

Broad Base. Best Solutions.



Summary of Speech

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SGL CARBON SE

Annual General Meeting SGL CARBON SE

May 18, 2016

Annual General Meeting of SGL CARBON SE on May 18, 2016

Summary of the speech by
Dr. Jürgen Köhler, CEO

The spoken word applies

2016 Annual General Meeting. Focus on implementing the SGL Group's realignment.

Restructuring largely completed

Last year the SGL Group opened a new chapter in its almost 25-year history. With the planned carve-out of the Performance Products business unit, the company decided upon and triggered its strategic realignment. This also includes the future concentration on the two business units Composites – Fibers & Materials and Graphite Materials & Systems.

In addition, the SGL Group sold HITCO's aerostructures business and successfully concluded the cost savings program "SGL2015". By the end of 2015, over 200 million euros in savings were achieved in comparison with the base year 2012. Moreover, the SGL Group refinanced a convertible bond in time that would have matured in 2016, thus substantially improving its maturity profile.

In short, the company has largely left behind the path of restructuring in 2015 and is now resolutely progressing with its strategic realignment. High-tech solutions for sustainable mobility, efficient energy supply and digitization are the growth topics for the future SGL Group.

2015 key financials

All three business units were profitable in operational terms last year.

The Carbon Fibers & Materials* (CFM) business unit finally achieved a sustainable operational turnaround. It was possible to generate higher sales,

increased volumes and, accordingly, improved capacity utilization of factories. Recurring EBIT of this business unit increased significantly, to over 9 million euros.

Graphite Materials & Systems (GMS) also delivered a good performance. On the other hand, the recurring EBIT was down on the previous year. This was due to lower capacity utilization. The non-recurrence of a large order dating back to 2014 made itself felt here. Nevertheless, the business unit generated a recurring EBIT of 34 million euros, clearly in positive territory.

In the Performance Products (PP) business unit, the year 2015 needs to be differentiated into two parts, namely: the first nine months and the last quarter of the year. In the first nine months, the recurring EBIT remained positive year-on-year, in line with the forecast. Only the substantial deterioration in the graphite electrode market in the fourth quarter of 2015 caused recurring EBIT to fall below the prior year level. China continues to flood the steel markets with blast furnace steel. This depresses the level of demand for electric steel and, therefore, the demand for graphite electrodes. Accordingly, PP's recurring EBIT declined by one quarter, to 19.4 million euros. The development regarding graphite electrodes represents a collateral damage of the Chinese export strategy.

In total, the SGL Group achieved a recurring EBIT of 32.6 million euros on roughly equal sales of approximately 1.3 billion euros. This is a clear improvement compared to the previous year. However, the company has to improve further.

Non-recurring charges had a decisive influence on the overall result. In February of this year, the SGL Group announced the closure of the production site at Frankfurt-Griesheim. This causes costs for which the company is required to take precautions and needs to form provisions in fiscal year 2015. In addition, an impairment charge was necessary on the graphite electrode business due to the deteriorated situation of the market. Apart from this, there was a second major non-recurring effect, connected with the sale of HITCO, of almost 96 million euros. These effects added up to 248 million euros in charges. For this reason, the consolidated net result amounted to almost minus 300 million euros. The vast majority of 2015's non-recurring charges can be attributed to businesses which were either sold or are currently carved out. Had it not been for these non-recurring charges, the

Group consolidated net result would have improved to minus 47 million euros.

The net loss affected the equity ratio, which amounted to 15.6 percent at the end of December. At the end of the year, total liquidity amounted to 250 million euros. In addition, the SGL Group still has a syndicated credit facility of 200 million euros available and undrawn. Operationally, the company generated a positive free cash flow in the second half of the year. Excluding non-recurring effects, it was also in positive territory at 8 million euros for the year as a whole. This shows that the SGL Group generates money in its operational businesses.

The company will not be in a position to distribute a dividend this year either. The objective, however, is to resume dividend payments as soon as possible.

