year. **Other operating expenses** increased significantly by €38.3 million to €78.4 million

(2011: €40.1 million). This was caused by higher losses from the valuation of foreign currency positions and forward exchange contracts of €26.3 million (2011: €9.4 million), as well as by writedowns on loans to one subsidiary and one joint venture totaling €22.8 million (2011: €0.0 million). **Other operating expenses** also contain other expenses that are connected with the intercompany charges shown under other operating income, such as writedowns, repairs and external services.

**General and administrative** costs fell slightly by €1.4 million to €33.1 million. Lower expenses for management incentive plans were largely compensated by central project costs.

Consequently, the **result from ordinary activities** increased by a total of €41.5 million in the the year under review, to €45.3 million (2011: €3.8 million).

The **taxes on income** of €5.7 million (2011: €0.2 million) relate primarily to domestic trade tax and corporate income tax and should be viewed in connection with the high result from ordinary activities. Based on the result from ordinary activities, the tax rate is at a low level of 12.5% since the Company received tax-exempt dividend income in the amount of €34.7 million from the Polish Group company.

After deducting taxes, the **net income for the year** was €39.7 million (2011: €3.6 million). Together with the profit brought forward from the previous year amounting to €5.9 million and an addition of €19.8 million to other retained earnings, the **total balance sheet profit** amounts to €25.8 million at year end 2012 (2011: €20.0 million).

With the consent of the Supervisory Board, the Board of Management will propose to the Annual General Meeting that the balance sheet profit from the past fiscal year 2012 be used as follows: by distributing a dividend payment of €0.20 per divided entitled share for the fiscal year 2012 and by carrying forward the remaining amount to new account.

This corresponds to an expected total payment of €14.2 million. The Annual General Meeting of April 30, 2013 will decide on the payment of a dividend.

## NET ASSETS

Net assets during the 2012 fiscal year were characterized by the placement of a new convertible bond 2012/2018 with a nominal volume of €240.0 million, which raised long-term bond liabilities to a total of €728.2 million. The level of cash and cash equivalents increased accordingly. Furthermore, when the bond was issued, a prepaid expense item of €25.0 million was formed and the Company's capital reserves were increased by the same amount. The prepaid expense item represents the underlying hidden premium resulting from the underpayment of the convertible bond in comparison to the market interest rate and is amortized over the lifetime of the bond as interest expense.

Total assets of SGL Carbon SE increased year on year by €302.9 million, or 20%, to €1,844.5 million. **Fixed assets** increased by €33.1 million to €701.7 million (2011: €668.6 million), corresponding to an increase of 5%. The main reason for this was on the one hand the development of shares in affiliated companies. Capital increases at SGL Technologies GmbH and – to a lesser extent – at SGL Carbon India Private Ltd., Pune, India, increased the shares in affiliated companies by €21.4 million. SGL Technologies GmbH once again passed on the funds from the capital increase to increase capital in its subsidiaries (€15.0 million) and joint ventures (€11.4 million). On the other hand, net capital expenditure of €11.4 million (after taking writedowns into account) to expand the Meitingen site increased fixed assets significantly. The share of fixed assets in total assets decreased only marginally to 38% (2011: 43%).

As a holding company, SGL Carbon SE's **current assets** are strongly characterized by the development of receivables from affiliated companies. These receivables increased by €126.3 million to €770.2 million (2011: €643.9 million) as a result of increased liquidity requirements. The increase in receivables from affiliated companies was mostly due to loan increases at SGL Carbon Holding S.L., Spain (+€47.4 million), SGL Carbon GmbH, Austria (+€58.8 million) and SGL Carbon Fibers Ltd., UK (+€19.3 million). However, this increase was offset by a €14.1 million writedown on loans to a subsidiary in the wind industry.

**Balance Sheet**

€ thousand	Dec. 31, 2012	Dec. 31, 2011	€ thousand	Dec. 31, 2012	Dec. 31, 2011
<b>ASSETS</b>			<b>EQUITY AND LIABILITIES</b>		
Intangible assets	9,531	9,732	Issued capital	180,754	179,145
Tangible assets	53,130	41,762	Capital reserves	685,094	641,424
Shares in affiliated companies and long-term equity investments	356,129	334,740	Revenue reserves	144,224	124,399
Loans to affiliated companies	270,000	270,000	Distributable profit carried forward	25,766	20,000
Long-term securities	12,916	12,342	<b>Equity</b>	<b>1,035,838</b>	<b>964,968</b>
<b>Non-current assets</b>	<b>701,706</b>	<b>668,576</b>	Provisions for pensions and similar employee benefits	25,716	24,271
Receivables from affiliated companies and from other long-term investments	770,176	643,901	Provisions for taxes	4,887	681
Other assets	8,651	7,833	Other provisions	12,147	12,377
Cash on hand and bank balances	331,394	199,665	<b>Provisions</b>	<b>42,750</b>	<b>37,329</b>
<b>Current assets</b>	<b>1,110,221</b>	<b>851,399</b>	Bonds (of which convertible €520.200 thousand, 2011: €282.600 thousand)	728,180	486,422
Prepaid expenses	32,545	21,593	Trade payables	1,159	952
			Liabilities to affiliated companies	34,417	39,333
			Other liabilities	2,128	12,564
			<b>Liabilities</b>	<b>765,884</b>	<b>539,271</b>
<b>Total assets</b>	<b>1,844,472</b>	<b>1,541,568</b>	<b>Total equity and liabilities</b>	<b>1,844,472</b>	<b>1,541,568</b>

The increase in cash on hand was caused by the issue of the corporate bond, which increased cash and cash equivalents by €131.7 million to €331.4 million despite the strong need for financing on the part of affiliated companies.

**Prepaid expenses and deferred** income primarily contain the hidden premium for the two convertible bonds 2012/2018. The increase can be attributed to the issue of the new convertible bonds mentioned above.

**Shareholders' equity** increased by €70.9 million to €1,035.8 million as of December 31, 2012 (December 31, 2011: €965.0 million). The rise in shareholders' equity resulted from the net income for fiscal 2012, at €39.7 million, as well as the allocation to the capital reserves mentioned above in the amount of €25.0 million, resulting from the convertible bonds. Furthermore, capital increases resulting from share-based payments (€18.7 million) also strengthened equity. This was partially offset by the dividend payment totaling €14.1 million.

**Provisions** increased slightly by €5.4 million as a result of tax provisions formed during the year under review.

**Liabilities** grew by €226.6 million to €765.9 million (2011: €539.3 million), corresponding to an increase of 42%, which was caused by the €240.0 million increase in bond liabilities due to the issue of the convertible bond. Although liabilities to affiliated companies stayed near the prior-year level, other liabilities decreased by €10.4 million to €2.1 million. In the previous year, this item contained the high negative market values of hedging transactions.

SGL Carbon SE's financing structure includes a corporate bond in the amount of €200 million (coupon = 3-month Euribor rate +1.25%, maturing in 2015), a convertible bond issued in 2007 with an outstanding volume of €145.5 million (coupon: 0.75%, maturing in 2013), a convertible bond issued in 2009 with an outstanding volume of €134.7 million (coupon: 3.5%, maturing in 2016, bondholder put option in 2014), a convertible bond issued in 2012 with an outstanding amount of €240.0 million (coupon: 2.75%, maturing in 2018), and a syndicated credit line in the amount of €200 million (payable in 2015) that was undrawn in 2012.

#### FINANCIAL POSITION

The **cash flows from operating activities** decreased to €-48.9 million, after €-26.4 million in the previous year. This was mainly the result of higher receivables from affiliated companies due to intercompany financing.

**Cash flows from investing activities** changed from €-35.1 million in 2011 to €-42.5 million, mainly due to capacity expansion for isostatic graphite in Bonn.

Net cash flows, i.e. cash outflows from operating activities less cash outflows from investing activities, amounted to €-91.4 million (2011: €-61.5 million).

**Cash flows from financing activities** during the year under review were primarily shaped by the issue of the 2012/2018 convertible bonds, with a principle value of €240.0 million. As a result, cash inflows from financing activities amounted to €223.1 million, up from only €0.7 million in the previous year. Cash was also impacted by stock options being exercised (2012: €0.2 million; 2011: €1.4 million), and by a payment of €3.1 million (2011: €-2.1 million) related to refinancing.

**Liquidity** – defined as cash on hand and bank balances – increased from €199.7 million at the start of 2012 to €331.4 million as of December 31, 2012. This figure includes time deposits with a remaining term of up to nine months in the amount of €130.0 million. In 2011, €80.0 million was invested in time deposits.

#### RISKS AND OPPORTUNITIES

Via its subsidiaries, SGL Carbon SE is subject to essentially the same risks and opportunities as SGL Group with respect to its business trend. SGL Carbon SE shares in the risk of its long-term investments and subsidiaries in accordance with its interest in the respective company.

SGL Carbon SE has concluded profit and loss transfer and control agreements with some of its subsidiaries. Therefore, in order to generate income, the Company is reliant upon the operating companies of SGL Group turning a profit and transferring such profit to it. By the same token, the Company is obligated to compensate any losses incurred by the long-term investments with which it has concluded profit and loss transfer and control agreements. This can lead to a significant negative impact on the results of operations, financial position and net assets of the Company.

To avoid or minimize this risk, SGL Carbon SE, as the parent of SGL Group, operates the Group-wide risk management system, in which all subsidiaries are included.

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Additional risk is posed by the statutory and contractual liabilities (particularly financing) to which we are subject based on our relationships with our long-term investments and subsidiaries. Such liabilities are described in the notes to the financial statements of SGL Carbon SE.

Two income components play a particular role in the results of operations of SGL Carbon SE. The first is income from long-term investments. The risk of fluctuation in this item is high due to the dependence of investment income on the business development of the subsidiaries and the resulting income from profit transfers or dividend payments. The second component is a high number of loans to affiliated companies and bank balances. The resulting income from interest and investment funds serves to reduce the dependency of SGL Carbon SE's business development on the financial success of the subsidiaries. It is assumed that SGL Carbon SE will continue to post positive net income in both 2013 and 2014.

Please refer to the section entitled "Risk Report" on page 94 for a description of the internal control system of SGL Carbon SE as required pursuant to Section 289 (5) of the HGB.

#### **OUTLOOK**

The outlook with respect to the business development of SGL Carbon SE, the parent company, for the next two years is generally identical with the outlook for SGL Group, which is described in detail in the Group's outlook report.

Wiesbaden, February 28, 2013

**SGL Carbon SE**

**The Board of Management**

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# CONSOLIDATED INCOME STATEMENT

for the period from January 1 to December 31

€m	Notes	2012	2011
<b>Sales revenue</b>	6, 16, 31	<b>1,709.1</b>	<b>1,540.2</b>
Cost of sales		-1,320.0	-1,121.2
<b>Gross profit</b>		<b>389.1</b>	<b>419.0</b>
Selling expenses		-171.8	-153.0
Research and development costs	6	-46.9	-40.0
General and administrative expenses	6	-88.5	-83.0
Other operating income	7	35.4	29.7
Other operating expenses	7	-17.3	-12.3
Reversal of impairment losses and impairment losses	8	0.0	5.1
<b>Operating profit</b>		<b>100.0</b>	<b>165.5</b>
Result from equity accounted investments	9	-32.6	-32.6
Interest income	10	2.4	3.1
Interest expense	10	-51.2	-48.8
Other financing costs	10	-8.9	-3.5
<b>Profit before tax</b>		<b>9.7</b>	<b>83.7</b>
Income tax expense	11	-2.2	-22.8
<b>Net profit for the year</b>		<b>7.5</b>	<b>60.9</b>
Attributable to:			
Non-controlling interests		0.3	-12.3
<b>Consolidated net profit (attributable to shareholders of the parent company)</b>		<b>7.2</b>	<b>73.2</b>
<b>Earnings per share (€)</b>			
- Basic earnings per share (EPS)	12	0.10	1.09
- Diluted earnings per share (EPS)	12	0.10	1.08



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from January 1 to December 31

€m	Notes	2012	2011
<b>Net profit for the year</b>		<b>7.5</b>	<b>60.9</b>
Changes in the fair value of securities available for sale <sup>1)</sup>		0.9	1.0
Cash flow hedges <sup>2)</sup>		8.4	-4.9
Currency translation		10.2	-2.5
Actuarial gains/losses on defined benefit plans and similar obligations <sup>3)</sup>	24	-41.1	-19.1
<b>Other comprehensive income</b>		<b>-21.6</b>	<b>-25.5</b>
<b>Total comprehensive income</b>		<b>-14.1</b>	<b>35.4</b>
<i>Of which attributable to shareholders of the parent company</i>		<i>-13.9</i>	<i>47.2</i>
<i>Of which attributable to non-controlling interests</i>		<i>-0.2</i>	<i>-11.8</i>

<sup>1)</sup> Includes positive tax effects of €0.1 million (2011: €0.0 million)

<sup>2)</sup> Includes negative tax effects of €3.6 million (2011: positive tax effects of €1.7 million)

<sup>3)</sup> Includes positive tax effects of €17.9 million (2011: €10.8 million)

# CONSOLIDATED BALANCE SHEET

as of December 31

ASSETS €m	Notes	Dec. 31, 2012	Dec. 31, 2011
<b>Non-current assets</b>			
Goodwill	13	130.1	117.4
Other intangible assets	13	29.0	26.8
Property, plant and equipment	14	931.3	859.8
Equity accounted investments	15	43.9	45.1
Receivables from long-term construction contracts	16	19.8	72.4
Other non-current assets	17	24.9	23.4
Deferred tax assets	22	113.8	67.8
		<b>1,292.8</b>	<b>1,212.7</b>
<b>Current assets</b>			
Inventories	18	532.1	507.8
Trade receivables	19	318.8	275.3
Income tax assets		3.8	4.1
Other receivables and other assets	20	48.9	29.4
Liquidity	21	355.9	241.7
<i>Time deposits</i>		130.0	80.0
<i>Cash and cash equivalents</i>		225.9	161.7
		<b>1,259.5</b>	<b>1,058.3</b>
<b>Assets held for sale</b>	20	<b>7.7</b>	<b>0.3</b>
<b>Total assets</b>		<b>2,560.0</b>	<b>2,271.3</b>

EQUITY AND LIABILITIES €m	Notes	Dec. 31, 2012	Dec. 31, 2011
<b>Equity</b>			
Issued capital	23	180.8	179.4
Capital reserves	23	680.0	630.1
Retained earnings		205.3	231.6
<b>Equity attributable to the shareholders of the parent company</b>		<b>1,066.1</b>	<b>1,041.1</b>
Non-controlling interests		15.3	14.0
<b>Total equity</b>		<b>1,081.4</b>	<b>1,055.1</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar employee benefits	24	329.8	278.7
Other provisions	25	12.0	11.2
Interest-bearing loans	26	633.9	550.4
Other liabilities	26	34.3	35.9
Deferred tax liabilities	22	7.5	4.8
		<b>1,017.5</b>	<b>881.0</b>
<b>Current liabilities</b>			
Other provisions	25	95.5	76.8
Current portion of interest-bearing loans	26	142.1	6.2
Trade payables	26	169.6	181.6
Income tax payables	26	4.6	2.4
Other liabilities	26	48.2	68.2
		<b>460.0</b>	<b>335.2</b>
<b>Liabilities in connection with assets held for sale</b>	20	<b>1.1</b>	<b>0.0</b>
<b>Total equity and liabilities</b>		<b>2,560.0</b>	<b>2,271.3</b>

# CONSOLIDATED CASH FLOW STATEMENT

for the period from January 1 to December 31

€m	Notes	2012	2011
<b>Cash flow from operating activities</b>			
Profit before tax		9.7	83.7
Adjustments to reconcile net profit/loss to net cash provided by operating activities:			
Interest expense (net)	10	48.8	45.7
Gain/loss on sale of property, plant and equipment		-0.9	0.5
Depreciation/amortization expense	13, 14	85.5	71.3
Reversal of impairment losses less impairment losses	8	0.0	-5.1
Loss/income from equity accounted investments	9	32.6	32.6
Amortization of refinancing costs	10	2.6	2.6
Interest received		0.5	3.0
Interest paid		-13.6	-17.8
Income taxes paid	11	-21.5	-12.5
Changes in provisions, net		-6.4	5.5
Changes in working capital			
Inventories		-9.6	-63.3
Trade receivables		33.5	-43.6
Trade payables		-38.2	45.9
Changes in other operating assets/liabilities		-8.0	-12.3
<b>Net cash provided by operating activities</b>		<b>115.0</b>	<b>136.2</b>

€m	Notes	2012	2011
<b>Cash flow from investing activities</b>			
Payments to purchase intangible assets and property, plant and equipment	13, 14	-133.5	-138.8
Proceeds from sale of intangible assets and property, plant and equipment		2.2	5.7
Payments for the acquisition of subsidiaries	5	-30.7	-4.2
Payments for capital injection concerning equity accounted investments and for other financial assets	15, 17	-33.0	-32.0
<b>Net cash used in investing activities</b>		<b>-195.0</b>	<b>-169.3</b>
Payments for investments in time deposits		-50.0	120.0
<b>Net cash used in investing activities and cash management activities</b>		<b>-245.0</b>	<b>-49.3</b>
<b>Cash flow from financing activities</b>			
Proceeds from issuance of financial liabilities	26	240.1	4.1
Repayment of financial liabilities		-16.1	-6.8
Payments in connection with financing activities		-3.1	-2.1
Dividend payments for the prior year	23	-14.1	0.0
Changes in ownership interests in subsidiaries		-11.5	-7.2
Proceeds from capital increase		0.2	1.6
Other financing activities		-0.5	-0.3
<b>Net cash provided by/used in financing activities</b>		<b>195.0</b>	<b>-10.7</b>
Effect of foreign exchange rate changes		-0.8	0.8
<b>Net change in cash and cash equivalents</b>		<b>64.2</b>	<b>77.0</b>
Cash and cash equivalents at beginning of year		161.7	84.7
<b>Cash and cash equivalents at end of year</b>		<b>225.9</b>	<b>161.7</b>
Time deposits		130.0	80.0
<b>Total liquidity</b>	21	<b>355.9</b>	<b>241.7</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from January 1 to December 31

	Equity attributable			
€m	Issued capital	Capital reserves	Accumulated profit/loss	Consolidated net profit/loss
Balance as of January 1, 2011	167.9	517.1	139.0	52.2
Net profit for the year				73.2
Other comprehensive income			-19.1	
<b>Total comprehensive income</b>			<b>-19.1</b>	<b>73.2</b>
Partial conversion of convertible bonds	8.4	89.6		
Capital increase from share-based payment plans	3.1	23.4		
Appropriation of net profit 2010			52.2	-52.2
Other changes in equity			5.0	
<b>Balance as of December 31, 2011</b>	<b>179.4</b>	<b>630.1</b>	<b>177.1</b>	<b>73.2</b>
Balance as of January 1, 2012	179.4	630.1	177.1	73.2
Net profit for the year				7.2
Other comprehensive income			-41.1	
<b>Total comprehensive income</b>			<b>-41.1</b>	<b>7.2</b>
Dividends			-14.1	
Equity component of the convertible bond <sup>1)</sup>		24.6		
Capital increase from share-based payment plans and partial conversion of convertible bonds	1.4	25.3		
Appropriation of net profit 2011			73.2	-73.2
Transactions with non-controlling shareholders			3.0	
Changes in the scope of consolidation and other changes <sup>2)</sup>			-1.3	
<b>Balance as of December 31, 2012</b>	<b>180.8</b>	<b>680.0</b>	<b>196.8</b>	<b>7.2</b>

<sup>1)</sup> After deduction of transaction costs of €0.3 million

<sup>2)</sup> See **Note 5**

to the shareholders of the parent company

Retained earnings	Accumulated other comprehensive income			Total retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
	Currency translation	Cash flow hedges (net)	Results from the mark-to-market valuation of securities				
	-12.4	0.6	0.0	179.4	864.4	13.5	877.9
				73.2	73.2	-12.3	60.9
	-3.0	-4.9	1.0	-26.0	-26.0	0.5	-25.5
	<b>-3.0</b>	<b>-4.9</b>	<b>1.0</b>	<b>47.2</b>	<b>47.2</b>	<b>-11.8</b>	<b>35.4</b>
				0.0	98.0		98.0
				0.0	26.5		26.5
				0.0	0.0		0.0
				5.0	5.0	12.3	17.3
	<b>-15.4</b>	<b>-4.3</b>	<b>1.0</b>	<b>231.6</b>	<b>1,041.1</b>	<b>14.0</b>	<b>1,055.1</b>
	-15.4	-4.3	1.0	231.6	1,041.1	14.0	1,055.1
				7.2	7.2	0.3	7.5
	10.7	8.4	0.9	-21.1	-21.1	-0.5	-21.6
	<b>10.7</b>	<b>8.4</b>	<b>0.9</b>	<b>-13.9</b>	<b>-13.9</b>	<b>-0.2</b>	<b>-14.1</b>
				-14.1	-14.1	-0.4	-14.5
				0.0	24.6		24.6
				0.0	26.7		26.7
				0.0	0.0		0.0
				3.0	3.0	-2.0	1.0
				-1.3	-1.3	3.9	2.6
	<b>-4.7</b>	<b>4.1</b>	<b>1.9</b>	<b>205.3</b>	<b>1,066.1</b>	<b>15.3</b>	<b>1,081.4</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

## GENERAL DISCLOSURES

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### 1. BASIS

#### Description of business activities

SGL Carbon SE (SGL Carbon), with registered offices at Söhnleinstrasse 8, Wiesbaden (Germany), together with its subsidiaries (SGL Group), is a global manufacturer of carbon and graphite products. For further information on the business activities of the Group, please refer to **Note 31** and the Combined Management Report.

#### Basis of presentation

The accompanying 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, 2012 have 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 the additional requirements of German commercial law set out in Section 315a of the German Commercial Code (Handelsgesetzbuch, HGB). The consolidated financial statements also comply with the IFRSs as published by the International Accounting Standards Board (IASB).

The consolidated financial statements and the Group management report for the period ended December 31, 2012 have been prepared in accordance with Section 315 of the Commercial Code. Both will be submitted to and published in the electronic Federal Gazette (Bundesanzeiger).

The consolidated financial statements are prepared on the basis of historical cost, except for certain financial instruments accounted for at fair value. The consolidated financial statements were prepared in euros (€) and 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, 2013 and submitted them to the Supervisory Board for approval. It is planned for the consolidated financial statements and the Combined Management Report for fiscal year 2012 to be approved at the meeting of the Supervisory Board on March 12, 2013.

