Broad Base. Best Solutions.

SGL GROUP
THE CARBON COMPANY

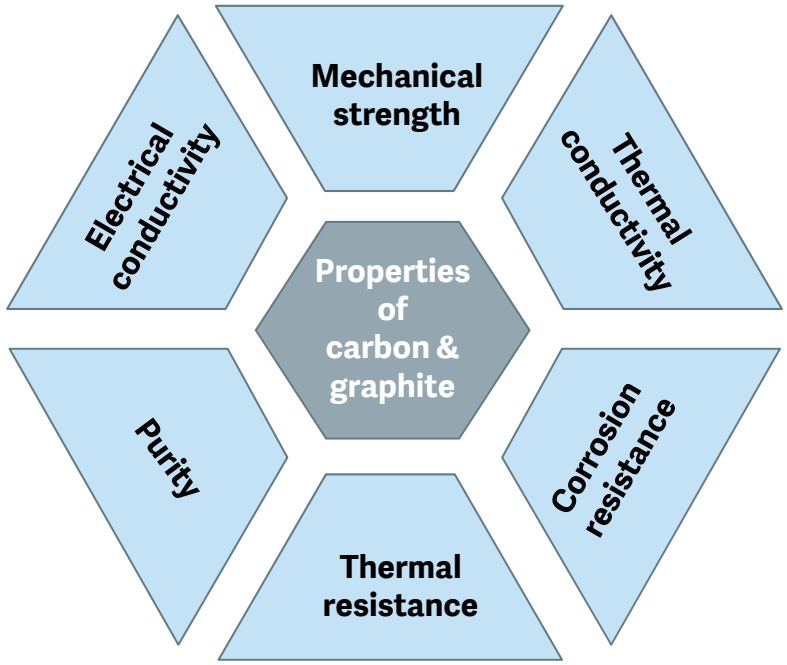
A short introduction to SGL Group

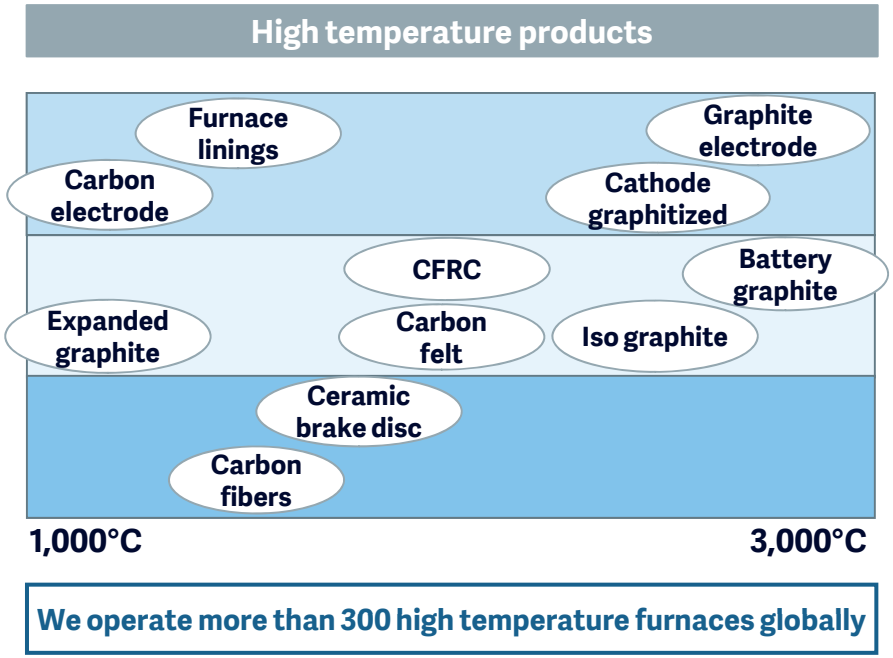
Dr. Jürgen Köhler, CEO

Commerzbank German Investment Seminar, January 2015

Unique materials and process know how

Based on carbon, graphite & carbon fiber as well as the management of high temperature technologies





We operate more than 300 high temperature furnaces globally

SGL offers "enabling" materials and products for attractive growth markets

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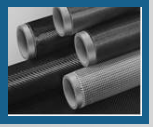
Segment	Market positions		Growth markets	Example	
Performance Products	▪ GE: one of two largest manufacturers worldwide ▪ CA: 20% market share (ex-China)*	enabler for	**Steel recycling** **New aluminium smelter construction**		▪ Excess scrap from China to drive EAF steel production ▪ 40-50 new smelter builds expected until 2030 globally**
Graphite Specialties	▪ Leading positions in variety of customer industries	enabler for	**Li-ion batteries for mobile applications** **LED**		▪ Li-ion batteries: 14% CAGR from 2013 to 2019*** ▪ LED: market forecasts range from 25% - 38% CAGR****
Carbon Fibers & Materials 	▪ Exclusive supplier in specific automotive products & applications	enabler for	**Automotive lightweight trend**		▪ Carbon fiber fabrics for BMW i-Series ▪ Carbon ceramic brake discs ▪ CFRP for Audi MSS

