

# **Summary of Speech**

**Dr. Jürgen Köhler**

**CEO of SGL Carbon SE**

*Courtesy translation. The spoken word prevails.*

Good morning ladies and gentlemen,

good morning shareholders,

on behalf of SGL Carbon's Board of Management, I bid you a warm welcome to our 2018 Annual General Meeting.

As you have already noticed SGL looks different this year. We have a new logo, a new color scheme – in short, we have a completely new look and feel.

There is a very good reason for that, of course. The SGL of today is no longer the SGL of yesterday.

At the AGM two years ago, I informed you about our strategic realignment. Our aim was to bring SGL back onto a growth path. Then, at the AGM last year, I announced that we had already implemented many of the proposed measures.

Today I can tell you that our strategic realignment is now concluded.

It has not been easy, of course, but it was worth it. SGL has emerged from this restructuring stronger than ever.

The new SGL has not only changed structurally, however. We are well on the way to becoming a new company. During the past months, we have been working on our brand and our look. Today, we are revealing the result of our efforts to the public for the first time.

I will return to our new brand a little later on. For the moment, I would like to report on the most important developments and results of 2017.

During the past fiscal year, we drove forward our transformation at full tilt. We achieved important milestones on our "path forward", and laid the foundation for a return to profitable, sustainable growth.

The heart of our strategic realignment is the focus on our two business units Composites – Fibers & Materials (CFM for short), and Graphite Materials & Systems (or GMS). In both business units, we have focused our thinking and actions on the significant future-oriented issues of mobility, energy, and digitization. We want to concentrate fully on sustainable growth opportunities in both business units, in order to maximize their potential.

At the same time, we have divested our former core business Performance Products – or PP for short. That unit comprised our business with graphite electrodes, as well as with cathodes, furnace linings and carbon electrodes.

As you know, that decision was not taken lightly. After all, our business with graphite electrodes had a long history within SGL. However, they were and are a commodity, and continue to be an extremely volatile one.

Already in the summer of 2016, we transformed PP into its own legally and organizationally independent unit. Shortly thereafter, we found an ideal buyer for our business with graphite electrodes in Japanese company Showa Denko.

During the past year, we received the approval of the US authorities, allowing the sale to be concluded in October 2017. After the deduction of debts, the sale generated €285 million which we think is a very good result!

We also managed to find a suitable owner for the other activities within PP – our former business with cathodes, furnace linings and carbon electrodes. Triton, a renowned private equity investment company, is now carrying and supporting the growth strategy for those activities.

We concluded that sale in November 2017, and received payments of €238 million. The book profit for that transaction was €125 million, which had a correspondingly positive impact on our annual financial statements.

With the proceeds from both of those sales, and the capital increase carried out in December 2016, we repaid our €250 million corporate bond prematurely in October.

Meanwhile, we also redeemed the convertible bond originally for €240 million, in January of this year as scheduled.

During the past year, we also went one step further by reconfiguring the joint venture structures in our business unit CFM.

We have taken over Benteler's 50 percent shareholding in our Benteler-SGL joint venture. With its two sites in Austria, the company has been in our full possession now since December.

As a result, we have considerably strengthened our expertise in the serial production of components made from carbon fiber composite materials. In Austria, we are also successfully producing lightweight leaf springs for various Volvo and Daimler models using fiber glass reinforced plastic.

We have also agreed with our partner BMW to take over its minority shareholding of 49 percent in SGL Automotive Carbon Fibers.

With SGL ACF, we have carried out important pioneering work in lightweight automotive construction in recent years. At the same time, we have developed our leading position in the area of carbon fiber composite materials.

Carbon fibers, and the materials that are manufactured from them, are a core element of our strategy. For that reason, it was time to fully integrate the expertise of SGL ACF into SGL.

We will also continue to work closely with BMW in the future to develop composite material solutions for various existing and new models.