### 2. CONSOLIDATION

The consolidated financial statements are prepared for a twelve-month period ending December 31 and include the accounts of SGL Carbon SE and its subsidiaries, which are fully consolidated from the date on which SGL Group is able to exercise control over the entity. Control normally exists when the parent entity holds more than half of the voting rights. Consolidation ends as soon as the parent effectively loses control. Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions and recognized directly in equity. As of December 31, 2012, the scope of consolidation included 18 German (2011: 18) and 45 (2011: 42) foreign subsidiaries in addition to SGL Carbon SE. Eight (2011: seven) jointly controlled companies and one associate (2011: one) were accounted for using the equity method. The subsidiaries included in the consolidated financial statements are listed in **Note 37**.

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



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In accordance with IAS 27, SGL Group 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 that 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 technologies, 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 revenues, expenses and other income are all eliminated as part of the consolidation process. In accordance with IAS 12, deferred taxes are recognized with respect to timing differences arising from consolidation.

Any change in ownership interest 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).

Joint ventures and companies where 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 resulting unrealized gains or losses from transactions SGL Group enters into with jointly controlled entities are eliminated to the extent of the Group's share in the relevant jointly controlled entity.

### 3. ACCOUNTING POLICIES

The accounting policies applied in these consolidated financial statements are unchanged from the accounting policies applied in 2011.

#### Foreign currency translation

In the financial statements of the individual consolidated companies, amounts receivable and payable denominated in foreign currency are translated at the year-end middle rates, irrespective of whether they are hedged. The exchange differences arising from the translation of items denominated in foreign currency are recognized in the income statement as other operating expense and/or other operating income.

Standalone 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, except for two (2011: two) insignificant holding companies. As a consequence, balance sheet items are translated at the year-end 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. No standalone financial statements from companies in hyperinflationary economies are included in the consolidated financial statements.

The exchange rates of those currencies significant to the consolidated financial statements have changed as follows:

Currencies	ISO-code	Middle rate at balance sheet date		Annual average rates	
		Dec. 31, 2012	Dec. 31, 2011	2012	2011
<b>1 € =</b>					
US dollar	USD	1.3194	1.2939	1.2848	1.3920
Pound sterling	GBP	0.8161	0.8353	0.8109	0.8679
Canadian dollar	CAD	1.3137	1.3215	1.2842	1.3761
Polish zloty	PLN	4.0882	4.4168	4.1852	4.1189
Chinese yuan	CNY	8.3176	8.1588	8.1052	8.9960
Malaysian ringgit	MYR	4.0347	4.1055	3.9672	4.2558
Japanese yen	JPY	113.6100	100.2000	102.4900	110.9600

## Income and expenses

Income for the fiscal year is recognized when realized; expenses as incurred. Sales revenue is recognized upon transfer of risk, which is generally upon delivery of a product or rendering of services, net of any cash or volume discounts and rebates. Revenue from long-term construction contracts is recognized on the basis of the percentage-of-completion (PoC) method when the result of a construction contract can be reliably estimated. The percentage of completion is determined on the basis of the proportion of contract costs incurred to the estimated total contract costs (cost-to-cost method), i.e. on the basis of comparing services performed (units) with total services to be performed (units-of-delivery method). An expected loss on the construction contract is recognized as an expense immediately. Insofar as the aggregated capitalized contract revenues exceed the advance payments received, the gross amount due from customers is presented as trade receivables or in a separate line item as non-current assets in the case of multi-year construction contracts, where contract revenues will remain non-current due to the maturity stipulated in the agreement. If there is a negative balance after deduction of the advance payments, the gross amount due to customers is presented as a trade payable. Variations in orders requested by the customer during the term of a project affecting the agreed scope of contract work may lead to an increase or decrease in contract revenues. Examples of variations are changes in the specifications or design of contract work and changes in the duration of the contract.

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 in 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 and interest expense to the periods in which it is incurred. The interest portion of long-term construction contracts is reported as sales revenue. Dividends are generally recognized at the time of distribution.

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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.

### Earnings per share

Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury shares are deducted for the period during which they are held in treasury. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

### Goodwill

Goodwill resulting from business combinations is defined by IFRS 3 as the excess of the cost of the business combination over the Groups' interest in the fair value of the identifiable assets and liabilities. Goodwill is measured at cost upon first-time recognition and is not amortized. However, IAS 36 specifies that following initial recognition, goodwill must be tested for impairment annually, or on such occasions that events or changes in circumstances indicate that it might be impaired. The impairment test involves allocating the goodwill acquired as of the acquisition date to the group of cash generating units, which represent 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 Business Areas Performance Products (PP), Graphite Materials & Systems (GMS), and Carbon Fibers & Composites (CFC). At CFC, the joint ventures in the automotive sector – SGL Automotive Carbon Fibers Germany and SGL Automotive Carbon Fibers USA, Benteler-SGL, and Brembo-SGL Carbon Ceramic Brakes – have now been included in the group of cash-generating units based on the respective equity interests held by SGL Group. Business activities in carbon fiber growth markets, particularly in the automotive sector, are assessed across the boundaries of the fully consolidated division in order to reflect the value chain from the producer of special raw materials to the ultimate supplier to the automotive industry. Today, the value creation process is primarily dominated by these four joint ventures. The associated synergies generate large mutual benefits for both these joint ventures and the Business Area CFC. The inclusion of the joint ventures became necessary after the acquisition of Fisipe, the increased integration of the joint ventures into the strategic value chain through the realization of individual joint projects and the associated increase in the importance of synergies in fiscal year 2012. Therefore, in the context of the allocation of the CFC goodwill, these joint ventures are regarded as an integral part of the group of cash-generating units that benefit from these synergies. 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 Property, Plant and Equipment and Other Intangible Assets (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 lives. 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 conducts for impairment tests 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 reliably measure 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 operations 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

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## 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 with respect to 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. 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. Lease income generally includes a purchase option at market prices at the end of the lease term.

## Impairment tests of property, plant and equipment and other intangible assets (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. The recoverable amount is the higher of fair value less costs to sell (net selling price) or 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. If an asset does not generate cash flows that are largely independent of those from other assets, the impairment test is not conducted on the level of the individual asset, but instead on the level of the cash-generating unit (CGU) to which the asset belongs. Pursuant to the definition of a CGU, the individual Business Units (BUs) of the Business Areas (BAs) are generally considered cash-generating units at SGL Group. The discounted cash flows are themselves based on five-year plans for the individual CGUs 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 CGU, 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 at CGU level. 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 CGU. The most significant assumptions on which the determination of the recoverable amount is based include estimated cash flows (especially sales and margin developments), 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.

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## Assets held for sale

SGL Group classifies a non-current asset (or a disposal group) as held for sale when the related carrying amount is recovered principally from disposal rather than continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Assets held for sale and disposal groups are measured at the lower of their carrying amounts and fair values less costs to sell. Items of property, plant and equipment held for sale are no longer depreciated.

## 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 the 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 prorata 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, and its share of movements in equity that have not been recognized in the associate's profit or loss is recognized directly in equity.

## Financial instruments

A financial instrument in accordance with IAS 32 is a contractually agreed right or a contractually agreed obligation which results in an inflow or outflow of financial assets and in the issue of equity instruments. This includes primary, i. e. non-derivative, financial instruments such as trade receivables and payables, securities and financial assets, borrowings and other financial liabilities. It also includes derivative financial instruments that are used to hedge against risk arising from changes in exchange rates and interest rates.

## Primary financial instruments

Primary financial instruments are classified under one of the following three categories according to the purpose for which they are held. The classification is reviewed at each balance sheet date and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

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

- Available-for-sale financial assets
- Loans and receivables
- Financial liabilities measured at amortized cost

SGL Group does not make use of the categories of *held-to-maturity investments* and *held for trading*, nor has SGL Group elected to make use of the option to designate financial assets or liabilities as at fair value through profit and loss at inception (fair value option).

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 their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognized in determining the carrying amount.

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 30** 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.

### Hybrid financial instruments

Financial instruments that contain both a debt and an equity component are classified and measured separately as dictated by those components. Convertible bonds are examples of instruments treated as such. The fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the bond liability. The fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market interest rate. The interest expense for the debt component is calculated over the term of the bond based on the market interest rate at the date of the issue for a comparable bond without a conversion right. The difference between the deemed interest and the coupon rate accrued over the term increases the carrying amount of the bond liability. The issuing costs of the convertible bond are deducted directly from the carrying amount of the debt component and the equity component in the same proportion.

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## Derivative financial instruments

In accordance with IAS 39, all derivative financial instruments are recognized in the balance sheet at their fair value. Financial instruments are recognized as soon as SGL Group enters into a contract for a financial instrument. The financial instruments are recognized as of 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 is taken to income. The ineffective portion of the fair value changes of the hedge 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 the trade date and the settlement date are not the same. See **Note 30** for further information on financial instruments.

## 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. Impairment losses on 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.



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## Liquidity

Liquidity is comprised 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 at which they will probably be 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 carry-forwards 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 in the year in which they occur 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 on 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.

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## 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 32**.

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.

## 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 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 recognized valuation methods (e. g. the Monte Carlo model). Further information on the individual share-based payment plans can be found in **Note 32**.

## 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 26**.

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 price (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

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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). The fair value of the non-controlling interest is derived from the cost of the majority interest as of the date of acquisition. 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. The changes in the value of financial liabilities resulting from remeasurement at fair value are recognized directly in equity as an equity transaction in accordance with IAS 27.30 (i.e. as a transaction with owners acting in their capacity as owners) by adjusting the item "equity attributable to the shareholders of the parent company." This is based on applying the provisions related to a change in the proportion of ownership interests held in a subsidiary that does not result in a loss of control. 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.

### **Financial reporting standards applied for the first time**

The accounting rules to be applied for the first time in fiscal year 2012 had no significant impact on the presentation of the financial position, financial performance or cash flows of SGL Group.

### **Effects of financial reporting standards required to be applied in the future**

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

In June 2011, the IASB issued the amended IAS 19 Employee Benefits (revised 2011, IAS 19R). SGL Group expects the following changes will have a material effect on the Company's consolidated financial statements: IAS 19R replaces expected return on plan assets and the interest cost on pension obligations with a uniform net interest component. In addition, IAS 19R prescribes that non-vesting past service cost is recognized in profit or loss as incurred. The amendments are required to be applied for fiscal years beginning on or after January 1, 2013. SGL Group will apply the amended standard from fiscal year 2013. IAS 19R requires retrospective application of the amendments and a presentation of the effects of the first-time application on the opening balance sheet as of January 1, 2012. SGL does not expect any significant impact on the items "total comprehensive income" or "total equity." Application of IAS 19R to fiscal year 2012 led to a change in the operating result and net financing costs of approximately €-5.9 million and €+4.8 million, respectively. In fiscal year 2013, pension expenses will approximate the adjusted pension expenses for fiscal 2012. The new rules introduced by the revised IAS 19R also affects provisions recognized for partial retirement (Altersteilzeit, ATZ) in Germany. Previously the bonus amounts (Aufstockungsbetrag) had been fully recognized as termination benefit expense upon the inception of the agreement. In future, under the block model, the bonus amounts are increased on a straight-line, pro-rata basis over the vesting period until the end of the employment phase (Aktivphase) and reversed during the release phase (Freistellungsphase). Furthermore, the provision has to be reported in the future as other employee benefits expense. Provisions that have been recorded previously under IAS 19 and refer to the vesting period beginning on January 1, 2013, have to be reversed or reclassified through equity in accordance with IAS 19R and have to be added back through profit or loss in subsequent years. The amount reclassified was €1.2 million as of December 31, 2012.

In May 2011, the IASB issued the following three new standards relating to accounting for business combinations: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. At the same time, the IASB issued amended versions of IAS 27 Separate Financial Statements (as amended in 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011).

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IFRS 10 provides a uniform definition of the concept of control and a uniform basis for determining whether a parent-subsidary relationship exists and the associated definition of the consolidated companies. The standard includes comprehensive application guidance for determining the control relationship. The new standard replaces SIC 12 Consolidation – Special Purpose Entities in full and replaces parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 governs the accounting for situations where a company exercises joint control over a joint venture or carries out joint operations. The new standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

IFRS 12 summarizes all disclosures within a single standard that are required to be made by a company holding interests or other investments in other entities. This includes interests in subsidiaries, associates, joint arrangements, and structured entities. The new standard replaces the previous disclosure requirements set out in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31 Interests in Joint Ventures and SIC 12 Consolidation – Special Purpose Entities.

The amended IAS 27 now only contains rules related to accounting for and disclosures on subsidiaries, joint ventures and associates that are relevant to separate financial statements prepared in accordance with IFRS.

The amended IAS 28 governs the accounting for interests in associates and the requirements for applying the equity method to interests in associates and joint ventures.

IFRS 10, 11 and 12 as well as the follow-up amendments of IAS 27 and IAS 28 are required to be applied for fiscal years beginning on or after January 1, 2013. The new or amended standards may be applied early, provided that all these are applied as of the same date. The pronouncements apply retrospectively. While IFRS 10, 11 and 12 as well as the follow-up amendments of IAS 27 and IAS 28 have been endorsed by the EU, they are required to be applied only for fiscal years beginning on or after January 1, 2014. SGL Group will apply all amended standards from fiscal year 2014. The impact of these standards in the consolidated financial statements is currently being evaluated by SGL Group; however, above all, the application of IFRS 11 may impact the presentation of some of the joint ventures in the financial statements.

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.

#### **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 and the establishment

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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 of particular significance for companies that have entered into long-term construction contracts with customers where revenue recognition is based on the percentage-of-completion method. This may also include estimates with regard to the volume of contract work required to fulfill the contractual obligations. In particular, estimates are required with regard to total contract costs, the costs necessary to complete the contract, the total contract revenue, the contract risks and other relevant parameters that may have a significant impact on the presentation of the Group's financial position and performance, depending on the percentage-of-completion method used and the underlying contract. Changes in estimates regarding contract costs and contract revenue may result in cumulative "catch-up effects" in sales revenue and cost of sales (see **Note 5**).

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 24**. Provisions are based on management judgment with regard to amount and probability of future utilization. Please refer to **Note 25** ("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 **Note 3** in the section entitled "Accounting Policies" as well as in **Note 8** ("Reversal of Impairment Losses and Impairment Losses") and in **Note 13** ("Intangible Assets"). Assessments related to the realizability of future tax credits are explained in **Note 22** ("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 28** ("Contingent Liabilities and Other Financial Obligations"). **Note 32** "Management and Employee Stock Option Plans" includes a detailed description on the terms and conditions of share-based payments. Finally, 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 30** ("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. EVENTS OF PARTICULAR IMPORTANCE**

### **Acquisitions in fiscal year 2012**

As of April 11, 2012, SGL Group completed the acquisition of 86.2% of the shares in Fisipec (Fibras Sinteticas de Portugal S.A.), a Portuguese manufacturer of acrylic fibers, with its registered office in Lavradio (Portugal). With the acquisition of Fisipec, SGL Group gains an additional raw materials source for the production of further precursor types. The local textile fiber production lines will be successively converted to precursor production lines and further expanded. Fisipec was integrated into the Business Area CFC.

The following disclosures include the purchase price allocation and the carrying amounts used for all major groups of assets and liabilities acquired:

€m	Carrying amounts prior to purchase
<b>Assets</b>	
Other intangible assets	3.4
Property, plant and equipment	24.6
Other non-current assets	3.1
Inventories	12.8
Trade receivables	26.1
Other assets	3.2
Cash and cash equivalents	1.3
<b>Liabilities</b>	
Provisions	1.7
Interest-bearing loans	16.1
Trade payables	22.8
Other liabilities	6.8
Deferred taxes	3.3
<b>Net assets</b>	<b>23.8</b>
Goodwill from business combination	12.6
Non-controlling interests	2.0
Purchase price	34.4

Goodwill includes non-separable intangible assets such as special expertise of the employees and expected synergy effects. In the period from the acquisition date to December 31, 2012, the companies acquired contributed sales revenue of €81.1 million and a net loss of €1.2 million (including effects from purchase price allocation) to the consolidated financial statements. If the acquisition had occurred on January 1, 2012, the revenue and net loss contributions in the twelve months ended December 31, 2012 would have amounted to €109.9 million and €1.5 million, respectively. The purchase price for this acquisition amounted to €24.9 million (including cash acquired) for the initial 86.2% interest in the share capital, plus €9.5 million for the purchase of inventories. An amount of €2.4 million of the total purchase price was deferred, and €30.7 million (less cash acquired) was paid in 2012. At the end of fiscal year 2012, SGL Group had completed the purchase of the additional 13.8% of the shares in Fisipe, holding 100% of the shares in the company at that date. Transaction costs directly attributable to the purchase totaling of €1.1 million were recognized in other operating expenses in 2012. This increase in the shareholding by 13.8% represents a transfer between equity attributable to the shareholders of the parent company and non-controlling interests in the amount of €-2.3 million, which was recognized directly in equity as an equity transaction.

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In September 2012, SGL Group acquired the remaining 25.1% of the shares in SGL Rotec GmbH & Co KG, Lemwerder (Rotec) and, as a result, holds 100% of the shares in the company. In connection with this share purchase, the seller waived an outstanding loan receivable to Rotec and the SGL Group derecognized the non-controlling interests in this subsidiary partnership (which were previously reported under liabilities). Both transactions in a total amount of €5.3 million were recognized directly in equity as transactions with owners.

As these additional share purchases (not affecting the majority shareholding) at Fisipe and Rotec represent transactions with owners and therefore are merely equity transactions between shareholders and non-controlling interests, the related payments are reported as financing activities.

In December 2012, SGL Group classified the assets and liabilities of its subsidiary NINGBO SSG Co. Ltd, Ningbo, China, as held for sale.

### **Acquisition in fiscal year 2011**

Effective January 1, 2011, SGL Group acquired ASL Aircraft Services Lemwerder GmbH (ASL) (including its wholly owned subsidiaries EADS Real Estate Object Lemwerder GmbH & Co. KG and Aviation Community Lemwerder GmbH) within the framework of a share deal via SGL Group's 51% stake in SGL/A&R Immobiliengesellschaft Lemwerder mbH. This acquisition was presented as a purchase of assets in accordance with IAS 16 since the assets acquired do not qualify as an operation as defined by IFRS 3. ASL's assets primarily consist of an investment in the real estate company that leases its buildings in Lemwerder (Germany) to SGL Rotec, a Group company. SGL Group intends to expand the existing production facility for rotor blades on ASL's company grounds.

The acquired companies were renamed SGL/A&R Services Lemwerder GmbH, SGL/A&R Real Estate Lemwerder GmbH & Co. KG, and Aviation Community Lemwerder GmbH, respectively.

### **Placement of the 2012 convertible bond**

On April 18, 2012, SGL Carbon SE issued an unsecured convertible bond with a principal amount of €240.0 million. The bond has a term of five years and nine months and matures in January 2018. The convertible bond is based on a volume of 5.4 million shares and a coupon of 2.75% per annum. The initial conversion price is €44.10, corresponding to a premium of 30%.

### **Changes in estimates 2012**

Considerable delays in projects as well as a significant reduction in production volumes compared to original expectations have led to a change in estimates regarding contract revenue and contract costs and changes in the estimates of the results generated from some of the long-term supplier contracts of our U.S. subsidiary HITCO (Business Unit Aerostructures), which are accounted for using the PoC method. Therefore, SGL Group took into account incurred and expected losses in a total amount of €54.2 million (hereinafter referred to as "Project write-offs"). This total amount comprised write-off of receivables from long-term construction contracts (€47.3 million) and write-off of inventories (€6.9 million). This had an equivalent negative effect on the Group's gross profit. The overall effect is attributed to the Business Unit Aerostructures (AS) of the Business Area CFC.

These adjustments reduced sales revenue by €32.5 million, while cost of sales increased by €21.7 million.

# CONSOLIDATED INCOME STATEMENT DISCLOSURES

## 6. SALES REVENUE, FUNCTIONAL COSTS

The breakdown of sales revenue by Business Area and intersegment revenue, as well as the regional distribution of sales revenue, is presented in **Note 31** of the segment report.

Sales revenue includes the interest portion of long-term construction contracts in the amount of €0.5 million (2011: €0.9 million).

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 €46.9 million (2011: €40.0 million). Broken down by business segment, research and development costs were as follows: €13.6 million (2011: €9.4 million) in the Business Area PP, €11.7 million (2011: €8.8 million) in the Business Area GMS, and €7.8 million (2011: €7.5 million) in the Business Area CFC. In addition, research and development costs on a corporate level amounted to €13.8 million (2011: €14.3 million).

General and administrative expenses grew by 6.7% compared to the prior year. The increase resulted primarily from the first-time consolidation of Fisipe (Portugal), wage and salary adjustments, and increased costs for external consultancy services.

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

### Personnel expenses

€m	2012	2011
Wages and salaries (including bonus)	357.0	324.6
Social security contributions, post-employment and other employee benefit costs (thereof for pensions: 2012 €19.4 million; 2011 €24.0 million)	72.4	69.3
<b>Total</b>	<b>429.4</b>	<b>393.9</b>

Fisipe contributed €5.4 million and €2.3 million, respectively, to the above line items.

### Depreciation and amortization

At €85.5 million, amortization and depreciation on intangible assets and property, plant and equipment were greater than the prior-year level of €71.3 million following the increase in investing activities. Amortization of intangible assets amounted to €6.3 million (2011: €5.3 million) and related primarily to capitalized development costs in the amount of €2.4 million for SAP software specifically customized to SGL Group requirements (2011: €2.4 million). Depreciation of property, plant and equipment totaled €79.2 million in 2012 (2011: €66.0 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

As of the end of the fiscal year 2012, the Group employed 6,686 people, representing an increase of 239 employees, or 3.7%, compared to the end of 2011. The rise in the number of employees is mainly attributable to the acquisition of Fisipec, which caused the number of employees in the Business Area Carbon Fibers & Composites (CFC) to increase by a total of 256 people year over year. The number of employees in the Business Areas Performance Products (PP) and Graphite Materials & Systems (GMS) declined slightly in the fiscal year ended December 31, 2012 compared to the previous year. A total of 2,081 people were employed in PP (2011: 2,094) and 2,802 people in GMS (2011: 2,811).