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* Source: SGL estimates
** Source: The Global Aluminium industry, Dr Carmine Nappi, February 2013
*** Source: Research and Markets, "Global Lithium Ion Battery Market - Forecast to 2019", February 2014
**** Source: Commerzbank July 2013, Compound Semiconductor, Volume 19, Issue 5, July 2013 quoting IHS' research report "Q2 GaN LED Supply and Demand"

Strategic realignment and capital increase

New management implementing tighter financial discipline.

Changing key performance indicator from ROS to ROCE

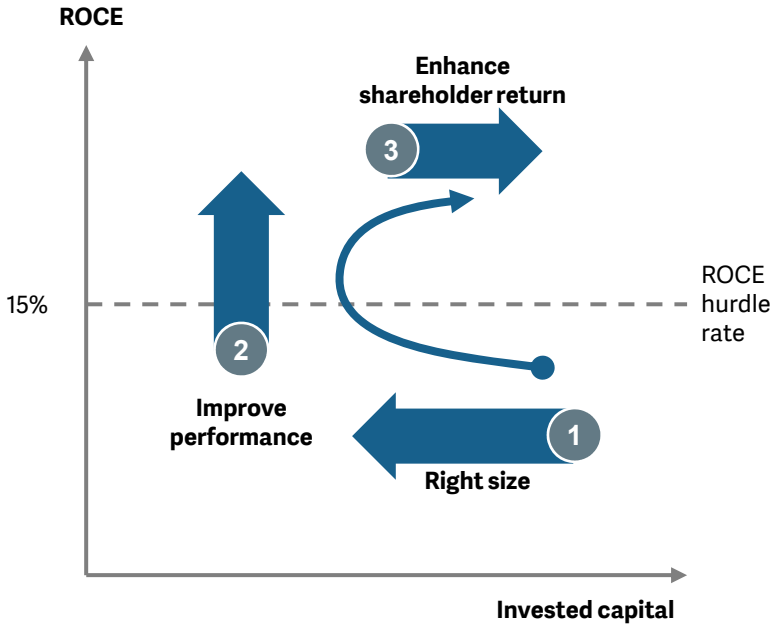
Introducing stronger financial and capital deployment discipline, particularly with respect to capex and potential mergers/acquisitions

→ Will also be guiding principle with regard to portfolio decisions in strategic realignment

Cash will only be invested with minimum ROCE expectations: businesses have to *"earn the right to grow"*

ROCE orientation reflected in long term incentive scheme of Board of Management and the next management layers

Right size. Improve performance. Enhance shareholder return.



- Combination of capital increase and proceeds from right-sizing the business will strongly delever the company and thus **improve leverage ratios**
- **Stabilize financial position** by achieving positive net result and free cash flow
- Healthy balance sheet and stable earnings provide **flexibility to execute on strategic repositioning**
- Capital discipline, defined by **minimum ROCE of 15%**, is new overriding guiding principle and management culture for strategic repositioning and future investments
- **Generate accretive returns** or distribute cash to shareholders to enhance shareholder return

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Right size.

Relentless restructuring of underperforming activities

	Rationale	Progress
Asset restructuring	▪ **Adjust asset base to changes in market demand** – Optimize global production network (relocation, consolidation, closures) – Improve capacity utilization and fixed cost base ▪ **Cost competitive assets only**	▪ **Closure of Lachute (Canada):** 30kt graphite electrode capacity/110 employees ▪ **Closure of Narni (Italy):** 30kt graphite electrode capacity/ dismissal plan for all employees (~120) implemented ▪ **Streamlining production facilities in GS** ▪ Further measures under evaluation and subject to price/ demand development
Portfolio restructuring	▪ **Focus on materials competence and strengths in all businesses** – Ongoing review of portfolio considering target ROCE – Assessment of strategic options for activities which do not reach mid to long term targets	▪ **Disposal of rotor blade activities (Rotec)** ▪ **HITCO sale initiated – reclassified to discontinued** ▪ Further selected disposals could follow as a result of strategic review

SGL Group is progressing well with focusing its business and asset portfolio
➡ resulting in a stronger, more profitable company

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Improve performance.