Our takeover of SGL ACF is happening in two stages. We already took over the German site in Wackersdorf in January 2018. By the end of 2020 at the latest, we intend to take over the US company with its site in Moses Lake in Washington State.

The complete takeover of both Benteler-SGL and SGL ACF represent two very important investments in our future. Both will allow us to strengthen our expertise in our business unit Composites – Fibers & Materials. As a result, they were and are a central component to our growth strategy.

Today, the new SGL can cover the needs of the entire value chain – from raw materials to finished components – in both of its business units.

This gives us a significant competitive advantage, because we have control over both cost and quality. The latter is paramount because the materials that are used in our technological solutions and components often have to be qualified for production by our customers. Ensuring the highest, most reliable quality and reproducibility are absolutely essential to our success.

The third and most recent change to our joint venture structure involves SGL Kämpers. In order to simplify our value chain, we have sold our 51 percent shareholding in that venture.

Kämpers took over our share in January 2018. Otherwise, our business relationship will continue as before.

During the past year, we also continued working on our CORE Project – which stands for Corporate Restructuring – in order to adjust our management costs and structures to the size of the new SGL.

In terms of structure, that means pooling areas like HR, accounting and legal into our head office functions. As a result, both of our business units can focus entirely on producing and marketing their products.

By doing so, we intend to save about €25 million by the end of 2018. The results so far speak for themselves – at the end of 2017 we had already realized 75 percent of the projected savings.

Our production plants are a deciding factor in our sustainable and profitable growth. The quality of our products, our operating rate, our costs, and our delivery reliability determine our competitiveness.

Today, the new SGL has over 32 production sites worldwide. They are still managed in highly varied manners.

For that reason, during the past fiscal year we decided to develop a uniform management system, which we have called our “Operations Management System”. As a result, our plants will be managed in the future according to uniform standards, structures and performance indicators.

That will both simplify our processes and increase our efficiency. At the same time, it will facilitate the exchange of expertise among our plants and business units. We hope to have the new operations management system implemented at all of our sites by the year 2020.

I would now like to turn your attention to the results of the past fiscal year.

SGL Carbon's sales revenues grew noticeably, increasing by 12 percent to €860 million. Group EBIT before non-recurring charges doubled to nearly €40 million.

The favorable sales trend extended to both of our business units – and particularly to GMS. Nearly all market segments realized double-digit growth. Our business with anode material for lithium ion batteries stood out in particular, with sales climbing by 35 percent.

CFM's sales revenues were also higher than in the previous year. The most significant drivers behind that trend were the market segments industrial applications, automotive, and textile fibers.

SGL Carbon's return on capital employed, based on EBITDA before non-recurring charges, continued to increase, from 8.4 percent in 2016 to 10.5 percent in 2017.

The consolidated net result also improved during the past fiscal year, increasing to €139 million, up from a loss of €122 million in fiscal year 2016. One important contributor to that result is clearly the book profit of €125 million that resulted from the sale of our business with cathodes and furnace linings.

By selling PP, we also managed to noticeably improve our balance sheet ratios. Using the proceeds from the sale of our business with graphite electrodes, and the proceeds from the capital increase carried out in 2016, we managed to repay our corporate bond prematurely.

As a result, our net financial debt decreased to €139 million by the end of the year. Primarily owing to our favorable consolidated net result, our equity ratio increased to 29.6 percent.

Our free cash flow also improved, increasing to €314 million – primarily due to the acquisition price payments for PP.

As you can see, we have more than achieved our targets for fiscal year 2017.

We have strengthened SGL's capital structure, reduced our debt, and invested in a targeted manner. The new SGL is leaner, financially stronger, and more focused on our customers.

The payment of dividends will of course only be considered once we return to sustainably profitable operations.

We have already created the prerequisites for that to happen. Now, we will focus wholeheartedly on our business operations.

We succeeded with that during the first quarter of 2018. Our sales revenues increased noticeably yet again, this time by about 22 percent to €263 million.