Outlook for 2016

For CFM and GMS, the company expects to continue its positive development this year. For CFM, the SGL Group expects higher volumes to be delivered in tandem with lower costs. For this reason, recurring EBIT will see a significant increase. GMS will also have better capacity utilization in 2016, with recurring EBIT increasing at a faster pace than sales.

In contrast, PP is expected to generate negative EBIT in the mid double-digit million euro range. In this respect, the situation is ambivalent. Business with cathodes for the aluminum industry, with furnace linings and carbon electrodes is developing well and working profitably. This will not be sufficient, however, to offset the negative business with graphite electrodes.

For the Group as a whole, this means that due to the sharp price drop for graphite electrodes, Group sales will see a slight decline. For the same reason, the SGL Group anticipates a substantial decline in recurring EBIT. While the Group's consolidated net result will improve in relation to 2015, it will nevertheless remain negative. However, the loss will turn out substantially lower than in the previous year. The key factor for an assessment of the year 2016 will be how successful the SGL Group will be in implementing its realignment.

Strategic realignment

The development of the 2015 fiscal year and also the results for the first quarter of 2016 make it clear why the SGL Group is focusing on its two

business units Composites – Fibers & Materials and Graphite Materials & Systems as part of its growth strategy and why it wants to carve out Performance Products, its former core business.

CFM as well as GMS can and will grow with the clients – through their know-how and their innovative strength. In contrast, PP has to align its business with a fundamentally altered market.

Due to the dismal situation on the steel market, customers are basing their purchase decision solely on price. The business has undergone a structural change. A so-called commodity market developed. For this reason, PP is to be aligned even more cost-effective. At the same time, however, the business has good future prospects. Graphite electrodes are indispensable for recycling steel scrap. And PP is one of the world's leading providers of graphite electrodes. If the steel market recovers, the graphite electrode business will follow. Sit and wait is no strategy, however. A consolidation needs to take place among the producers. To be able to participate in this process, the SGL Group requires a separate legal entity within the company.

As part of its business activities, PP also manufactures state-of-the-art cathodes, furnace linings and carbon electrodes. These fields of business enable PP to earn money in operational terms. For this reason, the decision was taken to bundle these three business areas within PP and to carve them out. This will create additional strategic options.

So far, the SGL Group is fully on schedule with regard to the above-mentioned carve-out within the company. It will be concluded by mid-year. The carve-out is a prerequisite for strategic options of any possible kind. Two investment banks and a law firm were mandated to provide support. The SGL Group has already taken up talks with various investors.

Growth strategy

The SGL Group has defined clear goals for CFM and GMS. By the year 2020, sales are to rise by 50 percent, to approximately 1.1 billion euros. The return on capital employed (ROCE) is to reach 15 percent. To achieve this, the SGL Group is relying on global megatrends. The big topics here are mobility, energy supply and digitization.

Mobility must become more efficient and sustainable in future. In Europe alone, each human being will cover nearly 30 percent longer distances in the

two decades until 2030 – most of them on the street. To protect the climate and natural resources, new mobility concepts are needed. Also, new vehicles are required.

Car manufacturers are obliged to act. In Europe, they have to decrease average CO₂ emissions of their new car fleet to 95 grams per kilometer until 2021.

This can only be achieved with less heavy car bodies. Lightweight construction is also decisive for alternative drive concepts. Hydrogen tanks, fuel cells and battery drives are extremely heavy. This needs to be offset with other materials.

The CFM business unit manufactures high-performance materials from carbon fibers but also from glass and aramide fibers, for instance. Carbon fiber composite material (CFC) is 40 percent lighter than aluminum and 80 percent lighter than steel. SGL is the sole European company covering the entire value chain for CFC-components – from raw material, the so-called acrylic precursor, to the fiber to the finished component. This way, the company is able to control capacities, quality and costs of the components any time.

Accordingly, wherever heavy masses need to be moved, these materials save fuel and lower the level of CO₂ emissions. In the automotive industry in particular, the SGL Group has a lead of several years in the field of lightweight construction. Naturally, the company also owes this success to its joint venture with BMW. In future, the SGL Group will be able to offer its expertise industry-wide.