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

Number	2012	2011
Germany	2,585	2,535
Europe excluding Germany	2,056	1,815
North America	1,318	1,410
Asia	727	687
<b>Total</b>	<b>6,686</b>	<b>6,447</b>

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

Number	2012	2011
Production and auxiliary plants	5,173	5,055
Sales and marketing	396	376
Research	173	140
Administration, other functions	879	850
<b>Total</b>	<b>6,621</b>	<b>6,421</b>

## 7. OTHER OPERATING INCOME AND EXPENSES

### Other operating income

€m	2012	2011
Currency hedges, exchange-rate gains	8.0	10.2
Costs allocated to equity accounted investments	6.9	7.1
Gains on the sale of property, plant and equipment	5.1	0.8
Grants received	3.8	3.7
Special income from the reversal of other provisions	1.5	0.8
Gains on the sale of intangible assets and property, plant and equipment	1.4	0.6
Miscellaneous other operating income	8.7	6.5
<b>Total</b>	<b>35.4</b>	<b>29.7</b>

Cost allocation refers to services provided at various locations.

### Other operating expenses

Other operating expenses comprise those expenses not attributable to functional costs:

€m	2012	2011
Currency hedges, exchange-rate losses	10.3	5.6
Additions to other provisions	1.8	1.4
Losses on the sale of non-current assets	0.6	1.2
Miscellaneous other operating expenses	4.6	4.1
<b>Total</b>	<b>17.3</b>	<b>12.3</b>

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. Income from exchange rate differences comprise realized gains from currency hedges in the amount of €3.3 million (2011: €0.4 million). Expenses for exchange rate differences mainly comprise realized losses from currency hedges in the amount of €0.7 million (2011: €2.0 million).

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Miscellaneous other operating expenses include project costs in the amount of €2.4 million, which are invoiced centrally and mainly refer to external legal and professional fees.

In addition, miscellaneous other operating income and miscellaneous other operating expenses included a number of insignificant individual transactions carried out by the 64 (2011: 61) consolidated companies.

## 8. REVERSAL OF IMPAIRMENT LOSSES AND IMPAIRMENT LOSSES

The event-driven impairment test for property, plant & equipment and other intangible assets was conducted as described in the section entitled “Impairment of Property, Plant and Equipment and Other Intangible Assets (Impairment Test)” in **Note 3**.

**In the prior year** SGL Group conducted impairment tests for the Business Units Carbon Fibers and Composite Materials (CF/CM) and Rotor Blades (RB), both Business Units of the Business Area CFC.

As a result of the significantly improved expectations for the Business Unit Carbon Fibers & Composite Materials (CF/CM) towards the end of fiscal year 2010, SGL Group conducted an event-driven review in 2011 as to whether the causes for the impairment losses recognized in 2009 on intangible assets (excluding goodwill) and property, plant and equipment totaling €74.0 million still existed and if a partial or full reversal of these impairment losses was necessary. The impairment test performed showed a significant excess of the recoverable amount over the carrying amount of the net assets attributable to this Business Unit and thus the need for a partial reversal of the impairment loss previously recognized in the amount of €29.2 million was recorded. The reversal related to buildings (€2.9 million) and plant and machinery (€26.3 million). The recoverable amount for the Business Unit CF/CM was calculated on the basis of the value in use, using a terminal value growth rate of 2.0% and a discount rate of 13.0% before taxes.

In addition, as a result of the significant deterioration in sales and earnings performance within the Business Unit Rotor Blades in 2011, the Group conducted an impairment test of the assets employed in that Business Unit. The impairment test showed that the recoverable amount was significantly lower than the carrying amount of the net assets attributable to the Business Unit. The corresponding impairment loss as of June 30, 2011 amounted to €24.1 million. The impairment loss related to intangible assets (€5.8 million), buildings (€15.2 million), and plant and machinery (€3.1 million). The recoverable amount for the Business Unit RB was calculated on the basis of the value in use, using a terminal value growth rate of 2.0% and a discount rate of 13.7% before taxes.

A reduction in the terminal value growth rate of 1.0 percentage point would have led to an increase of €3.6 million in the impairment loss at RB in 2011. A reduction in the average annual cash flows of 10.0% would have increased the expense by €4.1 million. The expense would have risen by €5.1 million if the discount rate had been increased by 1.0 percentage point.

The positive net effect of the impairment tests totaled €5.1 million and led to a corresponding increase in operating profit for 2011.

**In the current year**, SGL Group conducted an event-driven as of September 30, 2012 review with respect to property, plant and equipment and other intangible assets of the Business Units Aerostructures (AS), Carbon Fibers & Composite Materials (CF/CM), and Rotor Blades (RB), which are all part of the Business Area CFC. The event-driven reviews at AS were caused by the developments in fiscal year 2012 described in **Note 5**. The review at CF/CM was due to the significantly lower-than-expected demand for materials in the wind energy industry, while the impairment test at RB was caused by a development which was weaker than anticipated. The impairment tests conducted confirmed the carrying amounts of the items of property, plant and equipment and the other intangible assets. In the Business Units CF/CM and RB, the recoverable amount deviates only insignificantly from the respective carrying amounts of €192.0 million (CF/CM) and €34.2 million (RB). Future changes in the underlying assumptions for the calculation of the recoverable amount, in particular those which relate to development of sales revenue and profitability, may impact the level of the recoverable amount and lead to an adjustment of the carrying amounts of the assets allocated to the Business Units CF/CM and RB.

## 9. RESULT FROM EQUITY-ACCOUNTED INVESTMENTS

€m	2012	2011
Result from equity-accounted investments	-32.6	-32.6

The result from equity-accounted investments includes a loss of €23.2 million from the investment in EPG (2011: loss of €11.0 million), a loss of €3.3 million from the investment in Benteler-SGL (2011: loss of €2.0 million) and a loss totaling €3.4 million for both joint ventures with BMW Group (2011: loss of €8.9 million). The expenses for the investment in EPG were mainly incurred as a result of the discontinued operations at this company.

Please refer to **Note 15** for detailed information on the investments accounted for using the equity method.

## 10. NET FINANCING COST

€m	2012	2011
<b>Interest on other securities, other interest and similar income</b>	<b>2.4</b>	<b>3.1</b>
Interest on borrowings and other interest expense <sup>1)</sup>	-18.3	-16.9
Interest component of additions to provisions for pensions and other employee benefits	-17.8	-16.8
Interest cost component on convertible bond <sup>1)</sup>	-13.9	-13.9
Interest cost component on finance lease <sup>1)</sup>	-1.2	-1.2
<b>Interest expense</b>	<b>-51.2</b>	<b>-48.8</b>
<b>Interest expense, net</b>	<b>-48.8</b>	<b>-45.7</b>
Amortization of refinancing costs <sup>1)</sup>	-2.6	-2.6
Foreign currency valuation of group loans	-2.6	1.6
Impairment losses of equity investments	-6.1	0.0
Other financial income and expenses	2.4	-2.5
<b>Other financing costs</b>	<b>-8.9</b>	<b>-3.5</b>
<b>Net financing costs</b>	<b>-57.7</b>	<b>-49.2</b>

<sup>1)</sup> Total interest expense from financial instruments was €36.0 million (2011: €34.6 million).

Interest on borrowings and other interest expense primarily includes interest expenses for the corporate bond and the cash coupon for the 2007/2013, 2009/2016, and 2012/2018 convertible bonds of 0.75% p.a., 3.5% p.a., and 2.75% p.a., respectively. During the year under review, borrowing costs in the amount of €2.6 million (2011: €1.6 million) were capitalized in connection with long-term investment projects, which resulted in positive non-cash interest income. Interest expenses on borrowings improved correspondingly.

In addition to the cash coupon, IFRS requires the recognition of a non-cash interest cost component on the 2007/2013, 2009/2016, and 2012/2018 convertible bonds in order to present interest coupons at market conditions overall. The calculations performed in May 2007, June 2009 and April 2012 assumed comparable market interest rates of 5.8% p.a., 8.43% p.a., and 4.87% p.a., respectively. This is the rate at which SGL Group would have been able to secure alternative financing. This resulted in a non-cash interest expense for the convertible bonds in the amount of €13.9 million, which corresponds to the prior-year level. The partial conversions of the 2007/2013 and 2009/2016 convertible bonds made in 2011 led to a reduction in the non-cash interest cost component. This effect, however, was counteracted by the issue of the new 2012/2018 convertible bond.

As a result of the increase in defined benefit obligations, the interest element of the additions to pension provisions increased by €1.0 million in 2012 to a total of €17.8 million (2011: €16.8 million), despite lower interest rates. Please refer to **Note 24** for further details on pensions.

The item impairment losses comprises impairment losses recognized for publicly listed available-for-sale financial assets in the amount of €5.5 million as other financial income and expenses including a finance element of a major contract settled in fiscal year 2012 in the amount of €2.3 million. This item also includes expenses related to our interest rate hedges in the amount of €0.4 million (2011: €2.0 million) as well as currency translation gains from our bank loans in Malaysia denominated in foreign currency. In the year under review, these translation gains totaled €1.4 million, after currency translation losses in the amount of €1.3 million in the previous year. The improvement of €2.7 million was mainly due to currency translation effects.

## 11. INCOME TAXES

As in the previous year, the corporate income tax rate of 15% in Germany was used as the basis for determining the income tax rate. Moreover, a solidarity surcharge of 5.5% is added to the corporate income tax rate. German corporations are also subject to trade tax. The trade tax rate depends on the municipality in which a business operation is located. The average trade tax rate of SGL Group companies was 13.3% in 2012 (2011: 13.4%). This results in a total current tax rate of 29.2% in Germany in 2012 (2011: 29.2%). The average trade tax rate of SGL Group companies will be 13.7% in the future. This results in a total tax rate of 29.5% (2011: 29.2%) to be used for the calculation of deferred taxes in Germany in 2012. The income tax rate for foreign companies was between 16.5% and 42% (2011: between 17% and 42%).

The breakdown of tax expense is as follows:

€m	2012	2011
<b>Current income tax expense</b>		
Germany	-7.0	-2.0
Other countries	-22.5	-16.7
<b>Deferred tax expense</b>		
Germany	9.7	-10.5
Other countries	17.6	6.4
<b>Total</b>	<b>-2.2</b>	<b>-22.8</b>

In 2012, the tax expense fell to €2.2 million (2011: €22.8 million) based on a profit before tax of €9.7 million (2011: €83.7 million). The Group tax rate for 2012 amounted to 23.0%, compared to a Group tax rate of 27.2% in 2011. Income tax expenses are incurred from current taxation at domestic and foreign companies. Taxes included in the tax expenses for prior years amounted to €2.8 million (2011: €1.0 million). Tax payments amounted to €21.5 million in 2012 (2011: €12.5 million).

The tax expense reported differs from the anticipated tax expense calculated on the basis of an expected tax rate of 29.2% as follows:

€m	2012	2011
<b>Profit before tax</b>	<b>9.7</b>	<b>83.7</b>
<b>Expected income tax expense at 29.2% (2011: 29.2%)</b>	<b>2.8</b>	<b>24.4</b>
Increase/decrease in income tax liability from:		
– Income adjustments	7.0	3.4
– Change in expected tax rate	–6.9	–8.4
– Change in loss carryforwards and valuation allowances on deferred taxes	–4.6	–4.5
– Valuation allowances on deferred taxes, impairment test	–0.8	3.4
– Tax effect for equity accounted investments	8.0	4.4
– Tax rate changes	–0.6	0.4
– Tax from prior periods	–3.2	–1.0
– Other	0.5	0.7
<b>= Effective tax expense</b>	<b>2.2</b>	<b>22.8</b>

The income adjustments relate primarily to non-deductible operating expenses, the non-exempt portion of dividend income in Germany, adjustments for the purpose of calculating German trade tax, and non-deductible interest as a result of the newly introduced rules on the deduction of interest in Spain in 2012. The reduction to reflect the different tax rate takes account of the effects of withholding taxes and minimum taxes as well as taxation differences between Germany and other countries as a result of varying income tax rates. The changes in tax loss carryforwards and valuation allowances for deferred taxes mainly take into account the measurement of deferred taxes on loss carryforwards in Germany and the USA based on their future usability.

## 12. 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 70,390,694 shares in 2012 and 67,013,712 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 years 2012 and 2011:

#### Reconciliation of basic to diluted earnings per share

€m	Overall potentially dilutive financial instruments 2012	<b>Dilutive financial instruments used for the calculation 2012</b>	Dilutive financial instruments used for the calculation 2011
<b>Numerator for basic earnings per share (proportion of net income attributable to the shareholders of the parent company)</b>	<b>7.2</b>	<b>7.2</b>	<b>73.2</b>
plus: Increase in profit equivalent to convertible bond interest expense	18.3	0.0	0.0
<b>Numerator for diluted earnings</b>	<b>25.5</b>	<b>7.2</b>	<b>73.2</b>
<b>Number of shares</b>			
<b>Denominator for basic earnings per share (weighted average number of shares)</b>	<b>70,390,694</b>	<b>70,390,694</b>	<b>67,013,712</b>
Potentially dilutive securities (weighted average, in each case)			
Convertible bond 2007 (see Note 26)	4,008,007	0	0
Convertible bond 2009 (see Note 26)	4,610,672	0	0
Convertible bond 2012 (see Note 26)	5,474,535	0	0
Share-based payment plan (see Note 32)	9,800	7,221	39,737
Stock Appreciation Rights (see Note 32)	2,325,236	223,862	473,557
<b>Denominator for potentially diluted earnings per share</b>	<b>86,818,971</b>		
<b>thereof to be included for dilution (adjusted weighted average)</b>		<b>70,621,777</b>	<b>67,527,006</b>
Basic earnings per share (€)		0.10	1.09
Diluted earnings per share (€)		0.10	1.08

As of December 31, 2012, the 2007/2013, 2009/2016, and 2012/2018 convertible bonds, the Stock Option Plan and the Stock Appreciation Rights were still outstanding. Only the stock option plans and the Stock Appreciation Rights totaling 231,083 shares had a dilutive effect as of December 31, 2012. No dilutive effect on earnings per share resulted from taking into account the additional average of 4,000,858 shares from the convertible bond issued in 2007, the 4,631,809 shares from the convertible bond issued in 2009, or the additional 5,474,535 shares from the convertible bond issued in 2012 since the profit or loss for the period is adjusted to reflect the interest expense (interest payments and non-cash imputed interest cost) for the convertible bonds and recognized in net financing costs. In the future, these instruments may become fully dilutive.

Please refer to Note 23 for information on the capital increases conducted after the balance sheet date.



## CONSOLIDATED BALANCE SHEET DISCLOSURES

### 13. INTANGIBLE ASSETS

€m	Industrial rights, software and similar rights	Customer relationships	Capitalized development costs	Goodwill	Total
<b>Historical cost</b>					
Balance as of Jan. 1, 2012	59.8	9.2	13.9	117.4	200.3
Change in scope of consolidation	0.7	2.7	0.0	12.6	16.0
Foreign currency translation	0.0	0.0	0.0	0.1	0.1
Reclassifications	0.1	0.0	0.0	0.0	0.1
Additions	3.1	0.0	2.0	0.0	5.1
<b>Balance as of Dec. 31, 2012</b>	<b>63.7</b>	<b>11.9</b>	<b>15.9</b>	<b>130.1</b>	<b>221.6</b>
<b>Cumulative amortization</b>					
Balance as of Jan. 1, 2012	47.2	5.6	3.3	0.0	56.1
Additions	4.1	1.6	0.6	0.0	6.3
Disposals	0.1	0.0	0.0	0.0	0.1
<b>Balance as of Dec. 31, 2012</b>	<b>51.4</b>	<b>7.2</b>	<b>3.9</b>	<b>0.0</b>	<b>62.5</b>
<b>Net carrying amount as of Dec. 31, 2012</b>	<b>12.3</b>	<b>4.7</b>	<b>12.0</b>	<b>130.1</b>	<b>159.1</b>
<b>Historical cost</b>					
Balance as of Jan. 1, 2011	57.4	9.2	12.3	116.5	195.4
Foreign currency translation	0.1	0.0	0.1	0.9	1.1
Reclassifications	0.2	0.0	0.0	0.0	0.2
Additions	2.8	0.0	1.5	0.0	4.3
Disposals	-0.7	0.0	0.0	0.0	-0.7
<b>Balance as of Dec. 31, 2011</b>	<b>59.8</b>	<b>9.2</b>	<b>13.9</b>	<b>117.4</b>	<b>200.3</b>
<b>Cumulative amortization</b>					
Balance as of Jan. 1, 2011	40.4	2.1	3.1	0.0	45.6
Additions	4.8	0.3	0.2	0.0	5.3
Impairments	2.6	3.2	0.0	0.0	5.8
Disposals	-0.6	0.0	0.0	0.0	-0.6
<b>Balance as of Dec. 31, 2011</b>	<b>47.2</b>	<b>5.6</b>	<b>3.3</b>	<b>0.0</b>	<b>56.1</b>
<b>Net carrying amount as of Dec. 31, 2011</b>	<b>12.6</b>	<b>3.6</b>	<b>10.6</b>	<b>117.4</b>	<b>144.2</b>

The change in the scope of consolidation refers to the acquisition of Fisipe. Please refer to Note 5 for further details.

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 €1.9 million (December 31, 2011: €1.6 million). Of this amount, a total of €1.0 million of own work was capitalized in connection with the SGL ONE project in 2012 (December 31, 2011: €0.4 million). Together with the capitalized development costs shown separately, a total of €3.0 million of internal development costs were capitalized in 2012 (December 31, 2011: €1.9 million).

The additions to capitalized development costs include an amount of €1.3 million (December 31, 2011: €1.1 million) representing costs for the development agreement finalized in the year under review with our joint venture partner BMW Group. The agreement involved the development of carbon fiber processes and textile semifinished products for use in automotive construction. In addition, €0.7 million (December 31, 2011: €0.4 million) was capitalized for the REACH project.

The borrowing costs capitalized in the reporting period amounted to €0.3 million (December 31, 2011: €0.2 million), determined on the basis of a borrowing rate of 6%.

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 2012 and 2011, 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:

	Recognized goodwill in €m	Discount rate after tax in %	Long-term growth rate in %
<b>Sept. 30, 2012</b>			
Business Area PP	10.8	9.1	1.0
Business Area GMS	20.2	8.9	1.0
Business Area CFC	100.6	8.4	2.5
Sept. 30, 2011			
Business Area PP	10.3	10.2	1.0
Business Area GMS	19.4	9.8	1.0
Business Area CFC	85.4	8.4	2.0

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In the Business Area CFC, which operates in markets with high growth potential and whose product range includes a number of products in an early stage of their life cycle, growth rates are projected to be higher on average after the five-year planning period than in the other Business Areas. Even during the five-year period, we expect higher overall growth rates in the Business Area CFC, with average annual sales growth of 17.2% and a gradual increase in return on sales (ROS) of 10.0% in 2017 being taken as a basis for the 2013–2017 planning period.

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 6.0% (December 31, 2011: 5.0%): a 5-year monthly beta of 1.50 (December 31, 2011: 1.61) for PP and 1.41 (December 31, 2011: 1.47) for GMS, and a maturity equivalent risk-adjusted after tax debt rate of 4.1% (December 31, 2011: 6.7%), 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 and included joint ventures in order to adequately take into account the differences in specific risks. For this purpose, we assumed a 5-year monthly beta of between 0.94 and 2.23 (December 31, 2011: between 0.91 and 1.59) and maturity equivalent risk-adjusted (After-tax) debt rates ranging from 3.6% to 4.1% (December 31, 2011: between 4.4% and 6.7%) based on the respective financing structure of the peer group. Also the sustainable growth rate was determined separately for the Business Units and Joint Ventures within the Business Area CFC and growth rates between 2% and 3% were used.

The impairment test performed as of September 30, 2012 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 it (“headroom”). The headroom for CFC amounted to €31.4 million (December 31, 2011: €8.3 million).

This headroom would be reduced to zero under the following assumptions: In the event of a reduction of the average annual sales increase by 1.3 percentage points from 17.2 % to 15.9%; in the event of a reduction of the profit/revenue target in 2013 – 2017 by 0.3 percentage points; in the event of a reduction of the terminal value growth rate by 0.3 percentage point (from 2.5% to 2.2%); (ii) in the event of a reduction in the cash flows underlying the terminal value by 4.6%; or an increase of the discount factor by 0.2 percentage point.

CFC’s goodwill would still be regarded as recoverable even if the joint ventures, which were included in the group of cash-generating units of CFC in 2012, were not taken into account. The carrying amount of the net assets attributable to the Business Area would approximate their recoverable amount.