SGL 2015 efficiency improvements well ahead of plan

	Measures	Exp. Savings	Progress as of November 30, 2014
SGL Excellence 2013 & other savings	▪ SGL X ▪ Raw material cost savings ▪ Energy cost savings	**~ €55m**	**100%**
SGL Excellence 2014, 2015 & operational improvements	▪ SGL X ▪ Raw material cost savings ▪ Energy cost savings	**~ €50m**	**~ 70%**
Organisational restructuring	▪ Headcount reduction ▪ Indirect spend	**~ €60m**	**~ 90%**
Divestments	▪ SGL Rotec, HITCO	**~ €15m**	**~ 50%**
Asset restructuring	▪ Closure GE site in Lachute, Canada ▪ Closure GE site in Narni, Italy	**~ €45m**	**~ 40%**

Targeted cost savings of more than €200 million exceeding initial objective of €150 million

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Enhance shareholder return.

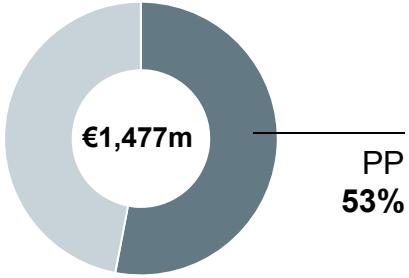
Stringent resource allocation

	Performance Products (PP)	Graphite Specialties (GS)	Carbon Fibers & Materials (CFM)
Selective growth investments		▪ **Investments in graphite anode materials** production for **Li-Ion batteries**	▪ **Expansion SGL ACF** (BMW JV) investment - capacity increase to 9,000t p.a.
Structural growth from existing assets	▪ **Long-term market potential** from high Chinese scrap availability increasing **steel production** in electric arc furnaces (EAF)	▪ **New graphite based applications** resulting from new technologies ▪ **Structural growth in** selective end markets **significantly above GDP**	▪ **Ramp up of BMW i3 / i8** production ▪ Significant growth in **automotive** and **industrial carbon composite use** ▪ Own low cost and high quality **precursor (Fisipe)**
Cyclical recovery	▪ **Well positioned** to benefit from **potential price and volume recovery** in graphite electrodes ▪ Supported by **cost and capacity adjustments**	▪ **Cyclically depressed markets to potentially recover** – Industrial – Solar – Semiconductor	

Only limited investments required for further growth

Divisional strategy Performance Products (PP).
Short term turnaround by improving cost position further

2013 Group sales



PP Business Units

Graphite & Carbon Electrodes (85%)

Graphite electrodes for electric steel production

Cathodes & Furnace Linings (15%)

Cathodes for aluminum production

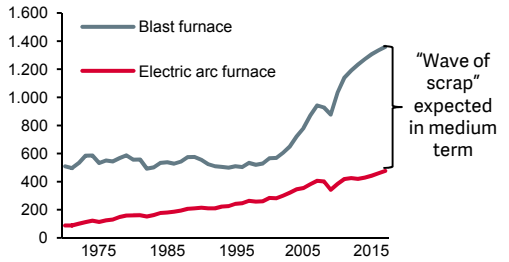
Strategy & Outlook

- Key management focus is on turnaround in GE profitability
- Significant restructuring measures implemented in context of SGL 2015
- Well positioned for cyclical recovery with electrode plants in all key regions

- Price stabilization in last months
- Low profitability in GE and needle coke industry limits further downside
- Expected near term margin improvement – even in flat pricing environment – due to
  - Cost benefits of capacity closures
  - Additional SGL 2015 cost savings
  - Ramp up of low cost Malaysian facility

Growth opportunities

Worldwide steel production (in mt)

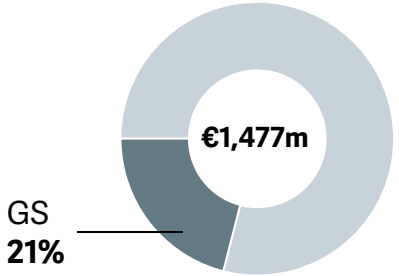


Source: WSD, IISI, own estimate

- Future high Chinese scrap steel availability to trigger strong increase in EAF production mid to long term
- Resulting in substantial GE demand upside
- Well positioned with new facility in Malaysia

Divisional strategy Graphite Specialties (GS).
Strong innovation track record and growth prospects

2013 Group sales



Key end markets

	% of GS 2013 sales	Market share*
Batteries & Nuclear	20%	35%
Semiconductor & LED	14%	15%
Solar	11%	15%
Chemicals	11%	35%

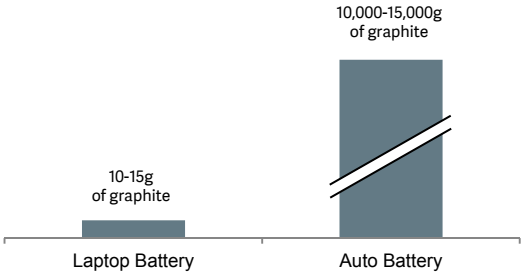
* Source: SGL estimates
** Less than four years old