About half of that increase is due to positive non-recurring factors, including the fact that SGL ACF and Benteler-SGL were fully consolidated for the first time, and the positive effects resulting from changes to accounting principles in accordance with IFRS.

The significant driver behind that organic growth was good performance in the market segments automotive, semiconductors, LED, chemicals, and industrial applications.

EBIT before non-recurring charges also improved during the first quarter, doubling to around €21 million. The decisive factors here were improved results in our business unit Graphite Materials & Systems, non-recurring factors, and the sale of land.

The return on capital employed (ROCE) based on recurring EBIT improved from 2.8 percent in the previous year to 5.2 percent.

Our equity ratio improved to 33.2 percent in January 2018 due to the repayment of the convertible bond. We have now reached our equity ratio objective of at least 30 percent.

For the current fiscal year, we continue to expect sales revenues to grow by about 10 percent.

EBIT before non-recurring charges should increase slightly more than sales, owing to increased demand, additional contributions to earnings from the full consolidation of SGL ACF, and further savings.

For our consolidated net result, we had originally expected to break even, but the non-recurring factors already mentioned mean that we are now anticipating profit in the low double-digit million range.

However, our net financial debt will be noticeably higher at the end of 2018 than at the end of 2017 as a result of the full consolidation of SGL ACF.

Nevertheless, our targets for a leverage ratio of about 0.5, and a debt ratio of under 2.5, remain unchanged.

The completion of our strategic alignment has ushered in a new era for SGL.

We are in fact a technology company. On the basis of the versatile element carbon that we are so familiar with, we develop solutions for the key topics of the future: mobility, energy, and digitization.

This new beginning is also the right time to reconsider and sharpen our profile.

During the past months, we have worked intensively on redesigning our brand. Our goal was to create a corporate image that will live up to our growth strategy and the changes at SGL.

The result is a brand that clearly sets the standard, both for us and for the value proposition of the new SGL.

But perhaps it's best to show you and let you decide for yourselves.

Our new brand embraces SGL's past and future.

The foundation of SGL is and will remain carbon. Carbon is part of our DNA. The majority of the solutions we have developed are based on carbon.

The return to our old and new name "SGL Carbon" expresses both our core expertise and our origin.

With this name, we are not only describing what we do, but also how we do it.

Carbon forms many and close bonds with other elements. We also form bonds, or better still – relationships – in order to adapt our products and solutions to the needs of our customers.

As a result, in the future the new SGL will not only be a supplier of materials, but a customer-focused solution provider.

Together with our partners and customers, we are working on answers to the questions that we all face:

- How will we move around?
- How can energy be generated and stored efficiently and sustainably?
- What opportunities will increased digital connectivity offer?

Our technologies are making a significant contribution to answering those questions.

Our new brand, the new SGL, stands for “smart solutions”.

Smart solutions are our central customer promise and the standard we have set for ourselves.

Whether as manufacturers, suppliers, or development partners – we supply intelligent trendsetting, sustainable solutions and clearly create added value for our customers. We deliver smart solutions.

We are putting that customer promise into practice

- by always making the customer our central focus,
- by convincing the customer with our competence and expertise,
- by remaining open to new ideas,
- and by courageously taking new paths and creating momentum.

With our new brand, we have also set the standard for ourselves. That standard is the target vision we will now work intensively towards.

That also involves anchoring our new self-image in our corporate culture, and living up to it every single day.

In short, we will design our products, services and processes in such a way that we will always be in a position to honor our “smart solutions” brand promise anytime, anywhere in the world.

Based on the three key future topics of mobility, energy, and digitization, I would now like to explain the potential that the new SGL offers.

The evolutionary advancements that have been seen for a long time – particularly in the automotive industry – are now being amended by disruptive innovations.

The automotive industry has plenty of new things to try out today. With engines, all manufacturers are now focusing on fuel-efficient models and alternative drives.

The German Association of the Automotive Industry (the VDA) estimates that electric cars will already make up about a quarter of new registrations by the year 2025.