## 14. PROPERTY, PLANT AND EQUIPMENT

€m	Land, land rights and buildings	Plant and machinery	Office furniture and equipment	Advance payments and assets under construction	Total
<b>Historical cost</b>					
Balance as of Jan. 1, 2012	505.4	1,352.0	79.3	150.8	2,087.5
Change in scope of consolidation	4.0	18.0	0.4	2.2	24.6
Foreign currency translation	1.7	4.8	0.1	1.9	8.5
Reclassifications	2.2	79.7	1.8	-90.2	-6.5
Additions	9.9	38.6	4.0	75.9	128.4
Disposals	0.0	-10.7	-1.2	-0.7	-12.6
<b>Balance as of Dec. 31, 2012</b>	<b>523.2</b>	<b>1,482.4</b>	<b>84.4</b>	<b>139.9</b>	<b>2,229.9</b>
<b>Cumulative depreciation</b>					
Balance as of Jan. 1, 2012	242.8	917.3	66.9	0.7	1,227.7
Foreign currency translation	0.9	3.2	0.1	0.0	4.2
Reclassifications	-0.7	-0.9	-0.2	0.0	-1.8
Additions	12.2	62.1	4.4	0.5	79.2
Disposals	0.0	-9.1	-1.2	-0.4	-10.7
<b>Balance as of Dec. 31, 2012</b>	<b>255.2</b>	<b>972.6</b>	<b>70.0</b>	<b>0.8</b>	<b>1,298.6</b>
<b>Net carrying amount as of Dec. 31, 2012</b>	<b>268.0</b>	<b>509.8</b>	<b>14.4</b>	<b>139.1</b>	<b>931.3</b>
<b>Historical cost</b>					
Balance as of Jan. 1, 2011	463.4	1,299.1	79.3	119.2	1,961.0
Change in scope of consolidation	15.2	1.2	0.1	0.0	16.5
Foreign currency translation	1.0	3.1	0.1	1.6	5.8
Reclassifications	6.7	30.3	0.7	-38.1	-0.4
Additions	21.3	40.7	4.4	68.1	134.5
Disposals	-2.2	-22.4	-5.3	0.0	-29.9
<b>Balance as of Dec. 31, 2011</b>	<b>505.4</b>	<b>1,352.0</b>	<b>79.3</b>	<b>150.8</b>	<b>2,087.5</b>
<b>Cumulative depreciation</b>					
Balance as of Jan. 1, 2011	221.4	911.4	66.5	0.7	1,200.0
Foreign currency translation	0.2	1.3	0.1	0.0	1.6
Reclassifications	0.0	-0.3	0.1	0.0	-0.2
Additions	10.8	51.1	4.1	0.0	66.0
Reversal of impairment losses	-2.9	-26.3	0.0	0.0	-29.2
Impairments	15.2	1.9	1.2	0.0	18.3
Disposals	-1.9	-21.8	-5.1	0.0	-28.8
<b>Balance as of Dec. 31, 2011</b>	<b>242.8</b>	<b>917.3</b>	<b>66.9</b>	<b>0.7</b>	<b>1,227.7</b>
<b>Net carrying amount as of Dec. 31, 2011</b>	<b>262.6</b>	<b>434.7</b>	<b>12.4</b>	<b>150.1</b>	<b>859.8</b>

Capital expenditure on property, plant and equipment amounted to €134.5 million in the year under review, an increase of €6.1 million from the 2011 figure of €128.4 million. Investment activities in 2012 focused on increasing isostatic graphite capacities at the Bonn site (€27.4 million), continued expansion of the new production capacities for graphite electrodes and cathodes in Banting, Malaysia (€11.3 million), maintaining the production capacities for graphite electrodes in La Coruña, Spain (€5.5 million) and the expansion of the production capacities for the aerospace industry at HITCO CARBON COMPOSITES Inc., USA (€9.8 million). In addition, we invested €4.2 million to convert the textile fiber production lines into precursor production lines at Fisipe. Necessary replacement investments related to quality improvement and environmental protection were made at our U.S. sites in St. Marys, Pennsylvania; Morganton, North Carolina; and Ozark, Arkansas as well as in Ratibor (Poland).

Depreciation of property, plant and equipment amounted to €79.2 million, exceeding the prior-year level of €66.0 million. This increase is mainly the consequence of additional assets, resulting from the year over year increase in the volume of property, plant and equipment investment projects conducted in the past years that have been put into operation. Capitalized amounts under finance leases included within “land, land rights and buildings” as well as “plant and machinery” amounted to €20.5 million as of December 31, 2012 (December 31, 2011: €20.2 million). The borrowing costs capitalized in the reporting period amounted to €2.3 million (December 31, 2011: €1.4 million), determined on the basis of a borrowing rate of 6%.

The reclassification column primarily includes plant and machinery of Ningbo as well as a plot of land no longer necessary for operations, all of which were reported as assets held for sale as of the balance sheet date (see Note 20).

Please refer to Note 3 for information on impairment testing of property, plant and equipment.

## 15. EQUITY-ACCOUNTED INVESTMENTS

Equity-accounted investments (joint ventures and associates) as of December 31, 2012 and 2011 were as follows:

	Shareholding	
	Dec. 31, 2012	Dec. 31, 2011
European Precursor GmbH (EPG), Kelheim, Germany	44%	44%
Benteler-SGL GmbH & Co. KG, Paderborn, Germany	50%	50%
SGL TOKAI CARBON Ltd. (STS), Shanghai, China	51%	51%
Brembo SGL Carbon Ceramic Brakes S.p.a., Stezzano, Italy	50%	50%
SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, Germany	51%	51%
SGL Automotive Carbon Fibers LLC, Moses Lake, USA	51%	51%
Fisigen – Sociedade de Cogeração, SA, Lisbon, Portugal	49%	–
MRC-SGL Precursor Co. Ltd., Tokyo, Japan	33%	33%

Fisigen is an equity investment of Fisipe, which was acquired in the year under review.

The balance sheet date of all companies is December 31, with the exception of MRC-SGL (March 31).

As of December 31, 2012, the carrying amount of the equity-accounted investments was €43.9 million (December 31, 2011: €45.1 million). In fiscal 2012, capital injection were made at the joint venture with BMW Group in Germany (€7.8 million), the joint venture with Benteler (€7.6 million) and at EPG (€8.7 million).

The following table provides summarized financial information on our equity-accounted investments for fiscal years 2012 and 2011:

€m <sup>1)</sup>	Joint ventures		Associates	
	2012	2011 <sup>2)</sup>	2012	2011
Revenues	140.1	122.2	14.4	9.7
Total expenses	187.9	168.9	13.8	9.4
Net profit	-47.8	-46.6	0.6	0.3
Current assets	101.5	91.7	4.8	5.0
Long-term assets	156.1	114.5	4.4	5.5
Current liabilities	89.0	47.9	2.3	3.3
Long-term liabilities	123.5	96.5	0.0	0.0

<sup>1)</sup> Aggregated, unconsolidated 100% values

<sup>2)</sup> Previous year adjusted for Powerblades (sold effective December 31, 2011)

The associates and joint ventures are shown in the list of companies (see **Note 37**).

## 16. RECEIVABLES FROM LONG-TERM CONSTRUCTION CONTRACTS

In 2012, total sales revenue of €0.6 million (December 31, 2011: €47.7 million) was recognized with respect to long-term contracts using the percentage-of-completion method in accordance with IAS 11. Sales revenue included an adjustment in the amount of minus €32.5 million. After deduction of the costs incurred of €37.0 million (December 31, 2011: €39.1 million), the profit on these contracts was €-36.4 million in the year under review (December 31, 2011: €8.6 million). On the balance sheet, total advance payments of €4.1 million (December 31, 2011: €6.4 million) received from customers in respect of these contracts were offset against the respective cumulative receivables of each contract, resulting in net receivables (i. e. a net amount due from customers) of €50.3 million and net payables (i. e. a net amount due to customers) of €4.6 million (December 31, 2011: net receivables of €105.7 million and net payables of €5.1 million). Since a portion of these receivables from PoC-accounting is non-current, €19.8 million (December 31, 2011: €72.4 million) is reported as a separate item under non-current assets. The current portion is reported under trade receivables.

## 17. OTHER NON-CURRENT ASSETS

This item mainly refers to exchange-listed investment securities that were purchased in prior years and the year under review in the amount of €12.9 million (less accumulated impairment losses of €3.6 million), compared to €13.3 million as of December 31, 2011, as well as the shareholding in the company operating the “SGL arena” sports stadium in Augsburg in the amount of €4.8 million (December 31, 2011: €5.5 million). As in the previous year, other non-current assets include securities held by foreign subsidiaries to cover pension entitlements. These securities amounted to €4.0 million as of year-end 2012 (December 31, 2011: €3.7 million). All securities are allocated to the category of “available-for-sale financial assets.” This item also includes a loan in the amount of €2.3 million to the equity-accounted investment Fisigen.

## 18. INVENTORIES

€m	Dec. 31, 2012	Dec. 31, 2011
Raw materials and supplies	178.5	161.2
Work in progress	250.8	253.7
Finished goods and purchased goods	102.8	92.9
<b>Total</b>	<b>532.1</b>	<b>507.8</b>

In fiscal year 2012, cost of sales included a reduction of inventories in the amount of €1,221.3 million (December 31, 2011: €1,023.4 million), which was recognized as an expense. The total carrying amount of inventories measured at net realizable value was €24.4 million (December 31, 2011: €19.7 million). Write-downs of inventories led to an increase in the overall cost of sales recognized of €15.2 million (December 31, 2011: €6.5 million). In 2012, write-downs included an amount of €6.9 million in connection with the project write-offs. Write-ups resulting from disposals in the amount of €1.3 million (December 31, 2011: €1.9 million) reduced cost of sales.

## 19. TRADE RECEIVABLES

€m	Dec. 31, 2012	Dec. 31, 2011
From customers	314.6	267.3
From equity accounted investments	4.2	8.0
<b>Trade receivables, current</b>	<b>318.8</b>	<b>275.3</b>
thereof receivables from long-term construction contracts, current	-30.5	-32.7
<b>Total trade receivables</b>	<b>288.3</b>	<b>242.6</b>

The following table shows the extent of the credit risk related to total receivables (net of long-term construction contracts):

€m	Dec. 31, 2012	Dec. 31, 2011
<b>Trade receivables neither written down nor overdue</b>	<b>224.1</b>	<b>204.7</b>
<b>Overdue trade receivables not written down on an individual basis</b>		
less than 30 days	44.9	26.5
30 to 60 days	11.6	4.2
61 to 90 days	3.5	1.6
more than 90 days	2.0	3.6
<b>Total</b>	<b>62.0</b>	<b>35.9</b>
Receivables written down on an individual basis	10.5	7.0
less valuation adjustment	-8.3	-5.0
<b>Trade receivables, net</b>	<b>288.3</b>	<b>242.6</b>

The majority of our trade receivables are paid by the contractually agreed upon due dates. As of the balance sheet date, receivables not subject to impairment amounted to €286.1 million (December 31, 2011: €240.6 million). The total write-down on receivables amounted to €8.3 million as of the reporting date (December 31, 2011: €5.0 million). The specific write-downs 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 calculation of write-downs on doubtful receivables involves our sales organization making estimates and assessments of the individual receivables 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 explanations can be found in **Note 30** ("Credit Risk").

The following table shows the change in impairment:

€m	2012	2011
Balance as of January 1	5.0	6.0
Change in scope of consolidation	3.7	0.0
Additions recognized as expense	1.6	2.3
Reversals	-1.2	-3.1
Utilizations	-0.8	-0.2
<b>Balance as of December 31</b>	<b>8.3</b>	<b>5.0</b>



## 20. OTHER RECEIVABLES AND OTHER ASSETS, ASSETS HELD FOR SALE

€m	Dec. 31, 2012	Dec. 31, 2011
Other tax claims	15.8	10.5
Advance payments for leases and insurance premiums	6.3	5.1
Receivables from employees	1.7	1.6
Positive fair values of financial instruments (currency and interest rate derivatives)	11.4	1.5
Other receivables due from equity accounted investments	2.1	2.0
Other assets	11.6	8.7
<b>Other receivables and other assets</b>	<b>48.9</b>	<b>29.4</b>
<b>Assets held for sale</b>	<b>7.7</b>	<b>0.3</b>

Within the framework of streamlining our portfolio, the assets of NINGBO SSG Co. Ltd., Ningbo (China) were repoted as held for sale since the sale transaction had already been initiated as of the balance sheet date. These assets comprise, among other things, property, plant and equipment (€2.1 million), cash and cash equivalents (€1.5 million), inventories (€0.5 million), and trade receivables (€1.1 million). This item also includes a plot of land in Germany no longer necessary for operations. The intended disposals are expected to be completed at their respective carrying amounts in the first half of 2013.

## 21. LIQUIDITY

As of the balance sheet date, the Company has cash funds totaling €355.9 million (2011: €241.7 million). These are comprised of short-term time deposits with a maturity of more than three months (December 31, 2012: €130.0 million; December 31, 2011: €80.0 million) and cash and cash equivalents on the balance sheet depending on the respective original maturity. Cash and cash equivalents include bank balances with an original maturity of less than three months in the amount of €225.9 million (December 31, 2011: €161.7 million).

The breakdown of cash funds as of December 31, 2012 was as follows: 91% in euros (December 31, 2011: 88%), 3% in U.S. dollars (December 31, 2011: 5%), 3% in Japanese yen (December 31, 2011: 4%), and 3% in other currencies (December 31, 2011: 3%). As in the prior year, there was no significant amount of cash on hand as of the balance sheet date.

## 22. DEFERRED TAXES

Deferred tax assets mainly refer to deferred taxes on loss carry-forwards as well as deferred taxes on measurement timing differences between IFRS and the tax base resulting from differences in the measurement of provisions, non-current assets, 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, 2012, domestic tax loss carry-forwards in the amount of €194.4 million (December 31, 2011: €217.0 million) related to corporate income tax and €116.0 million (December 31, 2011: €149.2 million) related to municipal trade tax. In addition, foreign tax loss carry-forwards relate mainly to USD172.0 million for federal taxes in the U.S. (December 31, 2011: USD117.6 million), £58.2 million for the UK (December 31, 2011: £54.0 million), and MYR €87.0 million for Malaysia. The loss carry-forwards in Germany, the UK and Malaysia may be carried forward without limitation in accordance with currently applicable laws. In the U.S., the loss carry-forwards will expire starting in 2022.

No deferred tax assets were recognized for the following items as of December 31, 2012 and December 31, 2011 due to uncertainty regarding their usability:

€m	Dec. 31, 2012	Dec. 31, 2011
Deductible temporary differences		
from impairment test	41.8	27.0
from other recognition and measurement differences	11.5	3.6
Tax loss carryforwards and tax refunds received	224.1	313.4
<b>Total</b>	<b>277.4</b>	<b>344.0</b>

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

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

€m	Deferred tax assets Dec. 31, 2012	Deferred tax liabilities Dec. 31, 2012	Deferred tax assets Dec. 31, 2011	Deferred tax liabilities Dec. 31, 2011
Non-current assets	27.8	-64.2	27.8	-79.5
Inventories	7.9	-7.0	9.7	-4.7
Receivables/other assets	9.1	-6.6	4.2	-9.5
Provisions for pensions and similar employee benefits	67.9	-7.6	51.0	-4.0
Other provisions	9.7	-1.4	7.2	-1.0
Liabilities/other liabilities	5.0	-0.5	8.3	0.4
Tax loss carryforwards and tax refunds received	117.5	0.0	110.6	0.0
Other	2.9	-0.8	7.8	-1.2
<b>Total</b>	<b>247.9</b>	<b>-88.1</b>	<b>226.6</b>	<b>-99.5</b>
Allowance	-53.5	0.0	-64.1	0.0
Netting	-80.6	80.6	-94.7	94.7
<b>Carrying amount</b>	<b>113.8</b>	<b>-7.5</b>	<b>67.8</b>	<b>-4.8</b>

Deferred tax assets and liabilities are netted to the extent that they involve income taxes levied by the same taxable entity.

The balance of deferred tax assets and liabilities rose by €43.3 million in 2012 (December 31, 2011: increase of €12.4 million) to a total of €106.3 million (December 31, 2011: €63.0 million). The effect on earnings was a decrease of €27.3 million in 2012 (December 31, 2011: increase of €4.1 million). Deferred taxes rose by €1.1 million (December 31, 2011: decline of €2.5 million) as a result of changes in foreign exchange rates. Other reductions of €18.8 million (December 31, 2011: reductions of €14.0 million) related to items recognized in equity. These primarily included 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. The acquisition of Fisipec resulted in additional deferred tax liabilities of €1.7 million.

A deferred tax liability of €0.8 million (December 31, 2011: €1.2 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 €6.1 million (December 31, 2011: €6.0 million).

## 23. EQUITY

As of December 31, 2012, the Company's issued capital amounted to €180,829,537.28 (December 31, 2011: €179,362,723.84) and was divided into 70,636,538 (December 31, 2011: 70,063,564) 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, 2012

Articles of Association	Date of resolution/limitation	€/Number of shares	Capital increase via:	Pre-emptive rights are excluded
				– if new shares are issued to employees from Matching Share Plan up to €896,000.00 = 350,000 shares – if issued via contribution in kind
Section 3 (6)	May 10, 2012 limited until May 9, 2017	€52,228,764.16 = 20,401,861 shares	Cash contribution or contribution in kind	– 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
Section 3 (8)	May 3, 2011 limited until May 2, 2016	€4,608,000.00 = 1,800,000 shares	Cash contribution or contribution in kind	– if new shares are issued to employees

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

Shareholders generally have pre-emptive rights to any such issue. Pre-emptive rights are provided for and may be disappplied, 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 12/31/2012

Articles of Association	Date of resolution	€/Number of shares	Capital increase via:	Exclusion of pre-emptive rights/ execution of the capital increase
Section 3 (9)	April 27, 2000	€1,891,328.00 = 738,800 shares	Stock Option Plan 2000–2004	Share capital increase will be executed if participants make use of their subscription rights
Section 3 (7)	April 30, 2004	€859,709.44 = 335,824 shares	SAR Plan <sup>1)</sup> 2005–2009	Share capital increase will be executed if participants make use of their subscription rights
Section 3 (12)	April 29, 2009	€4,934,714.88 = 1,927,623 shares	SAR Plan <sup>1)</sup> 2010–2014	Share capital increase will be executed if participants make use of their subscription rights.
Section 3 (10)	April 29, 2009	€12,819,648.00 = 5,007,675 shares	To be used for the 2007 convertible bond	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.
Section 3 (13)	April 29, 2009	€15,663,132.16 = 6,118,411 shares	To be used for the 2009 convertible bond	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.
Section 3 (14)	April 30, 2010	€35,840,000.00 = 14,000,000 shares	To be used for the 2012 convertible bond	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.

<sup>1)</sup> SAR Plan = Stock Appreciation Rights Plan (see **Note 32**)

Changes in the number of shares compared to December 31, 2011 relate to the reduction of authorized and contingent capital due to capital increases.

The Annual General Meeting has resolved contingent capital increases to service the share-based management incentive plans (see **Note 32**) as well as to service convertible bonds and bonds with warrants (see **Note 26**).

## Increase in the Company's Share Capital

Number of shares	2012	2011
Balance as of January 1	70,063,564	65,577,459
Stock Option Plan 2000–2004	28,750	108,200
SAR Plan 2005–2009	31,799	645,537
SAR Plan 2010–2014	172,377	0
New shares issued to employees for bonus entitlements	200,000	263,449
Own bonus shares	0	86,551
New shares issued to share plan participants	60,714	87,788
New shares issued from conversion of convertible bonds	79,334	3,294,580
<b>Balance as of December 31</b>	<b>70,636,538</b>	<b>70,063,564</b>

The total number of shares rose from 70,063,564 as of December 31, 2011 to 70,636,538 as of December 31, 2012, an increase of 572,974.

A total of 260,714 new shares were issued from the Company's authorized capital for the purpose of servicing bonus entitlements as well as entitlements of employees in relation to the 2010 Matching Share Plan (see Note 32). The new shares were issued at a price of €2.56 each, increasing issued capital to a total of €667,427.84. A total of 200,000 new shares were issued to employees of the Company a price equivalent to the opening price in XETRA trading on March 16, 2012 in order to satisfy bonus entitlements in accordance with the terms of the agreed bonus arrangements. Finally, 60,714 new shares for participants of the 2010 Matching Share Plan were issued to employees of Group companies after the expiration of the holding period.

On January 17, 2013, the Board of Management approved a €802,629.12 increase in issued capital through the issue of 313,527 new shares by making partial use of authorized capital. The new shares are designated for employees of the Company (250,000 shares) and to support the 2011 Matching Share Plan (63,527 shares); they carry dividend rights for 2012. As of December 31, 2012, 29,781 (December 31, 2011: 85,217) treasury shares were held at a carrying amount of €76,239.36 (December 31, 2011: €218,155.52).

## 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	Dec. 31, 2012	Dec. 31, 2011
Net debt	459.3	343.3
Equity attributable to shareholders of the parent company	1,066.1	1,041.1
Gearing	0.43	0.33
Equity ratio	41.6%	45.8%

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 continuously monitored and controlled using certain indicators and regular internal reports as part of internal risk management. These risks include, among other things, the internal financing framework for subsidiaries determined on the basis of their budget requirements and their utilization, the hedged currency exposure, the change in actual cash flows, the change in the fair value of the derivatives portfolio, and maintenance and utilization of guarantee credit lines.

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 in evaluating the Group's credit quality. At present, SGL Group has ratings of "Ba2" from Moody's and "BB" from Standard & Poor's. The corporate bond has received an investment grade rating from S&P ("BBB-"), while the convertible bonds issued in 2007 and 2009 as well as the convertible bond newly issued in 2012 are rated "BB" by S&P. Moody's gives the corporate bond a "Ba1" rating and the three convertible bonds a "Ba3" rating.

## Other disclosures

In accordance with the German Stock Corporation Act, the dividend distribution is calculated in accordance with the distributable balance sheet profit reported by SGL Carbon SE in its annual financial statements prepared pursuant to the provisions of the German Commercial Code. In fiscal year 2012, SGL Carbon SE distributed a dividend to its shareholders in the amount of €14.1 million (€0.20 per share) from the previous year's distributable balance sheet profit.

## 24. PROVISIONS FOR PENSIONS AND SIMILAR EMPLOYEE BENEFITS

The employees of SGL Group worldwide benefit from various pension plans that provide retirement benefits for employees and their surviving dependents. These benefits are granted in accordance with the specific situations in the various countries. Some of the arrangements are linked to the level of employee remuneration, whereas others are based on fixed amounts that are based on 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 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 in Germany. 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 (Penka I) amounted to 300% of the employee contributions in 2012. The rate will change to 400% as of January 1, 2013. Effective April 1, 2009, the pension plan was changed for new beneficiaries from a defined benefit plan to a defined contribution plan. The employer contributions remain constant at 230% of the employee contributions. All obligations are fulfilled by making contribution payments to the pension fund (Penka II). The contribution payments made 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 funding ratio for the U.S. pension plan amounts to 76.5% (December 31, 2011: 78.6%). 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 with the Company as well as on the pensionable remuneration. The provisions are calculated using the projected unit credit method, which assumes an increasing service cost.

In addition to biometrical bases for calculation and the current long-term market interest rate, this method takes into account 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	
	2012	2011	2012	2011
%				
Discount rate	3.50	4.75	3.75	4.75
Projected salary increase	2.50	2.50	3.00	3.00
Projected pension increase	2.00	2.00	–	–
Return on plan assets	–	–	7.00	7.00

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In the USA, 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 plans were unchanged at 7.0% in the USA and 6.0% in Canada (December 31, 2011: 7.0% and 6.0%, respectively).

The investment policy of SGL Group is geared more heavily toward fixed-income bonds and bank balances as compared to assets from growth-oriented equities and interests in companies. As of December 31, 2012, 37.8% of the plan assets in the USA were invested in equities and interests in companies (December 31, 2011: 46.8%), 53.1% in fixed-interest securities (December 31, 2011: 51.1%), 8.2% in hedge funds (December 31, 2011: 8.8%), and 0.9% in cash (December 31, 2011: 2.1%). 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 in 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%/5.4%/2025) for beneficiaries of less than 65 years of age and (7.55%/5.0%/2023) for beneficiaries of more than 65 years of age. The assumed rates for 2011 were (8.05%/5.0%/2024) and (7.55%/5.0%/2024), respectively. An increase or decrease in the assumed growth rate for healthcare costs of 1 percentage point would have led to an increase (decline) in the present value of the defined benefit obligation of €0.4 million (€-0.4 million) and an increase (decline) in the service and interest cost of €0.0 million (€0.0 million) as of the end of fiscal year 2012.