Until a few years ago, carbon fiber composites in the automotive industry were largely restricted to design elements and the Formula 1 racing cars. Then, structural components could only be found in special models and luxury sports cars. Now, real large-scale productions exist. This means that carbon fiber made its breakthrough in the car manufacturing.

In the global carbon fiber production, two fundamental fields of application exist: in the automotive and the aviation industry. In terms of sales, the aviation industry is clearly in the lead now. Nearly half of the worldwide sales were generated by this industry in the past years. With an amount in the small double-digit millions, the aviation industry has only played a marginal

role for the SGL Group in the past. The aim is to change this situation. By profiting from its expertise from the automotive industry, in this segment, the SGL Group wants to grow much faster. Especially with regard to non-structural components such as floor panels, cowlings and landing gear doors, the SGL Group perceives opportunities.

To give customers in the field of automotive construction and aviation even greater support in putting compound materials to optimum use, a lightweight and application center is in the process of being built at the Meitingen location. In future, customers will be given assistance there from the very first idea all the way through to final component construction.

Energy supply is another megatrend. It is all about the market for alternative drive technologies and, in particular, electro mobility. The reach of batteries will also be a decisive criterion for the future success of electric cars. To increase the reach, better batteries are needed with enhanced storage materials. This is where synthetic graphite plays a crucial part.

This is one of the leading products of the GMS business unit. Such batteries will be much required. The demand is supposed to triple until 2025 – which means in merely ten years. GMS will have to keep up with this pace. Thereby, the business unit banks on its technological leadership. With its graphite, this business unit is the only western supplier on this market. This means that an important share of the value added chain for future drive technologies will also be in the hands of GMS. Whenever the battery production will experience a further impulse, GMS will play an important role.

Apart from batteries, GMS supplies many other technological solutions on a graphite basis. Over 6,000 customers from 35 industries worldwide cooperate with GMS. GMS is in leading position in many fields of activity. This business unit therefore is what is known as a "hidden champion".

GMS also supplies its technologies to the solar industry. In this segment, surface-coated graphite-based components are created in factories in which high-purity silicon is melted for solar plants. Graphite is indispensable in this field. It remains solid even at very high temperatures and far beyond the melting point of silicon.

The photovoltaics market will continue to see dynamic development. Experts estimate that projects of more than 200 gigawatt are planned all around the

world – this corresponds to the capacity of 150 nuclear power stations. GMS will benefit from this trend especially at its Bonn location, where GMS has been operating a production and technology center for this special graphite since 2014. A total of 75 million euros has been invested in this location. In other words, the foundations have been laid for forthcoming growth.

The third megatrend from which the SGL Group will benefit is digitization. Computer chips are needed to this end – i.e. technologies based on semiconductors. As in the case of solar cells, high-purity coated graphite is also needed for the production of silicon for computer chips. Accordingly, GMS is profiting from the rapidly growing digital networking trend. Graphite from GMS is also indispensable for the production of LEDs. Modern, new LED luminaires are nothing else than semiconductors. The demand for LED will in the medium-term experience an increase by ten percent, according to the illuminant industry.

To benefit from these trends to a disproportionately high degree, GMS will need to collaborate even more closely with its customers. The business unit especially focuses on Asia. In future, therefore, GMS will extend its expertise in the distribution and application of surface-coated graphite even more strongly in regional terms. At the same time, GMS plans to boost its capacities as needed and continues to further improve its technologies.

The path forward

Next year, the SGL Group will be 25 years old. The company will then look back at an eventful quarter of a century. Now, the focus will be on the path forward – the path to profitable and sustainable growth. I am absolutely convinced that our Group transformation will bear fruits.

The markets of the SGL Group are growth markets. Sustainable mobility, an efficient energy supply and digitization are the central topics of the 21st century. To this end, SGL has invested in recent years – especially in production facilities in order to support the organic growth of CFM and GMS. With its expertise, employees, experience and passion, the SGL Group stands to benefit from these megatrends.

*as of January 2016: Composites – Fibers & Materials

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