Conversely, that also means that the era of the combustion engine is far from being over. Traditional combustion engines will remain the most commonly manufactured type of engine for the next decade. Their fuel consumption must of course be reduced, however, so that they emit less CO<sub>2</sub>.

Battery-operated vehicles have a different set of challenges. They have to extend their range in order to become a more accepted form of transport.

As a result, lightweight construction can make an important contribution both to vehicles with combustion engines and those with electric drive systems – because in both cases, it's all about reducing weight.

And this is exactly where our business unit CFM comes into play, with its composite materials.

The actual future of bodywork construction – regardless of drive type – can be seen in the 7-series BMW already mentioned. BMW is systematically focusing on a combination of carbon fiber reinforced plastics (CFRP) in conjunction with steel and aluminum.

Carbon fiber reinforced plastics are only used in places where they offer real added value. They are especially used in roof frames and side columns – which reduces weight, increases security, and improves driving dynamics.

Together with BMW, we have developed carbon fibers and materials for component production in such a way that they can be optimally utilized in large-scale, fully automated serial production.

Using a smart mix of materials is the current trend in bodywork construction. And fiber-reinforced plastics are gradually finding their place in the material mix of the future.

The ways a mix of materials will also be able to be used to form new structures in modern vehicle concepts in the future is demonstrated by Carbon Carrier, which we have developed together with the Bertrandt Group.

You can also take a look at that large demonstrator component at our exhibit here. We have developed it for the forward interior of a vehicle with an electric drive system. The prototype contains all of the important functions and paneling parts of a traditional dashboard.

We have also ensured that the components, technologies and designs used are compatible with serial production, and will continue to be so in the near future.

Analysts expect the use of carbon fibers in automotive construction to grow by about 10 percent annually over the next three years.

While we were developing the Carbon Carrier, the expertise of our new lightweight construction center in Meitingen was essential. The increased mix of materials in automobiles is also demonstrated by how our leaf springs, which are made using glass fiber reinforced plastics, are being used for different Volvo models.

Compared to steel springs, which can weigh up to 15 kilos, our leaf springs weigh only 6 kilos. Compared to conventional spiral springs, they also take up far less space, and offer handling advantages.

We see great potential for growth here, especially with smaller commercial vehicles, pickups and SUVs.

Growth in the automotive industry is not only driving lightweight construction, however, but also the demand for graphite components.

Our business unit GMS has been supplying the automotive industry for several years now already – and demand is steadily increasing. In fact, without graphite, there wouldn't be any cars.

We supply graphite components like bearings, rotors and vanes for water pumps, brake boosters and other applications. The special properties of graphite provide for increased energy efficiency and clean driving.

Recently, we also received another major order from Pierburg in the double-digit million-euro range, for which we are supplying components for a brake booster pump.

As a result of increased demand from the automotive industry, we are also investing about €25 million in our site in Bonn over a period of four years, in order to expand our graphite production capacity. The first measures have already been implemented, and we hope to have the capacity expansion completed by 2020.

Let's now turn to the future topic of energy, where our growth will center around the areas of energy storage, and solar and wind energy.

Today, I would like to focus on the topic of energy storage.

Without energy storage, there would be no electromobility. And for the foreseeable future, there will not be any energy storage without lithium-ion technology.

Lithium-ion batteries are also being used in other applications such as garden tools, laptops, and mobile phones. The most significant driver behind their growth, however, is electromobility.

Graphite is indispensable as an anode material in lithium-ion battery cells. There is actually more graphite in every lithium-ion battery than lithium.

About one kilo of graphite is needed for every kilowatt hour of battery capacity in a car. For example, every Tesla operates using 60 to 90 kilos of graphite.

Major automobile manufacturers have announced that they intend to introduce more than 200 new electric models onto the market by the year 2025. As a result, battery manufacturers must also significantly expand their capacities.

For us, that means that demand for our anode material is going to grow rapidly.