In the USA, negotiations with trade unions in the fourth quarter of 2012 resulted in an adjustment to the healthcare benefit plan. The system of proportionate contributions to be paid by the Company for the plan's costs was changed to a fixed contribution system. The plan curtailment led to income of €8.2 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 table.



The funded status for 2012 was as follows:

€m	Germany 2012	USA 2012	Other 2012	<b>Total 2012</b>
Present value of the defined benefit obligation at beginning of year	213.1	132.8	33.1	379.0
Service cost	6.1	2.0	1.5	9.6
Interest cost	10.0	6.2	1.4	17.6
Actuarial losses	42.5	17.8	3.4	63.7
Benefits paid	-9.0	-7.2	-2.7	-18.9
Plan amendments	0.4	-9.7	0.0	-9.3
Other changes	0.2	0.8	0.4	1.4
Currency differences	0.0	-2.4	0.1	-2.3
<b>Present value of the defined benefit obligation at end of year<sup>1)</sup></b>	<b>263.3</b>	<b>140.3</b>	<b>37.2</b>	<b>440.8</b>
Fair value of plan assets at beginning of year	20.5	75.1	10.0	105.6
Actual return on plan assets	0.3	10.6	0.8	11.7
Employer contributions	2.8	5.6	1.4	9.8
Employee contributions	0.3	0.8	0.0	1.1
Benefits paid	-0.5	-7.2	-0.5	-8.2
Currency differences	0.0	-1.6	0.0	-1.6
<b>Fair value of plan assets at end of year<sup>2)</sup></b>	<b>23.4</b>	<b>83.3</b>	<b>11.7</b>	<b>118.4</b>
<b>Funded status as of December 31</b>	<b>239.9</b>	<b>57.0</b>	<b>25.5</b>	<b>322.4</b>
Past service cost not recognized	-0.1	1.3	0.0	1.2
<b>Amount recognized</b>	<b>239.8</b>	<b>58.3</b>	<b>25.5</b>	<b>323.6</b>
Termination benefits	0.0	1.3	4.9	6.2
<b>Provisions for pensions and similar employee benefits</b>	<b>239.8</b>	<b>59.6</b>	<b>30.4</b>	<b>329.8</b>

<sup>1)</sup> Of which €21.1 million relate to post-retirement healthcare benefits

<sup>2)</sup> This item also includes assets of €4.0 million to cover pension entitlements recognized as other non-current assets

The funded status for 2011 was as follows:

€m	Germany 2011	USA 2011	Other 2011	<b>Total 2011</b>
Present value of the defined benefit obligation at beginning of year	192.5	115.3	31.4	339.2
Service cost	5.4	1.1	1.0	7.5
Interest cost	9.3	5.6	1.4	16.3
Actuarial losses	13.9	12.7	1.0	27.6
Benefits paid	-8.6	-6.6	-1.8	-17.0
Plan amendments	0.2	0.0	0.0	0.2
Other changes	0.4	0.8	0.0	1.2
Currency differences	0.0	3.9	0.1	4.0
<b>Present value of the defined benefit obligation at end of year <sup>1)</sup></b>	<b>213.1</b>	<b>132.8</b>	<b>33.1</b>	<b>379.0</b>
Fair value of plan assets at beginning of year	16.7	71.4	9.0	97.1
Actual return on plan assets	0.5	3.5	-0.1	3.9
Employer contributions	3.6	3.6	1.3	8.5
Employee contributions	0.2	0.8	0.0	1.0
Benefits paid	-0.5	-6.6	-0.3	-7.4
Currency differences	0.0	2.4	0.1	2.5
<b>Fair value of plan assets at end of year <sup>2)</sup></b>	<b>20.5</b>	<b>75.1</b>	<b>10.0</b>	<b>105.6</b>
<b>Funded status as of December 31</b>	<b>192.6</b>	<b>57.7</b>	<b>23.1</b>	<b>273.4</b>
Past service cost not recognized	-0.1	-0.2	0.1	-0.2
<b>Amount recognized</b>	<b>192.5</b>	<b>57.5</b>	<b>23.2</b>	<b>273.2</b>
Termination benefits	0.0	1.4	4.1	5.5
<b>Provisions for pensions and similar employee benefits</b>	<b>192.5</b>	<b>58.9</b>	<b>27.3</b>	<b>278.7</b>

<sup>1)</sup> Of which €26.6 million relate to post-retirement healthcare benefits

<sup>2)</sup> This item also includes assets of €3.7 million to cover pension entitlements recognized as other non-current assets

The consolidated statement of comprehensive income includes the following amounts:

€m	Germany 2012	USA 2012	Other 2012	Total 2012	Total 2011
Actuarial gains (+)/losses (-)	-42.5	-17.8	-4.1	-64.4 <sup>1)</sup>	-27.6
Actual return on plan assets	0.3	10.4	0.8	11.5	3.9
Less expected return on plan assets	0.3	5.1	0.7	6.1	6.2
<b>Gains (+)/losses (-) for the reporting year (gross) recognized in equity</b>	<b>-42.5</b>	<b>-12.5</b>	<b>-4.0</b>	<b>-59.0</b>	<b>-29.9</b>
Tax effect	12.7	4.3	0.9	17.9	10.8
<b>Gains (+)/losses (-) for the reporting year (net) recognized in equity</b>	<b>-29.8</b>	<b>-8.2</b>	<b>-3.1</b>	<b>-41.1</b>	<b>-19.1</b>

<sup>1)</sup> Of which €0.7 million relate to termination benefits

The cumulative amount of actuarial gains and losses recognized in equity (other comprehensive income) in accordance with IAS 19.93a amounts to €137.7 million (2011: €96.6 million). This increase was primarily the result of the reduction in the interest rate.

In fiscal year 2012, the present value of the defined benefit obligation increased, among other things due to a reduction in the discount rate for the domestic and foreign pension plans by €70.9 million, while experience adjustments resulting from differences between actuarial assumptions and actual outcome had an offsetting effect of €7.2 million (December 31, 2011: decrease of €0.2 million) on the present value of the defined benefit obligation in fiscal year 2012. A change in the discount factor, the salary trend and the return on plan assets by +0.5%/-0.5%, respectively, would lead to a change in the present value of the defined benefit obligation by -6.8%/+7.3% (discount factor), +0.7%/-0.7% (salary trend) and +0.1%/-0.1% (plan assets). A change in longevity by +1/-1 year would lead to a change in the present value of the defined benefit obligation by +1.1%/-1.0%.

Changes in experience adjustments:

€m	2012	2011	2010	2009	2008
Present value of defined benefit obligation	440.8	379.0	339.2	306.6	283.4
Fair value of plan assets	118.4	105.6	97.1	82.5	72.1
Funded status (plan deficit)	322.4	273.4	242.1	224.1	211.3
Experience adjustments to plan liabilities	-7.2	0.2	-3.0	1.6	-7.8
Plan assets experience adjustments	5.4	-2.3	3.0	3.6	-12.2

Pension provisions with a maturity of less than one year amounted to approximately €19.3 million (December 31, 2011: €16.7 million).

SGL Group has pension and healthcare obligations in the amount of €126.3 million (December 31, 2011: €111.0 million) arising from fund-financed pension plans. Pension obligations arising from non-fund-financed pension plans amounted to €314.5 million (December 31, 2011: €268.0 million). The actual return on plan assets in 2012 amounted to a total of €11.8 million (December 31, 2011: €3.9 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, 2012, the asset value included in the pension provisions totaled €17.7 million (December 31, 2011: €15.1 million). In fiscal year 2012, one-off payments totaling €2.8 million were made to reinsurers (December 31, 2011: €3.6 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 2012 and 2011 is as follows:

€m	Germany 2012	USA 2012	Other 2012	<b>Total 2012</b>
Service cost	6.1	2.0	1.5	9.6
Interest cost	10.0	6.2	1.4	17.6
Expected return on plan assets	-0.3	-5.3	-0.7	-6.3
Past service cost	0.4	0.1	0.0	0.5
Curtailment gains	0.0	-8.3	0.0	-8.3
<b>Expenses for defined benefit plans</b>	<b>16.2</b>	<b>-5.3</b>	<b>2.2</b>	<b>13.1</b>
Expenses for defined contribution plans	5.9	0.0	0.0	5.9
Interest cost from termination payments	0.0	0.1	0.2	0.3
<b>Pension expenses</b>	<b>22.1</b>	<b>-5.2</b>	<b>2.4</b>	<b>19.3</b>

€m	Germany 2011	USA 2011	Other 2011	<b>Total 2011</b>
Service cost	5.4	1.1	1.0	7.5
Interest cost	9.3	5.6	1.4	16.3
Expected return on plan assets	-0.6	-5.0	-0.6	-6.2
Past service cost	0.2	0.1	0.0	0.3
<b>Expenses for defined benefit plans</b>	<b>14.3</b>	<b>1.8</b>	<b>1.8</b>	<b>17.9</b>
Expenses for defined contribution plans	5.6	0.0	0.0	5.6
Interest cost from termination payments	0.0	0.2	0.3	0.5
<b>Pension expenses</b>	<b>19.9</b>	<b>2.0</b>	<b>2.1</b>	<b>24.0</b>

The total expense for pensions and other employee benefits, including interest expenses for termination benefits amounting to €0.2 million, was €17.8 million (December 31, 2011: €16.8 million). The amounts recognized in profit or loss for the defined contribution plans in Germany amounted to €5.9 million (December 31, 2011: €5.6 million) in fiscal year 2012. Contributions to state plans amounted to €25.7 million in 2012 (December 31, 2011: €24.9 million). Employer contributions to U.S. plan assets in 2013 are estimated at zero (December 31, 2011: €1.4 million). As of December 31, 2012, the anticipated future pension benefit payments by SGL Group to its former employees or their surviving dependents were as follows (no significant changes compare to 2011):

Pensionszahlungen an Mitarbeiter:

Year	€m
Payable in 2013	19.3
Payable in 2014	19.9
Payable in 2015	20.9
Payable in 2016	21.9
Payable in 2017	23.2
Payable in 2018–2022	128.6

## 25. OTHER PROVISIONS

€m	Taxes	Personnel expenses	Warranties, price reduction and guarantees	Other	Total
Balance as of Jan. 1, 2012	3.5	58.8	11.6	14.1	88.0
Change in scope of consolidation	0.1	1.4	0.0	0.1	1.6
Utilizations	-1.7	-35.1	-2.8	-4.8	-44.4
Releases	-0.7	-2.5	-3.8	-1.4	-8.4
Additions	9.6	39.2	7.1	15.0	70.9
Other changes/exchange differences	-0.1	-0.2	0.3	-0.2	-0.2
<b>Balance as of Dec. 31, 2012</b>	<b>10.7</b>	<b>61.6</b>	<b>12.4</b>	<b>22.8</b>	<b>107.5</b>
<i>thereof with a maturity of up to one year</i>	<i>(10.6)</i>	<i>(51.4)</i>	<i>(12.4)</i>	<i>(21.1)</i>	<i>(95.5)</i>
<i>thereof with a maturity of more than one year</i>	<i>(0.1)</i>	<i>(10.2)</i>	<i>-</i>	<i>(1.7)</i>	<i>(12.0)</i>

Provisions for personnel expenses mainly comprise provisions for annual bonuses of €26.2 million (December 31, 2011: €28.4 million), provisions for anniversary benefits of €6.3 million (December 31, 2011: €5.6 million), provisions for partial retirement of €5.3 million (December 31, 2011: €5.3 million) and provisions for outstanding vacation days of €7.3 million (December 31, 2011: €5.2 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 invoices in the amount of €4.7 million (December 31, 2011: €3.4 million), closure costs in relation to the EPG joint venture amounting to €3.6 million and legal fees (including fees for lawyers) in the amount of €3.5 million (December 31, 2011: €5.1 million).

## 26. LIABILITIES

€m	Dec. 31, 2012	Remaining maturity > 1 year	Dec. 31, 2011	Remaining maturity > 1 year
<b>Interest-bearing loans</b>				
Corporate bond	200.0	200.0	200.0	200.0
– nominal value of convertible bond	520.2		282.6	
– less IFRS equity component	–96.5		–71.7	
– plus interest cost under effective interest method	64.2		50.3	
Convertible bonds	487.9	345.0	261.2	261.2
Bank loans, overdrafts and other financial liabilities	94.8	93.3	102.0	93.5
Refinancing expenses	–6.7	–4.4	–6.6	–4.3
	<b>776.0</b>	<b>633.9</b>	<b>556.6</b>	<b>550.4</b>
<b>Trade payables</b>	<b>169.6</b>	<b>0.0</b>	<b>181.6</b>	<b>0.0</b>
Other financial liabilities				
Derivative financial instruments	0.3	0.0	16.2	0.7
Finance lease liabilities	20.9	19.2	19.9	18.7
Miscellaneous other financial liabilities	16.8	13.8	22.5	15.2
	<b>38.0</b>	<b>33.0</b>	<b>58.6</b>	<b>34.6</b>
Income tax payables	4.6	0.0	2.4	0.0
Miscellaneous other liabilities	44.5	1.3	45.6	1.3
	<b>1,032.7</b>	<b>668.2</b>	<b>844.8</b>	<b>586.3</b>

## Interest-bearing loans

### CORPORATE BOND

In 2007, SGL Carbon SE issued an eight-year floating-rate corporate bond with a principal amount 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 5.3% p. a. as of the issue date and an interest rate of 1.4% p. a. as of December 31, 2012 (December 31, 2011: 2.7% p. a.).

The issue price was 100% of the principal 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 principal amount plus accumulated interest.

The terms of the corporate bond also include customary market provisions with regard to compliance with financial covenants (Senior Secured Indebtedness Leverage Ratio and Fixed Charge Cover Ratio) and restrictions. The corporate bond is admitted to trading on the Luxembourg Stock Exchange in the EuroMTF market.

As of December 31, 2012, the market value of the exchange-listed corporate bond was €197.0 million (December 31, 2011: €196.5 million).

### CONVERTIBLE BONDS

The Company had three separate convertible bond issuances as of December 31, 2012. The terms of each convertible bond issuance provide for protection against dilution. This provides for an automatic adjustment of the bonds' conversion prices in the event of a capital increase or if dividends are paid by the Company. The adjusted conversion price reflects the dilutive effect per share.

The conversion prices of the convertible bonds changed as follows:

€	Conversion price Dec. 31, 2012	Original conversion price per share	Change
Convertible bond 2007/2013	36.30	36.52	-0.22
Convertible bond 2009/2016	29.21	29.39	-0.18
Convertible bond 2012/2018	43.84	44.10	-0.26

The senior unsecured convertible bond issued by SGL Carbon SE in 2007 with an original amount of €200.0 million (denominations of €50,000 each) matures in May 2013. As a result of the dividend payment in 2012, the conversion price is €36.30 per share (December 31, 2011: €36.52), and the coupon rate is 0.75% p. a. In fiscal year 2012, bonds in a principal amount of €0.4 million (2011: €54.1 million) were converted prior to maturity. Thus the outstanding volume of the bond was €145.5 million as of December 31, 2012 (December 31, 2011: €145.9 million).

In 2009, SGL Carbon SE issued another senior unsecured convertible bond with a term of seven years with a principal amount of €190.0 million. Bondholders have the option of returning the bond prior to maturity in 2014. The bonds were issued in denominations of €50,000 each. After taking into account the dividend payment made in 2012, the conversion price is €29.21 (December 31, 2011: €29.39) and the coupon rate is 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. As a result of early conversions in the past fiscal year totaling €2.0 million (2011: €53.3 million), the outstanding volume of the bond was €134.7 million as of December 31, 2012 (December 31, 2011: €136.7 million).

On April 18, 2012, the Board of Management of SGL Carbon SE resolved, with the consent of the Supervisory Board, to issue an additional convertible bond with a value date of April 25, 2012. This convertible bond consists of senior, unsecured notes convertible into shares in SGL Carbon SE (“2012 Convertible Bond”). The convertible bonds were offered to institutional investors outside the USA by way of an accelerated book-building process. The pre-emptive rights of existing shareholders were excluded.

The 2012 convertible bond had a principal amount of €240.0 million and is convertible into approximately €5.4 million non-par-value shares in SGL Carbon SE. The convertible bond has a term of five years and nine months and was issued and will be redeemed at 100% of its principal amount. The interest coupon is 2.75%, payable annually. The initial conversion price of €44.10 per share is set at a premium of 30% above the volume-weighted average price of the shares in SGL Carbon SE during the book-building period. The bonds were issued in denominations of €100,000 each. After the dividend payment in 2012, the conversion price amounted to €43.84 (previously: €44.10) as of December 31, 2012.

A portion of the proceeds from the issuance of the convertible bond was used in the year under review to finance the acquisition of Fisipe.

The outstanding volume of the bond as of December 31, 2012 was unchanged at €240.0 million.

Summary of convertible bonds:

€m	Volume of issue	Outstanding volume	Carrying amount as of Dec. 31, 2012	Market price as of Dec. 31, 2012	Coupon in % p. a.	Issue price
Convertible bond 2007/2013	200.0	145.5	142.9	145.8	0.750%	100.0%
Convertible bond 2009/2016	190.0	134.7	127.3	153.2	3.500%	100.0%
Convertible bond 2012/2018	240.0	240.0	217.7	243.0	2.750%	100.0%
	<b>630.0</b>	<b>520.2</b>	<b>487.9</b>	<b>542.0</b>		

Please see Note 3 (“Hybrid Financial Instruments”) for a description of the accounting treatment for convertible bonds and their separation into an equity component and a liability component.



The liability component of the convertible bonds was recognized upon issuance at the present value, taking into account a market interest rate and increases, as of each balance sheet date, by the interest element attributable to the relevant period on the basis of the internationally accepted effective interest method. The interest cost resulting from the difference between the coupon and the effective (market) interest rate amounted to €13.9 million, unchanged from the previous year.

#### **SYNDICATED CREDIT LINE**

In addition to the bonds, SGL Group also has a secured syndicated credit line totaling €200.0 million to be used for general corporate purposes. The credit line has equal ranking with the corporate bond. On February 23, 2011, the credit line, which was originally available until May 2012, was renewed prior to maturity at unchanged terms until the end of April 2015. The credit line is available to various SGL subsidiaries and can be drawn on in euros or in U.S. dollars. 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). The credit line was 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.

The weighted average cash interest rate on financial liabilities based on their nominal amounts in 2012 was 2.4% p.a. (2011: 2.3% p.a.). Including the non-cash interest cost on the convertible bonds, the weighted average effective interest rate for 2012 was 5.0% p.a. (December 31, 2011: 5.4% p.a.). Bank loans, overdrafts and other financial liabilities amounted to €94.8 million as of December 31, 2012 (December 31, 2011: €102.0 million). Of this amount, €2.7 million (2011: €2.8 million) was subject to fixed interest and €92.1 million (December 31, 2011: €99.2 million) was subject to variable interest rates.

#### **Trade payables**

Trade payables totaled €169.6 million as of December 31, 2012 (December 31, 2011: €181.6 million), €169.4 million of which was due to third parties (December 31, 2011: €180.9 million). As in 2011, the trade payables were due for payment within one year.

#### **Other liabilities**

As of December 31, 2012, other financial liabilities included liabilities from finance leases in the amount of €20.9 million (December 31, 2011: €19.9 million), mainly attributable to an agreement on a heritable building right. This line item also includes negative fair values relating to hedging instruments in the amount of €0.3 million as of December 31, 2012 (December 31, 2011: €16.2 million).

Miscellaneous other financial liabilities include the non-controlling interests in subsidiary partnerships classified as liabilities in a total amount of €11.3 million (December 31, 2011: €15.2 million). This decrease is due to the acquisition of the remaining 25.1% of the shares in SGL Rotec GmbH Co. KG. SGL Group now holds 100% of the shares in this company; therefore, no financial liability was reported as of the balance sheet date.

Current income tax payables amounted to €4.6 million (December 31, 2011: €2.4 million) as of December 31, 2012.

Miscellaneous other liabilities totaled €44.5 million (December 31, 2011: €45.6 million) as of December 31, 2012 and included liabilities for payroll and church taxes of €14.8 million (December 31, 2011: €20.8 million), accrued interest of €9.0 million (December 31, 2011: €4.5 million), social security liabilities of €1.2 million (December 31, 2011: €1.3 million), other tax liabilities of €3.4 million (December 31, 2011: €1.6 million), and deferred income of €6.4 million (December 31, 2011: €3.9 million).

The following table shows all contractually agreed upon payments as of December 31, 2012 for repayments of principal and payment of interest on recognized financial liabilities, including derivative financial instruments.

€m	2013	2014	2015	2016	2017	More than five years
Non-derivative financial liabilities						
Corporate bond	2.9	2.9	201.2			
Convertible bonds	157.3	11.4	11.4	143.8	6.7	240.5
Bank loans, overdrafts and other financial liabilities	4.6	21.2	33.3	44.8	0.2	
Finance lease liabilities	2.1	1.5	1.1	1.0	0.9	79.1
Trade payables	169.6					
Miscellaneous other financial liabilities	3.0				2.5	11.3
Derivative financial liabilities	0.3					
<b>Total</b>	<b>339.8</b>	<b>37.0</b>	<b>247.0</b>	<b>189.6</b>	<b>10.3</b>	<b>330.9</b>

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

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## 27. 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 €115.0 million (2011: €136.2 million) and included the use of cash of €14.3 million in connection with the increase in working capital (2011: €61.0 million), interest payments of €13.1 million (2011: €17.8 million), tax payments of €21.5 million (2011: €12.5 million) and payments under defined contribution pension plans and defined benefit pension plans of €27.5 million (2011: €24.7 million).

### Net cash used in investing activities

Net cash used in investing activities amounted to €195.0 million in fiscal 2012 (2011: €169.3 million), primarily due to the purchase of property, plant and equipment, and intangible assets, for capital contributions at companies accounted for using the equity method and payments related for the acquisition of Fisipe.