Strategy & Outlook

- Capitalize on strong market position, diversified customer and materials base
- Giving us sufficient base load operations to sustainably maintain adequate margins in a high fixed cost environment
- Continue to exploit innovation potential as demonstrated by ~30% revenue share with new products**
- Potential upside from big ticket orders
- Overcapacity situation in polysilicon applications to be addressed
- Successful track record in terms of both growth and profitability
- Structural growth opportunities support growth track and increase share of higher margin businesses, e.g.
  - Graphite for Li-Ion batteries
  - High temperature applications

Growth opportunities

e.g. graphite anode materials for Li-Ion batteries



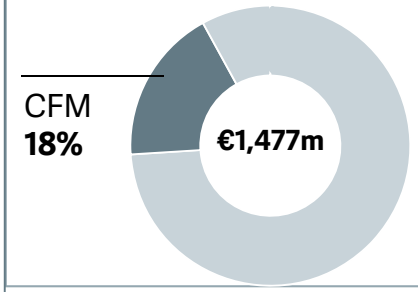
Source: SGL

- Significant growth potential from anode materials for Li-Ion batteries
- More widespread use (e.g. automotive - Tesla "giga factory")

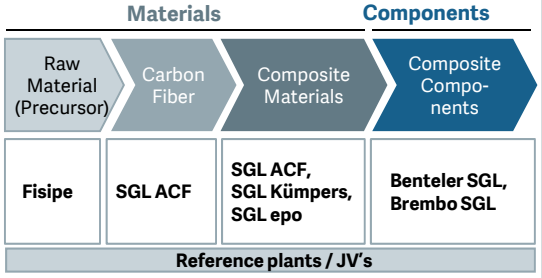
Divisional strategy Carbon Fibers & Materials (CFM).

Command entire value chain in industrial carbon fibers

2013 Group sales



Value chain

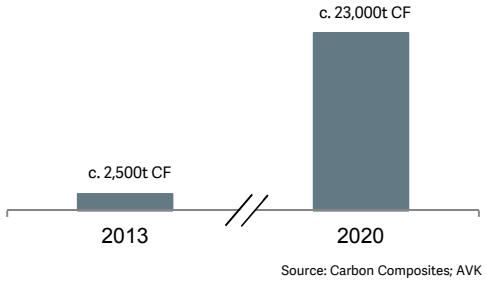


Strategy & Outlook

- Path to profitability is to command entire value chain
  - Conversion of Fisipe lines to precursor for carbon fibers
  - Focus on core competencies – wind, automotive and potentially other industrial
  - HITCO sale initiated as lacking value chain for aerospace carbon fibers
- Ongoing review of CFM portfolio under ROCE target criteria
- BMW JV – best-in class benchmark supporting financial targets
- Clear financial objectives to be achieved
  - Sustainable break-even in the short-term
  - Achieving ROCE targets in the mid-term

Growth opportunities

e.g. carbon composite use in automotive



Source: Carbon Composites; AVK

- Significant long-term growth potential from increasing use of carbon composites in automotive
  - Exclusive supplier in specific automotive products & applications
  - Involved in the two largest projects globally (BMW, Audi MSS)

How we intend to transform SGL Group.
Guided by clearly defined targets

Create flexibility for restructuring and repositioning with capital increase and disposal proceeds (HITCO, etc.)	Stop loss makers and cash drainers by restructuring or disposing	Capex for selective growth opportunities subject to minimum hurdle rates	Return on capital is key management principle for strategic realignment and future investment
Gearing ~ 0.5 Equity ratio > 30%	**Net debt/EBITDA < 2.5 Positive net result**	**Positive free cash flow***	**ROCE ≥ 15%****

* Excluding disposal proceeds
** ROCE defined as EBITDA/capital employed

Creating a sustainable, enabling capital structure for strategic realignment with improved profitability.

€267m capital increase* completed in October 2014

Strengthened financial position

- Gearing reduced to ~ 0.46**
- Equity ratio ~ 34%**

Enable strategic realignment

- Flexibility for portfolio and asset adjustments
- Help finance necessary restructuring measures
- Mid to long term flexibility for focused investments or dividends

Management and core shareholder commitment

- **Core shareholders (SKion, BMW, VW):** Full pro-rata participation in the capital increase
- **Members of the Management Board:** Combined investment into SGL shares totaling more than 50% of the aggregate yearly base salary

Proceeds will be used to strengthen capital structure and improve leverage ratios, for debt repayment* and for creating a foundation for enhanced profitability**

* Gross proceeds
** Source: Based on financial data as of August 31, 2014 and assuming net proceeds from the capital increase of €261.4m
*** Approximately €26.9m of the net offering proceeds will be used to repay MYR 112m of the HSBC Loans to SGL CARBON Sdn, Bhd (Malaysia), plus accrued interest, to HSBC Bank Malaysia Berhad on or before December 31, 2014. The remaining net offering proceeds in amount of €234.5m will be earmarked for future debt repayments and the other purposes as outlined above

Important note.

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