There are already lithium-ion-based solutions for mobile applications. What is still lacking, however, is large, stationary, flexible energy storage.

And there is a need for it – especially to store the large quantities of electricity generated by wind power and solar energy, and then to make that energy available

as needed. A study conducted on behalf of the World Bank has shown that the implementation of stationary energy storage will be vital to the successful expansion of renewable energies in industrialized countries.

There is one such stationary energy storage device near Karlsruhe, which occupies the same space as a medium-sized sports hall. It stores enough energy to provide thousands of households with electricity for one day.

That giant battery is being operated for research purposes by the Fraunhofer Institute, with the support of the state of Baden-Württemberg and the German Federal Ministry of Education and Science.

From a technical perspective, that giant battery is a redox-flow battery, which consists of electrochemical cells. It does not store energy in electrodes, however, but in large electrolyte storage tanks.

And once again, our particular expertise is useful here as well. For the cells, we have developed about 3,500 square meters of special carbon fiber felts – corresponding to the area of half a football field.

Based on that project, the coming years will be spent investigating how such batteries can make a significant contribution to creating a reliable supply of energy.

For the third future topic – digitization – smart solutions are particularly in demand.

“Without graphite, the Silicon Valley would only be good for herding sheep”. That was an advertising slogan of the then still young SGL in the year 1995.

But that statement still applies today – and will also continue to apply in the future – because without graphite, you can’t make semiconductors and without semiconductors, there wouldn’t be any computer chips.

Today, that statement can also take on an added dimension, however.

Without the materials and solutions provided by SGL, your smartphone displays would remain dark, just like modern TV screens, and to some extent, even entire cities.

Because semiconductors are also the basis for LEDs – or light-emitting diodes.

And, due to their technical and energy-saving advantages, LEDs are relentlessly permeating almost all areas of life.

LED blanks are rendered using our graphite mounting plates and coated using different semiconductors. That process defines the properties of LEDs, such as their color or brightness.

And the LED market is growing enormously. According to estimates, their share in the total light source market throughout the world will triple to over 60 percent by the year 2022.

That strong growth is driving the demand for our coated graphite mounting plates. In order to meet the demand for increasing quantities, we are currently investing €25 million in our site in St. Marys, in the US state of Pennsylvania.

We are not only expanding our capacities, however, but also investing in better processes. For example, our customers work in cleanrooms – a standard we also have to adopt – because the cleanliness of our mounting plates ultimately determines the cleanliness, and thus also the performance, of LEDs.

Those investments also comprise the development of new research and development facilities, so that we can create our own impetus for innovation among our customers.

The expansion of our site in St. Marys is a perfect example of the development of the new SGL. We are moving away from strictly being a supplier of materials, to being a developer of technology that finds trendsetting solutions together with its partners.

There is a great deal of substance in the SGL you already know, but there is also tremendous potential for growth.

That is why it was also high time for us to set some new goals. As a result, we have expanded our financial outlook to the year 2022.

Our new medium-term targets reflect the potential of the new SGL.

By the year 2022, we intend to increase SGL's sales revenue to about €1.3 billion, and to raise our EBIT-based return on capital to at least 11 percent.

Our sales revenue target of about €1.1 billion by the year 2020 remains unchanged.

The world is changing, just like our markets. In the last few years, we have faced up to those changes.

Our employees have also actively addressed those changes. As a result, they have an important stake in the successful new beginning of SGL.

For that reason, we would like to extend our special thanks to our employees.

Our thanks also go to our former colleagues who now work for different companies since some of our business was sold.

And of course, we would also like to thank you – our shareholders – for loyally accompanying and supporting us on our difficult path during the last few years.

We – at SGL Carbon – will continue to pursue the growth trajectory we have set for ourselves.

With responsibility, openness, courage and inquisitiveness, we will continuously work on creating value-adding, sustainable solutions for our customers.

And in doing so, we will contribute to making the world a little bit smarter – every single day.

Thank you for your attention!