The payments for intangible assets and property, plant and equipment totaled €133.5 million (2011: €138.8 million) and included, among other things, payments for capacity expansion related to isostatic graphite, payments in connection with the expansion of the site in Malaysia at Banting, payments for capital expenditures at HITCO (USA) as well as replacement investments at our sites in La Coruña (Spain) and Ratibor (Poland).

Payments for capital increases at joint ventures and for other financial assets totaled €33.0 million in 2012 (2011: €32.0 million). These were mainly comprised of capital injections made at the joint venture SGL Automotive Carbon Fibers in Germany, European Precursor GmbH (EPG) and Benteler-SGL as well as the purchase of securities in a total amount of €4.1 million.

Cash acquired from Fisipe, which was consolidated for the first time, amounted to €1.3 million in 2012 (2011: cash acquired from ASL in an amount of €0.4 million). This amount was offset in the cash flow statement against outflows at Fisipe.

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### Net cash provided by/used in financing activities

In fiscal year 2012, net cash provided by financing activities amounted to a total of €195.0 million, compared with net cash used in financing activities of €10.7 million in 2011. The change is largely attributable to the convertible bond issued with a principal amount of €240.0 million, an increased repayment of debt (2012: €16.1 million; 2011: €6.8 million), and payments in connection with financing activities (2012: €3.1 million; 2011: €2.1 million). The changes in ownership interests in subsidiaries included the increases of the existing majority stakes in Rotec and Fisipe to 100% each.

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 €225.9 million (December 31, 2011: €161.7 million). Cash funds in the broader sense include short-term term deposits with an original maturity of more than three months in the amount of €130.0 million (2011: €80.0 million). As of December 31, 2012, cash funds available to us for financing current operations, for future capital expenditures, and for our growth amount to a total of €355.9 million (December 31, 2011: €241.7 million). The increase in cash funds of €114.2 million in 2012 (2011: €-43.0 million) mainly resulted from the proceeds from the issuance of the convertible bond 2012/2018, net of investing activities in the fiscal year under review. In 2012, there was a negative exchange-rate effect of €0.8 million (2011: positive effect of €0.8 million) on the cash balance.

## OTHER DISCLOSURES

### 28. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As of December 31, 2012, outstanding guarantee obligations amounted to €5.7 million (December 31, 2011: €5.6 million) and for bank guarantees €5.6 million (2011: €5.7 million). Contingent liabilities relating to investments accounted for using the equity method amounted to €9.5 million (2011: €11.0 million). In addition, other financial commitments in connection with purchase orders for approved capital expenditure on property, plant and equipment amounted to €21.0 million as of December 31, 2012 (December 31, 2011: €32.9 million). These amounts are mainly earmarked for the expansion of the capacities for isostatic graphite at the Bonn site, the automation in Gardena and for the new site in Malaysia. Some of these capital expenditure projects extend beyond one year. In addition, obligations to make capital contributions in joint ventures exist as of the balance sheet date in the amount of €10.7 million.

SGL Group secures the necessary raw materials for its production, especially for needle coke, by means of procurement agreements with key suppliers. These agreements normally have a term of 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 on 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 items of property, plant and equipment amounted to €68.1 million as of December 31, 2012 (December 31, 2011: €68.2 million). As of December 31, 2012, the future payments were as follows (the changes compared to the previous year were insignificant):

€m	2013	2014	2015	2016	2017	2018 and thereafter	Total
<b>Operating leases</b>	<b>12.4</b>	<b>8.0</b>	<b>6.6</b>	<b>5.7</b>	<b>5.1</b>	<b>30.3</b>	<b>68.1</b>
Finance leases	2.1	1.5	1.1	1.0	0.9	79.1	85.7
– discount included	–0.1	–0.1	–0.1	–0.2	–0.2	–63.3	–64.0
<b>= Present value of finance leases</b>	<b>2.0</b>	<b>1.4</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>15.8</b>	<b>21.7</b>

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No payments from subleases were received 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 IAS 17, a long-term contract regarding a heritable building right was accounted for as a finance lease. 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. The net carrying amount of finance leases, including the heritable building right, amounted to €20.5 million as of December 31, 2012 (December 31, 2011: €20.2 million). Expenses for rental and operating lease agreements totaled €39.3 million in 2012 (2011: €37.5 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 recognizing appropriate provisions.

## 29. RELATED-PARTY DISCLOSURES

SKion GmbH, Bad Homburg, holds a share of approximately 28% in SGL Carbon SE according to notifications pursuant to the German Securities Trading Act (WpHG). No material transactions were conducted with SKion GmbH in 2012.

In fiscal years 2012 and 2011, SGL Group maintained business relations within its normal course of business with a number of joint ventures and associates related to sales revenue and allocations of general and administrative expenses. In this context, SGL buys and sells products and services at market conditions. Collateral is reported under other financial obligations (see **Note 28**). Please refer to **Note 9** and **Note 15** for information on joint ventures and associates.

The following table presents the volume of transactions with related companies included in SGL Group:

**2012**

€m	Revenue goods	Revenue services	Purchases goods	Purchases services	Receivables	Loans	Payables
Joint Ventures	6.6	9.9	-16.7	-3.0	4.2	13.1	-0.8
Associates	2.4	0.0	-3.0	-0.8	0.2	0.0	-2.9

2011

€m	Revenue goods	Revenue services	Purchases goods	Purchases services	Receivables	Loans	Payables
Joint Ventures	19.0	10.2	-15.1	-1.2	7.9	2.0	-1.2
Associates	7.5	0.1	-5.9	-0.6	0.9	0.0	-0.5

### 30. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

	Measurement category under IAS 39	Carrying amount as of Dec. 31, 2012	Amortized cost	Fair value through equity
<b>Financial assets</b>				
Cash and cash equivalents	1)	225.9	225.9	
Time deposits	1)	130.0	130.0	
Trade receivables	1)	318.8	318.8	
Receivables from long-term construction contracts	1)	19.8	19.8	
Available-for-sale financial assets	2)	21.7		21.7
Other financial assets	1)	2.3	2.3	
Derivative financial assets				
Derivatives without a hedging relationship <sup>1)</sup>	3)	5.8		
Derivatives without a hedging relationship	n. a.	5.6		5.6
<b>Financial liabilities</b>				
Corporate bond	4)	200.0	200.0	
Convertible bonds	4)	487.9	487.9	
Bank loans, overdrafts and other financial liabilities	4)	94.8	94.8	
Refinancing expenses	4)	-6.7	-6.7	
Finance lease liabilities	n. a.	20.9		
Trade payables	4)	169.6	169.6	
Miscellaneous other financial liabilities	4)	16.8	16.8	
Derivative financial liabilities				
Derivatives without a hedging relationship <sup>2)</sup>	5)	0.3		
Derivatives with a hedge relationship	n. a.			
<b>Thereof aggregated by measurement category in accordance with IAS 39</b>				
1) Loans and receivables		696.8	696.8	
2) Available-for-sale financial assets		21.7		21.7
3) Financial assets held for trading		5.8		
4) Financial liabilities measured at amortized cost		962.4	962.4	
5) Financial liabilities held for trading		0.3		

<sup>1)</sup> Thereof €5.7 million (2011: €1.0 million), classified as cash flow hedges prior to the settlement of the hedged item or for hedging of intercompany loans in foreign currency

<sup>2)</sup> Thereof €0.3 million (2011: €9.8 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 profit or loss	Carrying amount under IAS 17	Carrying amount as of Dec. 31, 2011	Amortized cost	Fair value through equity	Fair value through profit or loss	Carrying amount under IAS 17
			161.7	161.7			
			80.0	80.0			
			275.3	275.3			
			72.4	72.4			
			22.5		22.5		
	5.8		1.5			1.5	
			200.0	200.0			
			261.2	261.2			
			102.0	102.0			
			-6.6	-6.6			
		20.9	19.9				19.9
			181.6	181.6			
			22.5	22.5			
	0.3		9.8			9.8	
			6.4		6.4		
			589.4	589.4			
			22.5		22.5		
	5.8		1.5			1.5	
			760.7	760.7			
	0.3		9.8			9.8	

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 values non-current financial assets, including receivables from long-term construction contracts, on the basis of various parameters, such as the customer's credit rating and the risk structure of the financed project. This valuation is taken as the basis for allowances on the mentioned receivables. The carrying amounts of these receivables, less valuation allowances recognized, approximate their fair values. Other financial assets also include loans extended to joint ventures. If these loans have the characteristics of equity substitution, the loan amount is reduced through SGL Group's share in the losses of the joint venture that exceeds the carrying amount of the equity interest held in this company. SGL Group uses the market price in an active market as the fair value of financial assets available for sale. If no such market price exists, the fair value is determined using observable market data.

Please refer to **Note 26** for disclosures on the market value of the corporate bond and the convertible bonds.

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 into the three levels of the fair value hierarchy as of December 31, 2012 and 2011:

<b>December 31, 2012</b>				
€m	Level 1	Level 2	Level 3	<b>Total</b>
Available-for-sale financial assets	16.9	4.8	–	21.7
Derivative financial assets	–	11.4	–	11.4
Derivative financial liabilities	–	0.3	–	0.3

December 31, 2011				
€m	Level 1	Level 2	Level 3	<b>Total</b>
Available-for-sale financial assets	17.0	5.5	–	22.5
Derivative financial assets	–	1.5	–	1.5
Derivative financial liabilities	–	16.2	–	16.2

The levels of the fair value hierarchy and their application to the assets and liabilities are 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	2012	2011
Loans and receivables	-53.0	3.1
Available-for-sale financial assets	-5.3	0.9
Financial assets and financial liabilities held for trading	6.2	-12.3
Financial liabilities measured at amortized cost	2.4	10.3

Net gains/losses for the “loans and receivables” measurement category largely include write-downs on trade receivables, including write-offs on receivables from long-term construction contracts (please refer to **Note 16** for details), 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 with respect to financing activities or, with respect to operating activities, for which hedge accounting has been terminated upon recognition of the hedged item 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 the non-controlling shareholders’ share in the net profit/loss of subsidiary partnerships.

Interest income and expense are not included in net gains and losses, as they are already recognized as described in **Note 10**. For further information on write-downs, please refer to the overview of changes in write-downs on trade receivables in **Note 19**.

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## 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 risk 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. For the purpose of ensuring 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 Company has sufficient liquidity reserves as a result of the February 2011 extension of the syndicated credit line in the amount of €200 million until April 2015. In addition, the Company issued a convertible bond in a principal amount of €240.0 million. The issue proceeds of this bond issue are still available to the Company, together with the other cash funds. The main purpose of the syndicated credit line is to compensate for fluctuations in current assets during the year as well as to support further business growth. It can also be used as a bridge when financing instruments fall due.

In the event the investors in the 2007/2013 convertible bond issuance do not exercise their conversion prior to its maturity (May 2013), the Company's total cash funds of €355.9 million as of the balance sheet date are more than sufficient to redeem the convertible bond at the maturity date in the amount of €145.5 million (outstanding balance as of December 31, 2012).

In order to adapt to the continuing business trend and the related capital expenditures, the Company will, if necessary, take precautionary financing measures to ensure financial stability as it did in the past.

As of the balance sheet date, freely available liquid funds amounted to €355.9 million (2011: €241.7 million), and undrawn credit line commitments amounted to €207.8 million (2011: €215.4 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 26** for information on the maturity of financial liabilities.

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## Credit risk (counterparty default risk)

Credit risk is the risk that a counterparty to a financial instrument will not be able to meet its payment obligations.

To reduce credit risk, 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. 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. An increased number of customers became insolvent in the past fiscal year in individual business areas. This was due to the economic trend affecting specific industry sectors, such as the solar industry. To the extent that SGL Group was affected, this has thus far not resulted in any significant defaults on receivables. The receivables concerned were largely secured by credit default insurance or other instruments.

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 key credit management processes, and it initiates credit management action where required.

SGL Group also has credit insurance in place that covers most of the trade receivables due from customers. After analyzing individual risks and country risks, the Group sometimes insists on cash in advance, letters of credit, or the provision of collateral in connection with certain activities. In the event of default on insured receivables, the financial loss is reduced by existing collateral and/or insurance payments. The insurance recovery normally amounts to 90% of the default and includes a deductible of 10%.

The average days sales outstanding (DSO), excluding long-term construction contracts, was 57 days at year-end (2011: 51 days). The total increase in DSO at SGL Group primarily resulted from the DSO increase in the Business Area Performance Products, which was caused by the greater increase in customer receivables compared with sales revenue as of the end of the fiscal year. In fiscal year 2012, 67% (2011: 73%) of our receivables were insured on average. Measured against prior years, this reduction was within the customary fluctuation attributable to changed risk assumption strategies on the part of credit insurers in different economic cycles. The existence of credit insurance is taken into account in determining the write-downs on receivables. Please refer to **Note 19** for information on the breakdown of trade receivables by age.

## 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 in earnings, equity or 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 non-functional 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 of up to two years. The most significant 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 4.36 for 2013.

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 SGL Carbon SE, the Group holding company, to finance subsidiaries and that do not represent a natural hedge for sales revenue or other transactions are regularly refinanced to intercompany loans and secured through currency forwards. Any positive foreign exchange balances existing at the Group holding company in excess thereof that are not used within the Group as described above are converted to euros.

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, 2012. 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	
	Purchase Dec. 31, 2012	Sale Dec. 31, 2012	Total Dec. 31, 2012	Total Dec. 31, 2011	Total Dec. 31, 2012	Total Dec. 31, 2011
€m						
<b>Forward contracts</b>	<b>79.9</b>	<b>312.3</b>	<b>392.2</b>	<b>386.7</b>	<b>10.6</b>	<b>-14.2</b>
USD	17.6	246.0	263.6	260.7	3.2	-7.3
GBP	0.0	33.3	33.3	13.2	0.4	-0.5
PLN	62.3	0.0	62.3	91.1	3.3	-5.7
<i>Remaining term to maturity &lt; 1 year</i>	<i>62.3</i>	<i>0.0</i>	<i>62.3</i>	<i>69.5</i>	<i>3.3</i>	<i>-5.0</i>
<i>Remaining maturity &gt; 1 year</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>21.6</i>	<i>0.0</i>	<i>-0.7</i>
JPY	0.0	33.0	33.0	18.8	3.7	-0.8
Other	0.0	0.0	0.0	2.9	0.0	0.1

USD	Notional amounts in US\$ million				Fair values in €m	
	Purchase Dec. 31, 2012	Sale Dec. 31, 2012	Total Dec. 31, 2012	Total Dec. 31, 2011	Total Dec. 31, 2012	Total Dec. 31, 2011
<b>Forward contracts</b>	<b>23.7</b>	<b>5.0</b>	<b>28.7</b>	<b>56.7</b>	<b>0.3</b>	<b>-1.0</b>
CAD	16.6	0.0	16.6	27.9	0.0	-0.4
GBP	7.1	0.0	7.1	28.8	0.0	-0.6
JPY	0.0	5.0	5.0	0.0	0.3	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 U.S. dollars. The residual maturity of all derivative financial instruments for hedging currency risks is currently no more than one year (2011: up to two years).

### 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 January and December 2013 and will be recognized in the income statement when realized. The maturity of hedges designated as cash flow hedges (recorded in the hedging reserve in equity) is matched with the maturity of the relevant hedged items. As of December 31, 2012, these hedges had positive fair values in the amount of €5.6 million (December 31, 2011: €0.0 million), while there were no negative fair values (December 31, 2011: €6.4 million).

Changes in the fair value of hedges assigned to intercompany loans as well as of operating hedges allocated to hedged items already realized as of the balance sheet date and therefore generally not – or no longer – designated as cash flow hedges were recognized through profit or loss on the balance sheet date.

Positive fair values amounted to €5.7 million (December 31, 2011: €1.0 million); negative fair values amounted to €0.3 million (December 31, 2011: €9.8 million). The amounts accumulated directly in equity as hedging reserves to hedge these operating transactions were reclassified to the income statement once the hedged item was entered into. In fiscal year 2012, gains or losses resulting from changes in fair value of our currency forwards amounting to €0.4 million (2011: €0.8 million) previously recognized in equity were recycled to profit or loss. The residual maturity of these derivatives may be up to three 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 €15.7 million (December 31, 2011: €15.7 million), trade receivables of €121.7 million (December 31, 2011: €133.0 million), trade payables of €67.5 million (December 31, 2011: €60.7 million), and interest-bearing financial liabilities of €37.2 million (December 31, 2011: €37.9 million). Furthermore, foreign currency effects from internal lending activities recognized in profit or loss or directly in equity, together with the corresponding derivative hedging instruments, are also included. It is assumed that the balance as of the reporting date is representative of the reporting period as a whole. Any 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 either profit or loss or the hedging reserve as well as the total equity of SGL Group. The following table provides a comparison between the amounts reported as of December 31, 2012 and December 31, 2011. The analysis is based on a hypothetical 10% increase in the value of the euro and the U.S. 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	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
€m								
USD	1.4513	1.4233	-2.6	-4.1	-2.9	-4.4	0.3	0.3
PLN	4.4970	4.8585	-2.9	-5.3	1.5	1.3	-4.4	-6.6
GBP	0.8977	0.9188	0.0	2.2	0.0	-0.1	0.0	2.3
CAD	1.4451	1.4537	0.0	-0.6	0.0	-0.6	0.0	0.0
Other	-	-	0.9	0.2	-1.3	-0.8	2.2	1.0

USD	Hypothetical exchange rate		Change in fair value/equity		thereof: change in net profit/loss		thereof: change in hedging reserve	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
US\$ million								
GBP	0.6804	0.7101	-0.4	-2.2	0.2	0.0	-0.6	-2.2
CAD	1.0952	1.1235	-0.2	-1.2	1.0	0.8	-1.2	-2.0
MYR	3.3638	3.4903	4.8	4.5	4.8	4.5	0.0	0.0
Other	-	-	2.4	1.2	2.4	1.2	0.0	0.0

The approximate effect of a hypothetical 10% decrease in the value of the euro and the U.S. 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 risk is managed using interest-rate derivatives as approved by the Board of Management. As of the balance sheet date, SGL Group had financial liabilities in a notional amount of €815.0 million (December 31, 2011: €585.0 million). Of that amount, liabilities of €292.1 million (December 31, 2011: €299.1 million) had a floating interest rate. The remaining liabilities of €522.9 million (December 31, 2011: €285.9 million) had a fixed interest rate.

Those liabilities were partially offset by cash and cash equivalents as well as time deposits of €355.9 million (December 31, 2011: €241.7 million).

The following table shows the interest-rate derivatives held by SGL Group as of the reporting date:

€m	Remaining maturity	Notional amounts		Fair values	
		Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
<b>Derivate interest-rate instruments</b>					
Interest-rate caps	<= 1 year	0.0	160.0	0.0	0.0
	> 1 year	150.0	0.0	0.1	0.0
	> 3 year	0.0	150.0	0.0	0.5

As of the balance sheet date, SGL Group had interest hedges in the form of interest rate caps (interest-rate options) in the amount of €150.0 million (December 31, 2011: €310.0 million). The interest-rate caps entered into in 2007 in a notional value of €160 million expired in the year under review as contractually agreed and were not prolonged. The interest rate caps entered into in 2010 in a notional value of €150 million and with a term of five years limit the risk of an interest rate increase subject to an upper cap of 3% p. a.

Accordingly, there is a limited cash flow risk from the 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 the fair values of fixed-interest primary financial liabilities and impact the corresponding carrying amounts if these liabilities are recognized at fair value. As both fixed-interest convertible bonds and the float-ing-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 tables presents a sensitivity analysis of the financial instruments and the effects of changes in market rates on interest payments:

€m	2012	2011
Interest-rate caps	1.3	1.9
Floating-rate primary financial liabilities	-2.9	-3.0
<b>Total</b>	<b>-1.6</b>	<b>-1.1</b>

An assumed increase in interest rates of 100 basis points would cause a theoretical decrease in profit or loss from financial instruments of €1.6 million (2011: decrease of €1.1 million). An assumed decrease in interest rates of 100 basis points would result in a corresponding hypothetical increase in profit or loss of €2.2 million (2011: €2.4 million).

€m	2012	2011
Variabel rate assets (Cash)	357.5	240.6
Increase in interest rate 1 %	3.6	2.9

An increase in interest rates of 100 basis points would lead to a theoretical increase in profit or loss from cash and cash equivalents as well as time deposits of €3.6 million (2011: €2.4 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.

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## 31. SEGMENT REPORTING

For the purpose of company management, SGL Group is organized into Business Units based on product groups and has the following three reportable Business Areas:

- The Business Area Performance Products (PP) produces graphite electrodes as well as further graphite and carbon products (electrodes, cathodes, and furnace linings).
- The Business Area Graphite Materials & Systems (GMS) focuses on products made of synthetic graphite and expanded graphites for industrial applications, machine components, products for the semiconductor industry, composites, and process technology.
- The Business Area Carbon Fibers & Composites (CFC) 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 companies that largely perform services for the other Business Units, such as SGL Carbon SE.

Capital expenditures 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	Consolidation adjustments	SGL Group
<b>2012</b>						
External sales revenue	940.7	486.2	277.2	5.0	0.0	1,709.1
Intersegment sales revenue	13.0	9.3	5.0	25.8	-53.1	0.0
<b>Total sales revenue</b>	<b>953.7</b>	<b>495.5</b>	<b>282.2</b>	<b>30.8</b>	<b>-53.1</b>	<b>1,709.1</b>
Operating profit/loss (EBIT) before project write-offs	181.7	69.3	-39.2	-57.6	0.0	154.2
Project write-offs	0.0	0.0	-54.2	0.0	0.0	-54.2
Operating profit/loss (EBIT) after project write-offs	181.7	69.3	-93.4	-57.6	0.0	100.0
Capital expenditure <sup>1)</sup>	46.4	50.1	23.6	13.4	0.0	133.5
Changes in the scope of consolidation (intangible assets and property, plant and equipment)	0.0	0.0	40.5	0.0	0.0	40.5
Amortization/depreciation on intangible assets and property, plant and equipment	41.1	19.1	18.6	6.7	0.0	85.5
Working capital <sup>2)</sup>	377.2	160.3	167.9	-4.3	0.0	701.1
Capital employed <sup>3)</sup>	853.1	359.8	499.1	79.6	0.0	1,791.6
Cash generation <sup>4)</sup>	129.9	43.9	-70.9	-65.3	0.0	37.6
Loss/income from equity accounted investments	-1.6	0.0	-31.0	0.0	0.0	-32.6
Equity accounted investments	0.3	0.0	43.6	0.0	0.0	43.9
Employees of equity-accounted instruments (number)	13	0	683	0	0	696
Total sales of equity-accounted instruments <sup>5)</sup>	5.0	0.0	149.5	0.0	0.0	154.5
Operating profit (EBIT) of equity-accounted instruments <sup>5)</sup>	-2.6	0.0	-38.7	0.0	0.0	-41.3

€m	PP	GMS	CFC	Other	Consolidation adjustments	SGL Group
<b>2011</b>						
External sales revenue	845.7	468.7	220.2	5.6	0.0	1,540.2
Intersegment sales revenue	6.9	8.9	5.6	33.8	-55.2	0.0
<b>Total sales revenue</b>	<b>852.6</b>	<b>477.6</b>	<b>225.8</b>	<b>39.4</b>	<b>-55.2</b>	<b>1,540.2</b>
Operating profit/loss (EBIT) before reversal of impairment losses and impairment losses	143.3	84.0	-16.9	-50.0	0.0	160.4
Reversal of impairment losses and impairment losses	0.0	0.0	5.1	0.0	0.0	5.1
Operating profit/loss (EBIT) after reversal of impairment losses and impairment losses	143.3	84.0	-11.8	-50.0	0.0	165.5
Capital expenditure <sup>1)</sup>	61.0	35.1	28.8	13.9	0.0	138.8
Changes in the scope of consolidation (intangible assets and property, plant and equipment)	0.0	0.0	16.5	0.0	0.0	16.5
Amortization/depreciation on intangible assets and property, plant and equipment	36.6	17.6	11.7	5.4	0.0	71.3
Working capital <sup>2)</sup>	330.6	166.2	181.7	-4.6	0.0	673.9
Capital employed <sup>3)</sup>	793.0	341.4	469.5	74.0	0.0	1,677.9
Cash generation <sup>4)</sup>	118.2	43.5	-80.2	-56.9	0.0	24.6
Loss/income from equity accounted investments	-1.7	0.0	-30.9	0.0	0.0	-32.6
Equity accounted investments	2.0	0.0	43.1	0.0	0.0	45.1
Employees of equity-accounted instruments (number) <sup>6)</sup>	13	0	596	0	0	609
Total sales of equity-accounted instruments <sup>5)6)</sup>	12.9	0.0	119.0	0.0	0.0	131.9
Operating profit (EBIT) of equity-accounted instruments <sup>5)6)</sup>	-4.4	0.0	-39.7	0.0	0.0	-44.1

<sup>1)</sup> Defined as total of capital expenditure in intangible assets and property, plant and equipment

<sup>2)</sup> Defined as total of capital expenditure in intangible assets and property, plant and equipment

<sup>3)</sup> Defined as the sum of goodwill, other intangible assets, property, plant and equipment, and working capital

<sup>4)</sup> Defined as total of operating profit/loss (EBIT) before reversal of impairment losses and impairment losses plus amortization on intangible assets and depreciation on property, plant and equipment plus change in working capital minus capital expenditure

<sup>5)</sup> Aggregated, unconsolidated 100% values

<sup>6)</sup> Previous year adjusted for PowerBlades (sold effective December 31, 2011)

Information on geographical regions:

€m	Germany	Europe excluding Germany	North America	Asia	Other	SGL Group
<b>2012</b>						
Sales revenue (by destination)	305.5	396.6	400.2	471.2	135.6	1,709.1
Sales revenue (by company headquarters)	628.7	689.1	309.0	82.3		1,709.1
Capital expenditure	60.5	30.3	23.6	19.1		133.5
Non-current assets <sup>1)</sup>	276.5	251.3	218.0	259.0	0.4	1,005.2
<b>2011</b>						
Sales revenue (by destination)	286.4	385.8	347.0	404.9	116.1	1,540.2
Sales revenue (by company headquarters)	557.1	585.0	339.5	58.6		1,540.2
Capital expenditure	47.1	23.7	34.0	34.0		138.8
Non-current assets <sup>1)</sup>	246.8	214.2	218.8	252.3	0.5	932.6

<sup>1)</sup> Non-current assets consist of other intangible assets, property, plant and equipment, equity accounted investments, and other non-current assets (excluding financial assets)

## 32. MANAGEMENT AND EMPLOYEE PARTICIPATION SCHEMES

SGL Group currently has five different management and employee participation schemes:

### Long-Term Cash Incentive Plan (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. Since 2010, the participating members of the Board of Management and senior managers have been offered an LTCI Plan each year with a term of three years. Due to the new plan structures introduced in 2010, the participants were offered two LTCI plans in the first quarter of 2010: one plan with a regular term of three years and one interim LTCI plan with a term of two years. In both 2011 and 2012, a new LTCI plan was offered with a term of three years each.

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 end of the term of the relevant LTCI plan, 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 end of the term of the relevant LTCI plan, the relevant degree of target achievement (Z) is determined as a percentage by applying the following formula:  $Z = (\text{actual value} - \text{minimum value}) / (\text{target} - \text{minimum value})$ . The LTCI premium is calculated based on the minimum premium plus multiplying the difference between maximum and minimum premium with the degree of target achievement Z. Depending on their respective responsibilities, 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 end of the term of the relevant LTCI plan.

The three LTCI plans currently outstanding are based on targets referring to average return on capital employed (ROCE), which is defined as the ratio of EBIT to average capital employed. Accordingly, the following targets apply for the individual plans:

%	Minimum bonus	Maximum bonus
Three-year plan 2010	7.5	10.5
Three-year plan 2011	8.0	11.0
Three-year plan 2012	8.5	11.5

The total volume of the LTCI plans introduced in 2011 and 2012 amounts to around €3.9 million each (senior managers and members of the Board of Management). The two-year LTCI Plan 2010 became due for payment in April 2012 in an amount of €3.8 million after the Supervisory Board and the Board of Management established that the targets had been fully achieved.

A total of 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 in the Company, which must be held for a period of two years. Participants are not entitled to a payout of such 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 at which the participant is employed will make the necessary funds directly 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 bonuses 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 23** for details on the number of shares available under the Matching Share Plan.

In 2012, a total of 60,714 shares were created via a capital increase from authorized capital to service the entitlements of the participating executives from the 2010 Matching Share Plan.

In the year under review, the members of the Board of Management and 159 senior managers participated in the current Matching Share Plan, which runs until 2014, purchasing a total of 103,838 SGL shares from their taxed income at a price of €35.44 per share.

The determination of the market price on the grant date represents the basis of recognition in the financial statements. The market price of shares to be granted as part of the Matching Share Plan running until 2014 was €35.44 per share, calculated using the price of SGL shares on the purchase date. The expense recognized for the Matching Share Plan in 2012 was €3.4 million (2011: €2.6 million).

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## 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, provided SGL Group has met its performance targets (increase in 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, participants must retain shares in the Company having a value equivalent to a minimum of 15% of the gross proceeds for another twelve months. The terms of the Stock Option Plan also provide for protection against dilution.

The number of options granted and the 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, 641,000 options expired without being exercised when plan participants left their employment with SGL Group. In 2012, a total of 28,750 options were exercised by participants: 9,250 options from 2002 at €12.91, 13,000 options from 2003 at €3.61, and 6,500 options from 2004 at €8.69. In total, 861,200 options have been exercised under the stock option plan. A total of 9,800 options still remain outstanding.

## Stock Appreciation Rights Plan (SAR Plan)

SGL Group shareholders resolved on April 29, 2009, to introduce – after the end of the 2005 SAR Plan on December 31, 2009 – a new Stock Appreciation Rights Plan (“2010 SAR Plan”) for the Board of Management and the next three management levels in line with the former 2005 SAR Plan. The SAR Plan is to be supported by a maximum of 2,100,000 new shares from 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 23** for details).

The SARs may be issued at any time during the period until 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.



SARs entitle the participants to receive variable remuneration from the Company 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 during this period, plus the value of the subscription rights, and they entitle the participants to purchase at the exercise price the number of SGL Carbon SE shares whose market value corresponds to the appreciation in price. Each SAR entitles the participant to receive that fraction of a new SGL Carbon SE share that is calculated by dividing the appreciation value by the issue price.

The SARs may only be granted to the participants within a period of up to ten stock market trading days after the end of the fiscal year or after SGL Carbon SE's 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 they are 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 participants 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.

The number of SARs granted and their respective base prices for members of the Board of Management and senior management members under the 2005–2009 SAR Plan were as follows:

- |  |                                     |
|--|-------------------------------------|
| • on January 14, 2005, a total of 608,100 SARs at a base price of €9.74  | after dividend payment 2012: €9.54  |
| • on January 13, 2006, a total of 630,200 SARs at a base price of €14.51 | after dividend payment 2012: €14.31 |
| • on January 15, 2007, a total of 668,700 SARs at a base price of €18.74 | after dividend payment 2012: €18.54 |
| • on January 15, 2008, a total of 718,175 SARs at a base price of €34.98 | after dividend payment 2012: €34.78 |
| • on October 30, 2008, a total of 20,750 SARs at a base price of €19.79  | after dividend payment 2012: €19.59 |
| • on January 15, 2009, a total of 759,320 SARs at a base price of €22.08 | after dividend payment 2012: €21.88 |

Accordingly, a total of 3,405,245 SARs have been granted to date under the SAR Plan 2005–2009, of which a total of 2,771,450 SARs have been exercised and 218,075 SARs have expired without being exercised as the individuals holding these SARs are no longer employed by the Group. At the end of the year under review, a total of 415,720 SARs remain outstanding under this plan.

The following number of SARs has been granted under the 2010 SAR Plan to members of the Board of Management and senior management members:

- |  |                                     |
|--|-------------------------------------|
| • on January 15, 2010, a total of 850,670 SARs at a base price of €21.96         | after dividend payment 2012: €21.76 |
| • on January 14, 2011, a total of 820,953 SARs at a base price of €27.06         | after dividend payment 2012: €26.86 |
| • on January 13, 2012, a total of 832,545 SARs at a base price of €39.50         | after dividend payment 2012: €39.30 |
| • on January 15, 2013, a total of 839,795 options at an exercise price of €31.43 |                                     |

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Of the total number of SARs granted under the 2010 SAR Plan (2,504,168), 95,150 SARs expired without being exercised as the individuals holding these SARs are no longer employed by the Group. At the end of the year under review, a total of 1,909,543 SARs remain outstanding.

The closing price of SGL shares was €22.42 on the first issue date (January 15, 2010), €28.39 on the second issue date (January 14, 2011), €39.33 on the third issue date (January 13, 2012), and €32.90 on the fourth issue date (January 15, 2013).

The total expense for SARs in fiscal year 2012 amounted to €11.9 million (2011: €9.3 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, we have assumed for valuation purposes that no dividend payment will be made, while measurement in 2011 was based on the assumption of future dividend payments. This assumption was also made for measurement in 2012. The assumed risk-free zero interest rates were 1.87% for the 2012 SARs and 3.14% for the 2011 SARs. A volatility of 52.27% was calculated for the SAR tranche in 2012; the volatility calculated for the 2011 SAR tranche was 52.08%. 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 issued SAR to be recognized for the expense from share-based payments required to be reported under IFRS amounted to €16.45 for the 2012 SARs and €12.67 for the 2011 SARs.

### **Bonus program for employees**

All employees of the material German companies who are both included in and exempt from collective wage agreements 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 non-exempt 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 on 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. A total of €6.9 million was expensed for the 2012 bonus plan in Germany (2011: €9.9 million).

The following table gives an overview of the accounting method used for the various plans:

	Share-based payment within the meaning of IFRS 2	Applied rule to recognize as liabilities	Equity-settled or cash-settled	Recognized liabilities for non-equity-settled payments (in € thousand)	
				Dec. 31, 2012	Dec. 31, 2011
<b>LTCI Plan</b>	No	IAS 19.7	n. a.	5,058	7,604
<b>Matching Share Plan</b>	Yes	IFRS 2/IFRIC 11	Equity-settled	n. a.	n. a.
<b>Stock Option Plan</b>					
Tranches before IFRS 2 transition date according to IFRS 2.53, i. e. November 7, 2002					
All grants before transition date	No	no balance sheet effect until exercise of the option	n. a.	0	0
Tranches 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.
<b>SAR plans</b>	Yes	IFRS 2	Equity-settled	n. a.	n. a.
<b>Bonus program for employees</b>					
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.	2,797	2,868
thereof 50% in new shares of SGL Carbon SE	Yes	IFRS 2/IFRIC 11	Equity-settled	n. a.	n. a.

n. a. = not applicable

Additional information on instruments granted:

	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 1/1/2011	2,919,824	23.17	230,981	19.86	306,750	31.09
Additions	820,953	27.06	104,624	34.63	0	0.00
Expired/returned	-56,575	24.09	-6,673	19.36	-146,000	53.08
Exercised	-1,593,428	23.75	-129,863	18.53	-108,200	12.71
<b>Balance as of Dec. 31, 2011</b>	<b>2,090,774</b>	<b>24.19</b>	<b>199,069</b>	<b>28.45</b>	<b>52,550</b>	<b>10.57</b>
Balance as of Jan. 1, 2012	2,090,774	23.99	199,069	28.45	52,550	10.57
Additions	832,545	39.30	103,838	35.44	0	
Expired/returned	-34,550	30.69	-5,724	34.81	-14,000	17.69
Exercised	-563,506	21.15	-93,678	21.67	-28,750	7.75
<b>Balance as of 12/31/2012</b>	<b>2,325,263</b>	<b>30.06</b>	<b>203,505</b>	<b>34.96</b>	<b>9,800</b>	<b>8.67</b>
Range of exercise prices in €	9.54–39.30				8.69	
Expiration dates	December 14/21		March 12/13		2013	
Intrinsic value as of December 31, 2012 (in €m)	8.2		6.1		0.2	
Intrinsic value as of December 31, 2011 (in €m)	30.7		7.6		1.5	

The dividend payment in 2012 resulted in a retroactive decrease of the SAR price by €0.20 for all plans.

The tranche from the 2004 Stock Option Plan with an exercise price of €8.69 was in the money as of year-end 2012; given the share price of €30.05 as of December 30, 2012, the SARs in these tranches had an intrinsic value of €21.36, corresponding to a total value of €0.2 million. In 2012, a total of 28,750 options from the Stock Option Plan were exercised (2011: 108,200 options). The options were exercised during three and four trading windows in 2012 and 2011, respectively, in which the average share price in fiscal year 2012 was as follows: €31.69 (2011: €38.69) for the August 2002 Stock Option Plan, €31.09 (2011: €42.35) for the 2003 Stock Option Plan, €30.44 (2011: €41.76) for the 2004 Stock Option Plan, €31.30 (2011: €36.89) for the 2005 SAR Plan, €31.65 (2011: €39.33) for the 2006 SAR Plan, €31.37 (2011: €37.23) for the 2007 SAR Grant, €32.26 (2011: €38.57) for the 2009 SAR Grant, and €33.40 (2011: not yet exercisable) for the 2010 SAR Grant. As of the balance sheet date, 566,240 SARs were exercisable at an average of €20.17 (2011: 487,751 SARs at €23.06) and 9,800 stock options at an average of €8.69 (2011: 52,550 stock options at €10.57).

The weighted average remaining maturity for the 2005 SAR plan is 4.6 years (2011: 5.5 years), 8.3 years for the 2010 SAR Plan (2011: 8.5 years), 0.7 years for the Matching Share Plan (2011: 0.7 years) and 1.0 years for the Stock Option Plan (2011: 1.0 years).

### 33. 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 remuneration system has not been modified since then.

The full Supervisory Board is responsible for determining the remuneration of the Board of Management. The Personnel Committee, consisting of 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 which is competitive in the market for highly qualified executives and which provides an incentive for success in a high-performance culture.

The remuneration comprises four components: (i) basic remuneration, (ii) 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 each annual 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 2012 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 targets are based on the annual planning of the Company. If one specific target is not fully achieved, this may be partly compensated through over-achievement of another target. In view 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, subject to a weighting of 30% of the total bonus. The performance evaluation is based on evaluation criteria that are defined in advance. In 2012, these criteria were comprised of succession planning related to senior executive positions 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 three-year period each. Target and threshold values of this multi-year approach are determined by the Supervisory Board on an annual basis. A total of 10% of the gross proceeds must be invested in SGL shares over an additional period of 24 months (see **Note 32** 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 an additional period of twelve months (see **Note 32** 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 bonuses in shares of the Company at the prevailing market price fixed during the last seven trading days in March. The decision whether to participate in the Matching Share Plan is at the sole discretion of the individual member of the Board of Management. The shares are paid 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 32** 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 basic remuneration and the variable remuneration paid to the Board of Management for 2012 and 2011 is set out below:

	Fixed remuneration		Variable components			
	Basic remuneration		Annual bonus short-term		LTCl medium-term	
€ thousand	2012	2011	2012	2011	2012	2011
Robert J. Koehler	670	670	712	804	161	583
Theodore H. Breyer	500	500	531	600	107	389
Armin Bruch	440	440	467	528	107	389
Jürgen Muth	440	440	467	528	107	389
Dr. Gerd Wingefeld	440	440	467	528	107	389
<b>Total</b>	<b>2,490</b>	<b>2,490</b>	<b>2,644</b>	<b>2,988</b>	<b>589</b>	<b>2,139</b>

The annual bonus entitlement of 88% acquired in 2012 reflects the bonus provisions recognized as an expense in connection with the expected target achievement. The annual bonus for 2011 reflects the actual target achievement and was paid out in 2012. The mid-term LTCl expense reflects the pro-rata provisions for fiscal year 2012 recognized as an expense in 2012 as well as in 2011 and 2010, assuming an expected target achievement for the three parallel plans. In the years 2010 and 2011, full target achievement was expected while partial target achievement was expected in 2012. In 2012, a payment was made for the expiring 2010–2011 LTCl Plan in the amount of €1,832 thousand, or 100%, with Robert J. Koehler receiving €500 thousand and the other Board members €333. A cash payment for the other plans may be made for the first time in 2013 (see **Note 33**).

In 2012, the total notional remuneration recognized in respect of participation by the members of the Board of Management in the Matching Share Plan was €1,450 thousand (2011: €1,295 thousand). This corresponds to a price of €35.44 per share for the purchases of SGL shares by the members of the Board of Management 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 2014. The remuneration component may be higher or lower upon settlement in 2014. The calculated expense for the Matching Share Plan in fiscal year 2012 for Robert J. Koehler, Theodore H. Breyer, Armin Bruch, Jürgen Muth, and Dr. Gerd Wingefeld was €402 thousand, €309 thousand, €264 thousand, €211 thousand, and €264 thousand, respectively (2011: €360 thousand, €263 thousand, €240 thousand, €192 thousand, and €240 thousand, respectively).

A total of 180,000 SARs were granted to the members of the Board of Management in 2012 (2011: 180,000 SARs).

	<b>SAR Plan</b>			
	Granted SARs		SAR expense	
	<b>2012</b> Number	2011 Number	<b>2012</b> € thousand	2011 € thousand
Robert J. Koehler	50,000	50,000	823	634
Theodore H. Breyer	40,000	40,000	658	507
Armin Bruch	30,000	30,000	494	380
Jürgen Muth	30,000	30,000	494	380
Dr. Gerd Wingefeld	30,000	30,000	494	380
<b>Total</b>	<b>180,000</b>	<b>180,000</b>	<b>2,963</b>	<b>2,281</b>

The base price of the SARs granted as of January 13, 2012, was €39.30 per SAR (SARs granted as of January 14, 2011: €26.86 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 €16.45 per SAR for the SARs granted as of January 13, 2012 (January 14, 2011: €12.67 per SAR).

The imputed total value of SARs granted to the members of the Board of Management was therefore €2,963 thousand in 2012 and €2,281 thousand in 2011. The value of these SARs on the conversion date will differ from the calculated theoretical values and may be either higher or lower. As of December 31, 2012, the price of SGL shares was quoted at €30.05, resulting in an intrinsic value of €0.0 per SAR as of December 31, 2012 for the SARs granted as of January 13, 2012, compared to a total value of €2,963 thousand recognized as remuneration. This was due to the fact that the base price was above the share price quoted on December 31, 2012.

#### **TOTAL REMUNERATION**

The total remuneration for the Board of Management, including payments in kind, bonus entitlements, and share-based components amounted to €10,167 thousand in 2012 (2011: €11,354 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 the pension benefit depends on the number of terms of appointment and the number of years of service on the Board of Management, and it 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 it is 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 having been members of the Board of Management for several years. The benefit entitlement for the Board members Armin Bruch, Jürgen Muth, and Gerd Wingefeld currently amounts to 50%. The pension benefit entitlement is increased starting from the seventh year of Board membership by 5%, and by 5% for each additional year thereafter until the maximum entitlement of 70% is reached.

€ thousand	<b>Pension commitments</b>			
	Present value of DBO as of		Service cost	
	<b>Dec. 31, 2012</b>	Dec. 31, 2011	<b>2012</b>	2011
Robert J. Koehler	8,933	7,002	0	0
Theodore H. Breyer	6,674	5,834	0	0
Armin Bruch	4,709	3,121	722	937
Jürgen Muth	3,712	2,328	605	502
Dr. Gerd Wingefeld	3,450	2,175	517	426
<b>Total</b>	<b>27,478</b>	<b>20,460</b>	<b>1,844</b>	<b>1,865</b>



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The defined benefit obligation rose by a total of €7.0 million, €3.7 million of which was due to the lower discount rate. The remaining increase of €3.3 million (2011: €2.8 million), which represents the total pension expense for active Board members, was determined based on the service cost and the calculated additional interest cost.

Pursuant to their employment contract, all Board members are subject to non-competition agreements applicable after the end of the employment contract. The non-competition agreements have two-year terms during which the Company pays a compensation in the amount of 60% of the previous remuneration in return (for Board members Robert J. Koehler and Theodore H. Breyer, the agreement runs for five years and provides for 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 dependents amounted to €0.6 million in 2012 (2011: €0.6 million). Provisions of €16.4 million (December 31, 2011: €13.8 million) had been recognized as of December 31, 2012 to cover pension obligations to former members of executive management and their surviving dependents.

## Additional Disclosures on Share-Based Payment Instruments in Fiscal Year 2012

### STOCK OPTIONS

All stock options granted from 2000 to 2004 were either exercised or expired as of year-end 2011.

### SAR PLAN

	Balance as of Jan. 1, 2012		Additions in 2012	
	Number of SARs	Base price in € (weighted)	Number of SARs	Base price in €
Robert J. Koehler	100,000	24.31	50,000	39.30
Theodore H. Breyer	80,000	24.31	40,000	39.30
Armin Bruch	60,000	24.31	30,000	39.30
Jürgen Muth	60,000	24.31	30,000	39.30
Dr. Gerd Wingefeld	60,000	24.31	30,000	39.30
<b>Total</b>	<b>360,000</b>	<b>24.31</b>	<b>180,000</b>	<b>39.30</b>

The dividend payment in 2012 led to a reduction of the base price by €0.20.

### MATCHING SHARE PLAN

	Balance as of Jan. 1, 2012		Acquired in 2012	Due in 2012	Balance as of Dec. 31, 2012	
	Number of matching shares rights Number	Average price as of the acquisition date in €	Number of matching shares rights Number	Number of matching shares rights Number	Number of matching shares rights Number	Average price as of the acquisition date in €
Robert J. Koehler	20,362	28.29	11,343	9,967	21,738	35.05
Theodore H. Breyer	15,242	28.13	8,712	7,647	16,307	35.06
Armin Bruch	12,412	28.91	7,449	5,482	14,379	35.05
Jürgen Muth	9,931	28.91	5,960	4,386	11,505	35.05
Dr. Gerd Wingefeld	12,412	28.91	7,449	5,482	14,379	35.05
<b>Total</b>	<b>70,359</b>	<b>28.56</b>	<b>40,913</b>	<b>32,964</b>	<b>78,308</b>	<b>35.05</b>
Average price on acquisition date in €			35.44	21.67		
Share price on day of allocation in €				35.90		

Conversion 2012			Balance as of Dec. 31, 2012			
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)
50,000	21.76	32.42	100,000	33.08	0	0
40,000	21.76	32.22	80,000	33.08	0	0
30,000	21.76	35.52	60,000	33.08	0	0
30,000	21.76	33.11	60,000	33.08	0	0
7,500	21.76	35.53	82,500	22.99	22,500	21.86
<b>157,500</b>	<b>21.76</b>	<b>33.24</b>	<b>382,500</b>	<b>32.41</b>	<b>22,500</b>	<b>21.86</b>

In 2012, the imputed total expense for the share-based payments for members of the Board of Management and senior managers to be recognized in accordance with IFRS 2 was €11.9 million for the SAR Plan (2011: €9.3 million) and €3.4 million for the Matching Share Plan (2011: €2.6 million). The share of this total expense attributable to each of the members of the Board of Management in 2012 and 2011 was as follows:

	Share in total SAR expense		Share in total MSP expense	
	2012	2011	2012	2011
Robert J. Koehler	6.2%	6.3%	10.6%	11.0%
Theodore H. Breyer	4.9%	5.0%	7.9%	8.2%
Armin Bruch	3.7%	3.8%	6.9%	6.1%
Jürgen Muth	3.7%	3.8%	5.5%	5.0%
Dr. Gerd Wingefeld	3.7%	3.8%	6.9%	6.3%
<b>Total</b>	<b>22.2%</b>	<b>22.7%</b>	<b>37.8%</b>	<b>36.6%</b>

### 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 fiscal year. The Chairman of the Supervisory Board receives double this amount and the Deputy Chairman receives 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, and the chairman of the Audit Committee receives €5 thousand per meeting.

€ thousand	Member since	Age as of the date of release of the 2012 annual report	Period of service (appointed up to)	Remuneration		Total
				Basic remuneration	Additional remuneration	
Max Dietrich Kley, Chairman	2004 <sup>1)</sup>	73	HV 2013	60.0	16.2	76.2
Susanne Klatten, Deputy Chairwoman (since August 16, 2012)	2009	50	HV 2015	35.7	9.2	44.9
Josef Scherer, Deputy Chairman	2003	56	HV 2013	45.0	11.2	56.2
Dr. Daniel Camus	2008	60	HV 2013	30.0	1.0	31.0
Edwin Eichler	2010	54	HV 2016	30.0	0.8	30.8
Helmut Jodl	2008	51	HV 2013	30.0	3.2	33.2
Dr. Ing. Hubert H. Lienhard	1996 <sup>2)</sup>	62	HV 2013	30.0	4.2	34.2
Michael Pfeiffer	2007	51	HV 2013	30.0	5.0	35.0
Marek Plata	2009	47	HV 2013	30.0	1.2	31.2
Andrew H. Simon	1998 <sup>3)</sup>	67	HV 2013	30.0	13.2	43.2
Stuart Skinner	2009	35	HV 2013	30.0	1.2	31.2
Heinz Will	2005	56	HV 2013	30.0	3.2	33.2
<b>Total</b>				<b>410.7</b>	<b>69.6</b>	<b>480.3</b>

<sup>1)</sup> Chairman of the Personnel Committee

<sup>2)</sup> Chairman of the Technology/Strategy Committee

<sup>3)</sup> Chairman of the Audit Committee

Total wages and salaries for employee representatives in the Supervisory Board amounted to €270 thousand (2011: €256 thousand).

There were no significant changes compared to the previous year in relation to the disclosures made above.

### 34. "CHANGE IN CONTROL" AGREEMENT

The members of the Board of Management have the right to terminate their contracts 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 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 a 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-two 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.

### 35. 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	2012	2011
Audit fees	0.8	0.8
Other audit and valuation service	0.1	0.1
Tax consultancy services	0.0	0.1
Other services	0.2	0.1
<b>Total</b>	<b>1.1</b>	<b>1.1</b>

### 36. NET INCOME OF SGL CARBON SE

In 2012, SGL Carbon SE, as the parent company of SGL Group, reported a net profit for the year of €39.7 million in accordance with the German Commercial Code (HGB).

After a transfer of €19.8 million to other profit reserves and taking into account the profit brought forward from the prior year of €5.9 million, the distributable balance sheet profit amounts to €25.8 million.

The Board of Management proposes to distribute a dividend of €0.20 per share at the Annual Shareholders' Meeting. This corresponds to a total payment of €14.2 million. This dividend payment is subject to the consent of the Annual Shareholders' Meeting on April 30, 2013.

### 37. LIST OF COMPANIES PURSUANT TO SECTION 313 OF THE GERMAN COMMERCIAL CODE (HGB)

A. Consolidated companies		Interest in %	Held via
<b>a) Germany</b>			
1	SGL Carbon SE	Wiesbaden	
2	SGL CARBON GmbH	Meitingen	100.0 <sup>1)</sup> 1
3	Dr. Schnabel GmbH	Limburg	100.0 <sup>1)</sup> 2
4	SGL CARBON Beteiligung GmbH	Wiesbaden	100.0 <sup>1)</sup> 1
5	SGL TECHNOLOGIES GmbH	Meitingen	100.0 <sup>1)</sup> 1
6	SGL epo GmbH	Willich	100.0 <sup>1)</sup> 5
7	SGL Technologies Composites Holding GmbH	Meitingen	100.0 <sup>1)</sup> 5
8	SGL TECHNOLOGIES Beteiligung GmbH	Meitingen	100.0 <sup>1)</sup> 5
9	SGL Kumpers Verwaltungs-GmbH	Rheine	51.0 8
10	SGL Kumpers GmbH & Co. KG	Rheine	51.0 8
11	SGL TECHNOLOGIES Zweite Beteiligung GmbH	Meitingen	100.0 <sup>1)</sup> 5
12	SGL Rotec GmbH & Co. KG	Lemwerder	100.0 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 <sup>1)</sup> 12
16	SGL/A&R Immobiliengesellschaft Lemwerder mbH	Lemwerder	51.0 5
17	SGL/A&R Services Lemwerder GmbH	Lemwerder	100.0 16
18	SGL/A&R Real Estate Lemwerder GmbH & Co. KG	Lemwerder	100.0 17
19	Aviation Community Lemwerder GmbH	Lemwerder	100.0 17
<b>b) Outside Germany</b>			
20	SGL CARBON Holding S.L.	La Coruña, Spain	100.0 4
21	SGL CARBON S.A.	La Coruña, Spain	99.9 20
22	SGL Gelter S.A.	Madrid, Spain	64.0 20
23	SGL CARBON S.p. a.	Mailand, Italy	99.8 20
24	SGL CARBON do Brasil Ltda.	Diadema, Brazil	100.0 20
25	SGL CARBON Sdn. Bhd.	Kuala Lumpur, Malaysia	100.0 20
26	SGL Carbon Holding GmbH	Steeg, Austria	100.0 1
27	SGL CARBON GmbH	Steeg, Austria	100.0 1
28	SGL Carbon Fibers Ltd.	Muir of Ord, United Kingdom	100.0 27
29	Project DnF	Halifax, United Kingdom	100.0 27
30	Fisipe–Fibras Sintéticas de Portugal S.A.	Lavradio, Portugal	100.0 27

<b>A. Consolidated companies</b>		<b>Interest in %</b>	<b>Held via</b>	
31	Munditêxtil, LDA	Lavradio, Portugal	100.0	30
32	SGL CARBON Holdings B.V.	Rotterdam, Netherlands	100.0	4
33	SGL CARBON Polska S.A.	Ratibor, Poland	100.0	32
34	GTC-Graphite Ceilings Sp. z o.o.	Ratibor, Poland	100.0	33
35	SGL Singapore PTE. Ltd.	Singapore	100.0	32
36	SGL CARBON Luxembourg S.A.	Luxembourg	100.0	1
37	SGL CARBON Holding S.A.S.	Paris, France	100.0	1
38	SGL CARBON S.A.S.	Passy (Chedde), France	100.0	37
39	SGL CARBON Technic S.A.S.	Saint-Martin d'Hères, France	100.0	37
40	SGL CARBON Ltd.	Alcester, United Kingdom	100.0	1
41	David Hart (Feckenham) Ltd.	Alcester, United Kingdom	100.0	40
42	GRAPHCO (UK) Ltd.	Alcester, United Kingdom	100.0	41
43	RK CARBON International Ltd.	Wilmslow, United Kingdom	100.0	5
44	SGL CARBON LLC	Charlotte, NC, USA	100.0	4
45	Quebec Inc.	Montreal, Quebec, Canada	100.0	44
46	SGL Technologies North America Corp.	Charlotte, NC, USA	100.0	44
47	HITCO CARBON COMPOSITES Inc.	Gardena, CA, USA	100.0	46
48	SGL TECHNIC Inc.	Valencia, CA, USA	100.0	46
49	SGL Carbon Fibers LLC	Evanston, WY, USA	100.0	46
50	SGL CARBON Technic LLC	Strongsville, OH, USA	100.0	44
51	SGL CANADA Inc.	Lachute, Quebec, Canada	100.0	1
52	SGL CARBON India Pvt. Ltd.	Maharashtra, India	100.0	1
53	SGL CARBON Far East Ltd.	Shanghai, China	100.0	1
54	SGL CARBON Japan Ltd.	Tokyo, Japan	100.0	1
55	SGL CARBON Korea Ltd.	Seoul, Korea	70.0	1
56	SGL CARBON Asia-Pacific Sdn. Bhd.	Kuala Lumpur, Malaysia	100.0	1
57	NINGBO SSG Co. Ltd.	Ningbo, China	60.0	2
58	SGL Quanghai Carbon (Shanxi) Co.	Yangquan, China	80.0	4
59	SGL TOKAI Process Technology Pte. Ltd.	Singapore	51.0	1
60	SGL CARBON KARAHM Ltd.	Sangdaewon-Dong, Korea	50.9	59
61	SGL CARBON Graphite Technic Co. Ltd.	Shanghai, China	100.0	59
62	Graphite Chemical Engineering Co.	Yamanashi, Japan	100.0	59
63	SGL Process Technology OOO	Schachty, Russian Federation	100.0	2
64	SGL TOKAI Carbon Hong Kong Ltd.	Hong Kong, China	100.0	1

<b>B. Equity investments over 20%</b>		<b>Interest in %</b>	<b>Held via</b>	
<b>a) Germany</b>				
65	European Precursor GmbH	Kelheim	44.0	5
66	Benteler-SGL Verwaltungs GmbH	Paderborn	50.0	7
67	Benteler-SGL GmbH & Co. KG	Paderborn	50.0	7
68	SGL Automotive Carbon Fibers GmbH & Co. KG	Munich	51.0 <sup>2)</sup>	5
<b>b) Outside Germany</b>				
69	SGL Automotive Carbon Fibers LLC	Moses Lake, WA, USA	51.0 <sup>2)</sup>	44
70	SGL TOKAI Carbon Ltd.	Shanghai, China	51.0 <sup>2)</sup>	1
71	Brembo-SGL Carbon Ceramic Brakes S.p.A.	Stezzano, Italy	50.0	5
72	MRC-SGL Precursor Co. Ltd.	Tokyo, Japan	33.3	5
73	Fisigen, S.A.	Lisbon, Portugal	49.0	30

<sup>1)</sup> Exemption in accordance with section 264 (3) of the HGB

<sup>2)</sup> Non-controlling interest due to contractual details

### 38. DECLARATION PURSUANT TO SECTION 161 OF THE 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.

### 39. EVENTS AFTER THE BALANCE SHEET DATE

None.

Wiesbaden, February 28, 2013

SGL Carbon SE  
The Board of Management



# ADDITIONAL INFORMATION

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## INDEPENDENT AUDITORS' REPORT

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We have issued the following audit opinion on the consolidated financial statements as well as on the management report of SGL Carbon SE and SGL Group:

“We have audited the consolidated financial statements prepared by SGL Carbon SE, Wiesbaden, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the group management report, which is combined with the management report of SGL Carbon SE, for the fiscal year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the 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) of the 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 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 the full IFRSs.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the 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 our 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 the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the HGB and the full IFRSs 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, which is combined with the management report of SGL Carbon SE, 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, February 28, 2013

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Turowski	von Seidel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

## RESPONSIBILITY STATEMENT

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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, 2013

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

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### Board of Management

(as of December 31, 2012)

#### **ROBERT J. KOEHLER**

Chief Executive Officer SGL CARBON SE

#### Responsible for:

- Corporate Development
- Corporate Communications
- Legal
- Management Development
- Internal Audit
- Asia

#### External board memberships:

- Benteler International AG, Salzburg, Austria<sup>1)</sup>
- Heidelberger Druckmaschinen AG, Heidelberg<sup>1)</sup>
- Klöckner & Co. SE, Duisburg
- Lanxess AG, Leverkusen

#### Internal board memberships:

SGL CARBON S.p.A., Lainate (Mi), 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
- Purchasing
- North and South America

#### Internal board memberships:

- Brembo SGL Carbon Ceramic Brakes S.p. A., Milan, Italy
- HITCO CARBON COMPOSITES Inc., Gardena, USA<sup>1)</sup>
- 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
- 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

**Internal board memberships:**

- SGL CARBON Sdn. Bhd., Banting, Malaysia
- SGL TOKAI Carbon Ltd., Shanghai, China <sup>1)</sup>
- SGL CARBON S.A., La Coruña, Spain
- SGL CARBON S.p.A., Lainate (Mi), Italy

**DR. GERD WINGEFELD****Responsible for:**

- Graphite Materials & Systems
- Technology & Innovation

**Internal board memberships:**

- SGL TOKAI Process Technology Pte. Ltd., Singapore <sup>1)</sup>
- SGL Quanhai Carbon (Shanxi) Co. Ltd., Shanxi Province, China <sup>1)</sup>
- SGL CARBON Far East Ltd., Shanghai, China
- SGL CARBON Japan Ltd., Tokyo, Japan <sup>1)</sup>

<sup>1)</sup> Chairman of the Supervisory Board

With memberships outside Germany, the respective country is mentioned.

## Supervisory Board

(as of December 31, 2012)

### 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

Works Council SGL CARBON GmbH, Meitingen

### DR. DANIEL CAMUS

Chief Financial Officer, The Global Fund, Geneva, Switzerland and former Member of Executive Committee (CFO) EDF, Electricité de France, Paris, France

#### External board memberships:

- Cameco Corp., Saskatoon, Canada
- Valéo SA, Paris, France
- Vivendi SA, Paris, France
- Morphosys AG, Munich

### EDWIN EICHLER

Member of the Board of Management ThyssenKrupp AG and Chairman of the Board of Management of ThyssenKrupp Steel Europe AG, Duisburg (till December 31, 2012)

#### External board memberships:

- Heidelberger Druckmaschinen AG, Heidelberg

### HELMUT JODL

Works Council (full-time)  
SGL CARBON GmbH, Meitingen

### SUSANNE KLATTEN

#### Deputy Chairwoman (since August 16, 2012)

Entrepreneur

#### External board memberships:

- ALTANA AG, Wesel
- BMW AG, Munich
- UnternehmerTUM GmbH, Munich<sup>1)</sup>

**DR.-ING. HUBERT LIENHARD**

Chairman of the Board of Management  
Voith GmbH, Heidenheim

**Voith-Internal board memberships:**

- Voith Industrial Services, Stuttgart<sup>2)</sup>
- Voith Hydro Holding GmbH & Co. KG, Heidenheim<sup>2)</sup>
- Voith Paper Holding Verwaltungs GmbH & Co. KG, Heidenheim<sup>2)</sup>

**External board memberships:**

- EnBW AG, Karlsruhe
- Heraeus Holding GmbH, Hanau

**MICHAEL PFEIFFER**

IG Metall Labor Union  
Official Administrative Office  
Neu-Ulm/Günzburg

**External board memberships:**

- Fujitsu Technology Solutions GmbH, Munich

**MAREK PLATA**

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, Great Britain
- Exova Group plc, London, Great Britain
- Icon Infrastructure Management Ltd, Guernsey, Great Britain
- Icon 1A GP Ltd, Guernsey, Great Britain
- Management Consulting Group plc, London, Great Britain
- Travis Perkins plc, Northampton, Great Britain
- Finning International Inc., Vancouver, Canada

**STUART SKINNER**

Team Leader Production  
SGL CARBON Fibers Ltd., Muir of Ord,  
Great Britain

**HEINZ WILL**

Works Council (full-time)  
SGL CARBON GmbH, Frankfurt

<sup>1)</sup> Chairman of the Supervisory Board

<sup>2)</sup> Chairman of the advisory committee

# GLOSSARY

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## 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.

### CASH FLOW 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.

### 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

**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.

**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 eliminate 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 European Union regulation, 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 credit-worthiness 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**

Indispensable 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.

**FINE GRAIN GRAPHITE**

Specialty graphite with a fine grain structure and a grain size of between 1mm and few  $\mu\text{m}$ , 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 million 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.

**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.

## LIST OF ACRONYMS

- A AktG**  
German Stock Corporation Act (Aktengesetz)
- C Cefic**  
European Chemical Industry Council  
**CFRP**  
Carbon Fiber Reinforced plastic
- D DAX**  
German stock index  
**DRS**  
German Accounting Standard
- E EHSA**  
Environment, Health, Safety, Audit Systems  
**EPS**  
Earnings Per Share
- 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
- R REACH**  
Registration, Evaluation, Authorisation and Restriction of Chemicals  
**ROCE**  
Return on Capital Employed
- S SAR**  
Stock Appreciation Rights
- V VorstAG**  
Act on the Appropriateness of Management Board Remuneration
- W WpHG**  
German Securities Trading Act

## FINANCIAL CALENDAR

### > MARCH 14, 2013

Publication of the 2012 Annual Report  
Annual press conference  
Analyst conference  
Conference call for analysts and investors

### > APRIL 26, 2013

Report on the first quarter 2013  
Conference call for analysts and investors

### > APRIL 30, 2013

Annual general meeting

### > AUGUST 8, 2013

Report on the first half year 2013  
Conference call for analysts and investors

### > NOVEMBER 7, 2013

Report on the first nine months 2013  
Conference call for analysts and investors

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## FIVE-YEAR FINANCIAL SUMMARY

Mio. €	Note	2012
<b>Result of operations</b>		
Sales revenue		1,709.1
<i>thereof outside Germany</i>		82%
<i>thereof in Germany</i>		18%
EBITDA	1	239.7
EBIT before one-off items	1	154.2
Profit/loss before tax	2	9.7
Consolidated net profit/loss for the period	3	7.2
Return on sales (ROS)	4	9.0%
Return on capital employed (ROCE)	5, 6	8.9%
Earnings per share, basic (in €)		0.10
<b>Financial position</b>		
Equity attributable to shareholders of the parent company		1,066.1
Total assets		2,560.0
Net debt		459.3
Equity ratio	7	41.6%
Gearing ratio	8	0.43
<b>Other indicators</b>		
Capital expenditure on property, plant and equipment and intangible assets		133.5
Depreciation and amortization		85.5
Working capital		701.1
Free cash flow	9	-80.0
Number of employees (December 31)		6,686

<sup>1)</sup> Before project write-offs of €-54.2 million in 2012, before reversal of impairment losses and impairment losses of €5.1 million in 2011 and before impairment losses of €74.0 million in 2009

<sup>2)</sup> Adjustment in 2008, 2009 and 2010 by non-controlling interests in partnerships

<sup>3)</sup> Consolidated net profit/loss (attributable to shareholders of the parent company)

<sup>4)</sup> Ratio of EBIT before one-off items to sales revenue

<sup>5)</sup> Ratio of EBIT before one-off items to average capital employed

<sup>6)</sup> Average capital employed (= the sum of goodwill, intangible assets, property, plant and equipment and working capital at beginning of year and end of year)

<sup>7)</sup> Ratio of equity attributable to shareholders of the parent company to total assets

<sup>8)</sup> Net debt to equity attributable to shareholders of the parent company

<sup>9)</sup> Net cash provided by operating activities less net cash used in investing activities

2011	2010	2009	2008
1,540.2	1,381.8	1,225.8	1,611.5
81%	83%	80%	84%
19%	17%	20%	16%
231.7	194.8	171.6	361.1
160.4	128.4	111.0	306.4
83.7	73.2	-18.4	258.2
73.2	52.2	-60.8	189.3
10.4%	9.3%	9.1%	19.0%
10.0%	9.0%	8.2%	25.4%
1.09	0.80	-0.93	2.95
1,041.1	864.4	749.4	762.7
2,271.3	2,113.3	1,891.0	1,791.1
343.3	410.5	367.9	332.6
45.8%	40.9%	39.6%	42.6%
0.33	0.47	0.49	0.44
138.8	136.9	153.9	239.5
71.3	66.4	60.6	54.7
673.9	605.6	545.3	578.0
-33.1	-38.3	-34.0	-35.9
6,447	6,285	5,976	6,500

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